Orange Polska annual report

2014

welcome
to the 2014 Annual Report and Accounts

2014 was a year in which Orange Polska* consolidated the commercial progress of the previous year, defending our margins despite strong competitive pressure. A more favourable regulatory developments gave a boost to our broadband ambitions, and our efforts in mobile were rewarded with more post-paid customers and a big increase in mobile broadband users.

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

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introduction to Orange Polska

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

15.629 mn (+2.0% yoy) 7.679 mn postpaid (+6.3% yoy) 7.950 mn prepaid (-1.9% yoy)	4.512 mn (-4.8% yoy)	2.241 mn (-2.6% yoy)	748 k (+5.8% yoy)
mobile customer base	fixed voice lines (retail)	fixed broadband accesses (retail)	TV customers

PLN **12.2 bn** revenue

PLN **1.15 bn** organic cash flow

excluding one-offs: renewal of existing spectrum, acquisition of new spectrum, potential payment of EC fine and other claims and litigations.

PLN **1.8 bn** capital expenditures

excluding spectrum licences

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Orange Polska at a glance continued

restated EBITDA margin at **32.1%**

please refer to restatement table on p. 68

operating cost base **5.1%** down year-on-year

please refer to restatement table on p. 68

PLN **307 mn** cost savings

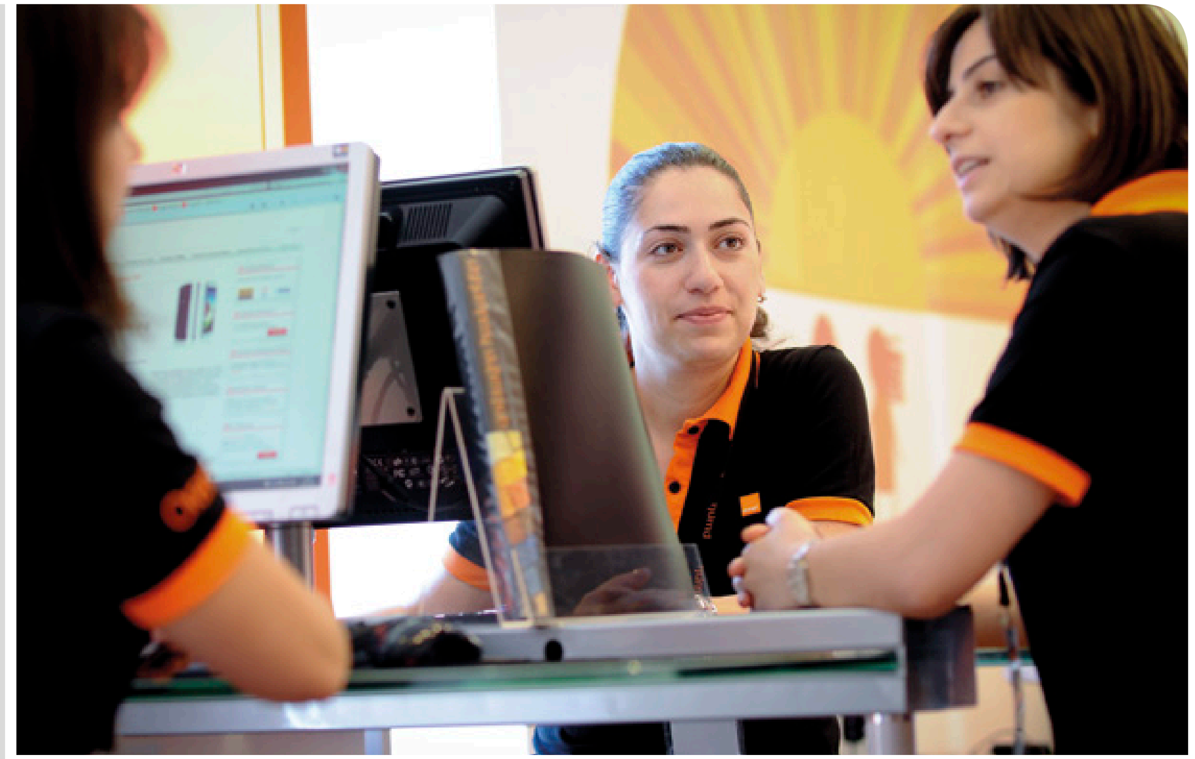
PLN **10.9 bn** market cap at year end

based on share price at 30 December 2014

5.3% dividend yield

based on share price at 13 February 2015, 0.5 PLN dividend per share: subject to AGM approval

18,047 employees at year end



financial and operational highlights

financial highlights in 2014

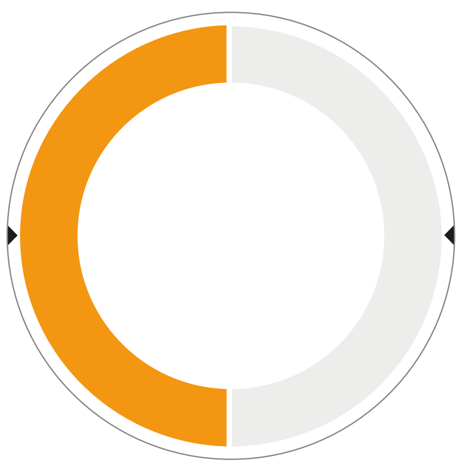
- Group revenue PLN 12.2 bn
- EBITDA PLN 3.9 bn, at 32.1% of revenue[1]
- Organic cash flow in line with guidance at PLN 1.15 bn[2]
- PLN 307 mn cost savings in 2014 helped to bring operating costs down by 5.1% y-o-y[1]
- Sound financial structure, with net gearing at 25% and net debt to restated EBITDA at 1.1x
- Dividend yield of 5.3%[3]
- Dividend per share[4]: PLN 0.5

operational highlights in 2014

- 539,000 Orange Open customers (convergent fixed and mobile product)
- 458,000 net adds in postpaid mobile
- 356,000 net adds in mobile broadband
- >10,000 sites in co-used mobile networks with T-Mobile
- Orange 4G coverage now reaches 60.9% of population and 3G coverage reaches 99.4% of population
- Moved swiftly to take advantage of deregulation of fixed broadband market in many urban areas
- Launched new commercial initiatives: Orange Finanse and Orange Energia

[1] please refer to restatement table on p. 68
[2] excluding one-offs: renewal of existing spectrum, acquisition of new spectrum, provision for potential payment of EC fine and other claims and litigations.
[3] based on share price at 13 February 2015, 0.5 PLN dividend per share: subject to AGM approval
[4] subject to AGM approval

ownership structure



50.67% Orange SA

49.33% Other shareholders

revenue composition (in PLN millions)

mobile telephony services

2013	6,110
2014	5,713

mobile equipment sales

2013	149
2014	427

fixed line telephony

2013	6,057
2014	5,520

other revenues

2013	470[1]
2014	552

[1] pro forma adjusted for deconsolidation of Wirtualna Polska

total revenues (in PLN millions)

2013[1]	12,786
2014	12,212

Change excluding regulatory impact[2] -2.5%

[1] please refer to restatement table on p. 68
[2] impact of regulation of rates (MTR, FTR, F2M, roaming rates and Bitstream Access rates); calculation based on traffic in previous year and variation between rates before and after regulation

restated EBITDA[1] (in PLN millions)

2013	4,046
2014	3,921

[1] please refer to restatement table on p. 68

reported net income (in PLN millions)

2013	294
2014	535

organic cash flow (in PLN millions)[1]

2013	1,105
2014	1,149

[1] excluding one-offs: renewal of existing spectrum, acquisition of new spectrum, potential payment of EC fine and other claims and litigations.

historical financials

(in PLN millions)

selected financial data	year / 2010	year / 2011	year / 2012	year / 2013	year / 2014
Revenue	15 715	14 922	14 141	12 923	12 212
Operating income	908	2 217	1 574	788	986
Profit before income tax	449	1 785	1 018	310	581
Consolidated net income	108	1 918	855	294	535
Earnings per share (in PLN) (basic and diluted)	0.08	1.44	0.65	0.22	0.41
Weighted average number of shares (in millions) (basic and diluted)	1 336	1 334	1 316	1 312	1 312
Net cash provided by operating activities	4 530	5 169	1 879	3 292	2 753
Net cash used in investing activities	(2 015)	(1 090)	(2 742)	(2 166)	(1 745)
Net cash used in financing activities	(2 286)	(3 663)	(1 620)	(1 324)	(965)
	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	**Balance sheet** as at 31/12/2014
Total current assets	4 762	5 128	2 210	1 852	2 078
Total non-current assets	24 111	23 091	21 953	20 725	20 026
Total assets	28 873	28 219	24 163	22 802	22 104
Total current liabilities	8 145	8 120	6 502	7 333	4 709
Total non-current liabilities	6 094	5 765	4 703	2 800	4 997
Total equity	14 634	14 334	12 958	12 631	12 398
Equity attributable to owners of Orange Polska S.A.	14 620	14 331	12 956	12 629	12 396

CEO's letter

"Orange Polska's financial performance in 2014 was in line with our objectives, despite ongoing pressure on our revenues. Thanks to our persistent focus on financial discipline, we were able to generate significant cost savings and keep capital expenditure well below 2013 levels."

Dear Shareholders,

2014 was another year of progress for Orange Polska on all fronts: commercial, operational and financial. Despite numerous challenges and a persistently tough competitive market, we achieved the majority of our objectives.

Deregulation improves prospects for fixed broadband market in Poland

In October the Polish regulator approved partial deregulation of the fixed broadband market, a decision which affects almost 30% of all Polish households including those in major cities like Warsaw, Katowice, Lodz and Wroclaw. This was an important development for Orange Polska as it means greater price flexibility on the retail market and the introduction of commercial terms of cooperation on the wholesale market. We reacted immediately, launching new, more attractive offers in the deregulated areas. The recent deregulation has reinforced our decision to make significant investments in fibre technology in 2015.

Significant quality improvements to mobile networks

In September, after two and a half years of work, we completed our mobile network modernisation project. As a result, 3G network coverage for Orange Polska customers now extends to close to 100% of the population (compared to 63% before the project started), and 95% of Poland's geographical area (up from a mere 12%). With the benefit of our co-used networks cooperation with T-Mobile, the project has already created mportant savings in terms of operating expenses and allowed us to avoid significant capital expenditure. Our 4G LTE network construction, which started in Q3 2013, covered 61% of the population by the end of 2014. 4G LTE substantially improves customer experience and is the key growth lever for data in mobile services. We have more than 600 thousand LTE users and our 4G network already carries close to 20% of Orange Polska's mobile data traffic. We intend to continue to invest in this technology, and to that end we are taking part in the ongoing spectrum auction of 800 MHz and 2600 MHz frequencies.

Good commercial momentum continues

In last year's letter I called 2013 a year of commercial progress. I am happy to say that in 2014 we maintained our good commercial momentum, especially in post-paid mobile services. Our statistics improved both in terms of absolute numbers and relative to our competitors. The number of customers who transferred to Orange Polska totalled 400 thousand, which corresponded to a market share in 'ports-in' of 26% (up from 21% in 2013).

We increased our post-paid subscriber base by more than 6% in 2014. Post-paid services have become significantly more affordable for customers, encouraging customers to migrate to this segment from pre-paid in greater numbers during 2014. The growing popularity of mobile broadband and our second mobile brand, nju.mobile, also contributed to this success.

Despite a particularly tough market environment in the business segment we managed to grow the numbe of voice business customers in this area for the first time since 2010. In 2014, we continued to successfully expand our convergent offer, Orange Open, combining mobile and fixed line products. Its customer base grew by nearly 90% to 539 thousand. In fixed broadband we continue to see growing demand for higher speeds: uptake of our super-fast VHBB services grew 150%, acounting for 8% of all Orange Polska's DSL customers by the end of the year.

Financial performance in line with objectives

I am pleased to report that Orange Polska's financial performance in 2014 ended in line with our objectives despite the ongoing pressure on our revenues. Thanks to our persistent focus on financial discipline, we were able to generate significant cost savings and keep capital expenditure well below the previous year's level. Savings from sustainable cost optimisation measures amounted to PLN 307 million – much higher than in 2013. I would like to stress the diverse nature of these cost savings, close to 60% of which came from sources other than labour. On that front, headcount restructuring progressed as planned, in line with the social agreement we signed in December 2013. Lower revenue decline combined with cost savings allowed us to slightly improve the restated EBITDA margin to 32.1%, up from 31.6% in 2013. Our capex (excluding spectrum fees) fell by 7%, due to completion of the network modernisation project. As a result, we managed to slightly grow our organic cash flow to PLN 1,149 million, meeting our objective of at least repeating the result of 2013. We reduced our net debt by close to PLN 400 million and preserved a sound financial structure, with net debt at 1.1 times EBITDA (unchanged from the previous year) and net gearing at 25% (reduced from 26% in 2013).

New initiatives to complement our service portfolio

In 2014 we introduced two new commercial initiatives: Orange Finanse and Orange Energia. These products – an online banking platform and an energy retail platform – complement our telecom services, and are designed to improve customer loyalty. As more and more of our customers rely on their smartphones as all-purpose life management devices, we believe these complementary products are a natural extension to our service portfolio. The initial response to Orange Finanse has been very promising, with 47 thousand customers signing up in the first four months.

Top priorities for 2015: investments in fibre, customer satisfaction and further efficiency increases

The start of 2015 has been marked by two very important developments for our company: firstly, the start of the long awaited LTE spectrum auction, and secondly, Orange Polska's announcement of a significant programme of investment in our fibre access network this year.

Strong market demand for fast internet, a more favourable regulatory environment and the promising results of our pilot project have encouraged us to step up the rollout of our fibre network. We plan to spend up to PLN 450 million to cover up to 650 thousand households with internet speed in excess of 100 MB/s. The investment programme will mainly concentrate on big cities where we already have a high market share in mobile voice services, and can leverage on that strong footprint. We will carefully monitor monetisation of this investment: we expect a return substantially greater than our cost of capital. I strongly believe this investment programme will build a base for future growth.

Our customer excellence programme will continue to be a top priority in 2015. We need to further improve customer experience by ensuring that our approach is convergent, competent and cost-effective. At the same time, in order to stabilise performance and defend our profitability, we must continue to increase efficiency, to be more 'online' and more flexible. Efficiency measures will include further process automation; workforce optimisation, with 1,420 leaves expected in 2015 (based on the social agreement signed in December 2013); further consolidation of our call centres and points of sale; and, as usual, a rigorous approach to G&A costs. These efforts to optimise operating costs will be coupled with further efficiency savings in capital expenditure.

In closing, I would like to thank Orange Polska employees whose creativity, hard work and dedication to our customers made last year's achievements possible. Your understanding of customer needs is a key asset in this very competitive marketplace.

I want also to thank our shareholders for their trust and support. I will be happy to meet you during our annual shareholders' meeting and during our investor roadshows.

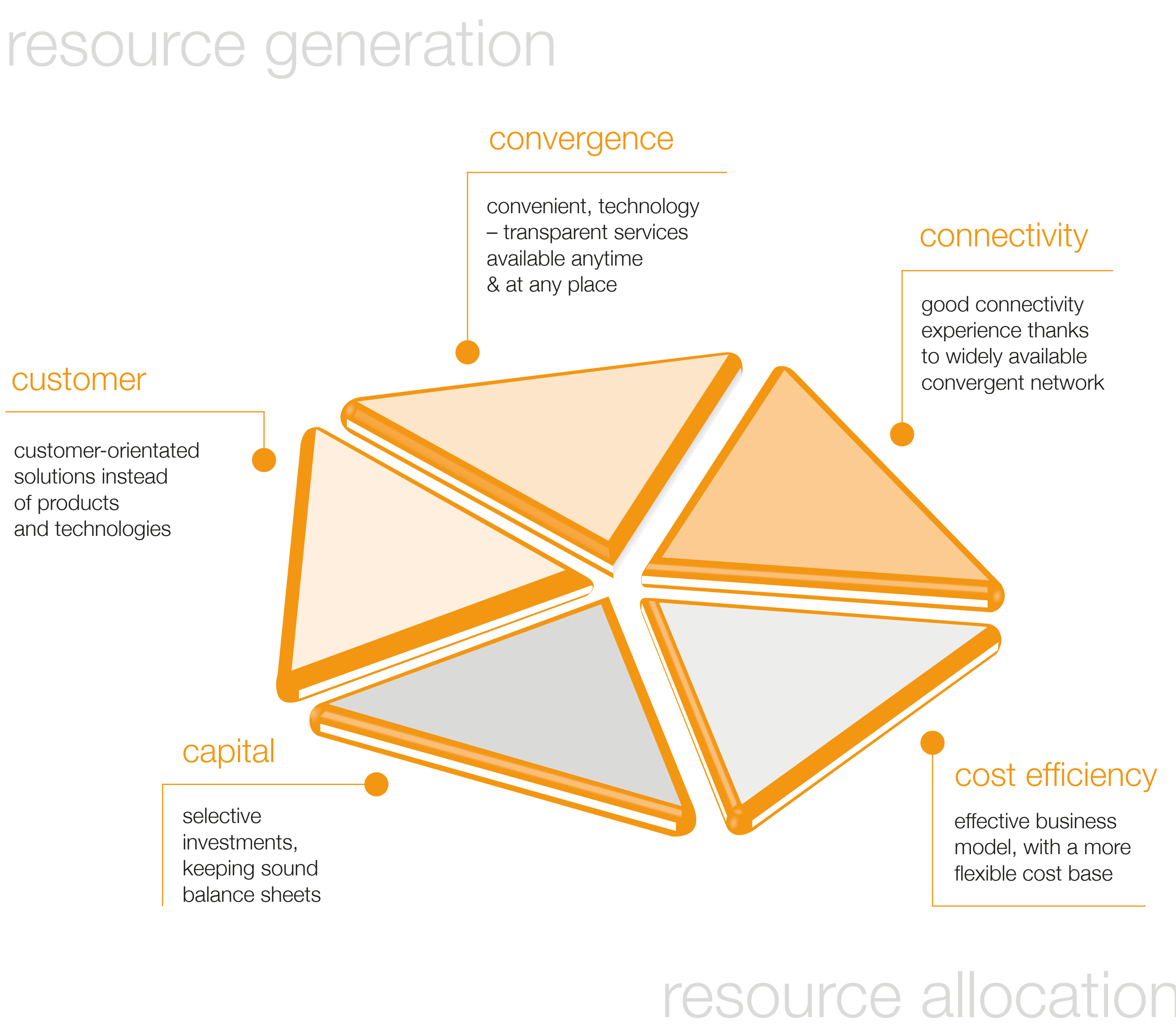
Bruno Duthoit
President of the Board and CEO
Orange Polska S.A.
Warsaw, 12 February, 2015

medium-term action plan 2013–2015

medium-term action plan 2013–2015

In 2014 we continued with our action plan, building on the gains made in the previous year. The plan aims to strengthen our leadership in core market segments, and to develop new markets and value-added services, at the same time as preserving Orange Polska's financial standing and revenues. It allows us to stay responsive to changing consumer needs, offering the right range of services and solutions to suit our customers.

medium-term action plan at a glance



customer

our vision	our commitments	2014 achievements
customer-oriented, total telecom solutions	■ 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	■ Orange Open up almost 90% in one year, reaching 539,000 customers using over 2.2 million services ■ Broadened portfolio with Orange Finanse and Orange Energia ■ Gained 458,000 additional post-paid mobile customers ■ Sales & customer service integration project on track

convergence

our vision	our commitments	2014 achievements
anytime, anywhere services convenient and technology-transparent	■ Full legal merger of fixed and mobile businesses ■ Coherent service for >20 million customers ■ Maximise sales of product bundles and convergent solutions	■ Full legal merger achieved ■ Integrated customer care network with further service improvements launched ■ Orange Open growing dynamically

connectivity

our vision	our commitments	2014 achievements
seamless connectivity experience convergent network with wide coverage	■ 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	■ Networks co-use programme with T-Mobile completed: >10,000 sites transmitting Orange signal ■ 4G coverage extended to 61% of population despite delay in LTE auction, and 3G to over 99% ■ 4,3mn households connectable in VHBB technology, incl. 78,000 FTTH lines

capital

our vision	our commitments	2014 achievements
selective investments and a sound balance sheet	■ Long-term capex target 12-13% of sales (excl. spectrum acquisition, licence renewal and VHBB investments) ■ 2014 capex below PLN 1.8 billion (excl. spectrum acquisition, licence renewal and VHBB investments) ■ 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	■ Capex PLN 1.775 bn (excl. spectrum) at 14.5 % of sales (down 0.3 pp year-on-year) ■ 53% of capex in 2014 spent on network investments ■ Net gearing at 25% and net debt to restated EBITDA at 1.1x

cost efficiency

our vision	our commitments	2014 achievements
flexible cost base and an effective business model	■ Social plan to reduce headcount by 2,950 in 2014 and 2015 ■ Dispose of unused property ■ Reduce the number of low performing shops and grow proportion of online sales ■ Network co-operation 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	■ Reduced headcount by 1,875 in 2014 (incl. changes in the Group) ■ Agreed further reduction of 1,420 FTE in 2015 ■ Number of shops reduced by 75 ■ PLN 307 mn savings from cost optimisation programme, almost 60% from initiatives other than workforce optimisation ■ EBITDA[1] margin defended at 32.1% ■ 7% decrease in capex following completion of mobile networks modernisation project in co-operation with T-Mobile ■ PLN 85 mn proceeds from sale of unused properties (up 60% yoy)

[1] please refer to restatement table on p. 68

key messages

Customers and convergence: Building loyalty through better customer experience
In a competitive market like ours, customer loyalty is the key to sustainable performance. We worked hard throughout 2014 to improve the customer experience, offering attractive products and services through an increasingly efficient, integrated sales and service platform.

The increasing popularity of Orange Open shows that many customers want to save time and money by managing all their telecom services through one provider. In 2014 and the years to come, we are evolving our convergent offers and launching complementary services, like banking and energy supply, under the Orange brand. This strategy enables us to increase customer loyalty and reduce churn at the same time as offering a more convenient service.

539,000 Orange Open customers
+ 90% yoy

78,500 Orange Finanse customers signed up as of mid-March

Orange Open customers

	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014
Orange Open customers (in k)	286	352	418	480	539
% of fixed broadband customers	12%	15%	18%	21%	24%

number of services in Open

	4Q 2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014
number of services in Open (in k)	1 200	1 476	1 745	1 999	2 230
number of services per Open customer	4.2	4.2	4.2	4.16	4.14

Connectivity: Meeting the demand for faster data speeds
Demand for faster data speeds over both fixed line and mobile is driving Poland's telecom market. In 2014 we completed our major mobile network modernisation project, putting Orange in a strong competitive position to capitalise on future growth in mobile data traffic.

As 2015 began, we were preparing to begin a significant investment programme in fixed broadband: a major fibre roll-out that will help us win back market share in broadband, taking advantage of the more favourable regulatory climate to compete more effectively against cable TV operators in Poland's urban centres.

4G coverage **61%** of population

3G coverage **99%** of population

>10,000 sites transmitting Orange signal

78,000 homes passed with fibre technology

key messages continued

5.1% reduction in operating costs

please refer to restatement table on p. 68

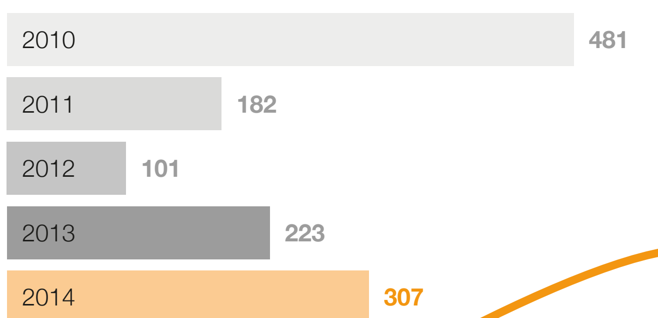
defended restated EBITDA at 32.1%

please refer to restatement table on p. 68

1.1x net debt/restated EBITDA

please refer to restatement table on p. 68

cost savings programme
(total savings delivered, in PLN millions)



Cost savings and capex: Discipline throughout the organisation yields results

In 2014 we continued costs cutting, recording PLN 307 million of sustainable savings – 84 million more than the year before. What's more, close to 60% of those savings came from initiatives other than workforce optimisation, showing our ability to take a disciplined approach to costs across the board.

In 2015 we will continue this momentum, with a rigorous approach to indirect costs. We will be stepping up the disposal of unnecessary property in our portfolio, and taking additional measures to optimise the efficiency of our call centres.

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management

Management Board

Management Board (March 31, 2015)

Bruno Duthoit
President of the Management Board,
Chief Executive Officer

Mariusz Gaca
Vice President in charge of Business Market

Piotr Muszyński
Vice President in charge of Operations

Jacek Kowalski
Board Member in charge of Human Resources

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

On February 6, 2014 the Supervisory Board appointed Mr. Mariusz Gaca as Member of the Management Board. On 14 October 2014 Mr. Mariusz Gaca was appointed as Vice President of the Management board in charge Business Market.
On February 24, 2014, Mr. Jacques de Galzain submitted his resignation from the position of Member of the Management Board, effective as of February 28, 2014.
On March 17, 2014 the Supervisory Board appointed Mr. Maciej Nowohoński as Member of the Management Board in charge of finance.
On September 9, 2014, Mr. Vincent Lobry submitted his resignation from the position of Vice President of the Management Board, effective as of October 15, 2014.
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
Bruno Duthoit (born 1953) is a graduate of the French École Polytechnique and École Nationale Supérieure des Télécommunications. He started his professional career as an engineer working for France 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.

Mariusz Gaca
Mariusz Gaca (born 1973) is a graduate of Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He has also earned an MBA degree at the University of Illinois in Urbana Champaign and AMP at INSEAD. He began his professional career in the Elektrim Group (1995-2000), where he was involved in the development of business plans for local telecommunication operators. In 2001, he joined TP Group as the Director of Multimedia Branch, responsible for the development of the Internet access portfolio for the mass market. Between 2005 and 2009, he was responsible for TP Group's business market. From 2009 he was the TP Group Executive Director in charge of Sales and Customer Care and CEO of TP Group's mobile arm, PTK Centertel – a position which he held until the recent merger of PTK Centertel with TP S.A.. Since November 2013 he has been responsible for the Business Market of Orange Polska. Mariusz Gaca has served as Vice-President of Employers of Poland since 2011, and also serves as Chairman of the Polish Section of the Business Industry Advisory Committee to the OECD.

Piotr Muszyński
Piotr Muszyński (born 1963) graduated from the Faculty of Law and Administration at the University of Wrocław, (MA degree in law) and the Advanced Management Programme organized by IESE Business School / University of Navarra. In Orange Polska (formerly: Telekomunikacja Polska) since 2001, initially as Director of Customer Care Branch, later as Director of Sales and Services Division (2005–2006) and Executive Director in charge of Sales & Services (2006–2008). In September 2008 appointed Member of the Management Board in charge of Operations, and in November 2009 – Vice President in charge of Operations. Piotr Muszyński acts also as V-ce President of the SVB of Association of Listed Companies (SEG), member of Committee of Electronics and Telecommunications at Polish Academy of Sciences (PAN), member of Council at The Polish Chamber of Information Technology and Telecommunications (PIIT). In recognition of his career achievements he was awarded, among others: as a Manager of the Year in 2010 and 2011 with the Golden Antenna Award of the World of Telecommunication; with the Gold Cyborg award during the National Symposium on Telecommunications and ICT in 2011 – for his outstanding contribution to the development of information society.

Jacek Kowalski
Jacek Kowalski (born 1964) graduated from the history faculty of Warsaw University before moving on to post-graduate 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
Maciej Nowohoński (born 1973) is a graduate of the Foreign Trade Faculty at the Economic University of Poznań and the Hogeschool van Arnhem en Nijmegen, a Dutch business school. Prior to joining Orange Polska, he worked, among others, in Arthur Andersen and Andersen Business Consulting. He 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. He was also Management Board Member at Emitel in 2010–2011 and the Management Board Member in charge of Finance at PTK Centertel in 2011–2013. He has been the Orange Polska Management Board Member in charge of Finance since March 2014.

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 Effectivess & Transformation

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

review of operations

market climate

Macroeconomic context
In 2014 Poland's economy grew for the second year running, with GDP up 3.3% compared to 2013. This trend was mainly fuelled by growing exports and improving domestic demand. Although the Russian-Ukrainian conflict and stagnation in the Eurozone caused a mid-year dip in Poland's foreign trade, the economy still performed well in the third quarter and fouth quarter. Despite the fact that Poland's economic outlook is partly dependent on the financial health of the rest of Europe, further economic growth is expected in 2015 as domestic spending power increases and exporters diversify into new markets.

Unemployment fell almost two percentage points during 2014, to 11.5% at the end of the year. At the same time wages in industry sector rose by 3.7% in both nominal and real terms, resulting in increased household disposable income. We expect a further improvement in the labour market in 2015, driven by growing GDP, a confident enterprise sector, and increases in foreign investments and the inflow of EU funds.

Inflation during 2014 was 0.0% on average, well below the Government's target of 2.5%. Poland experienced a period of deflation in mid-year, attributable to falling international fuel prices and the effects of the Russian-Ukrainian conflict.

Telecoms market
According to the Group's estimates, the value of Poland's telecommunication market fell by 1.9% in 2014 as compared to 2013. The main factor contributing to the decline was the continuing decline of the fixed line market, accompanied by price reductions in the mobile market for both retail and wholesale services. The MTR reduction from 2013 and a decrease in roaming fees, in addition to their direct impact on revenues for mobile operators, resulted in a general drop in prices.

Trends in the mobile market
Mobile operators continue to offer voice services with unlimited minutes, both in their mobile and fixed-line portfolios. This contributes to a decline in market value, particularly in the mobile segment. At the same time, the growing popularity of smartphones, tablets and other devices that use mobile broadband access has a positive impact on the development of the telecom market, particularly mobile data services.

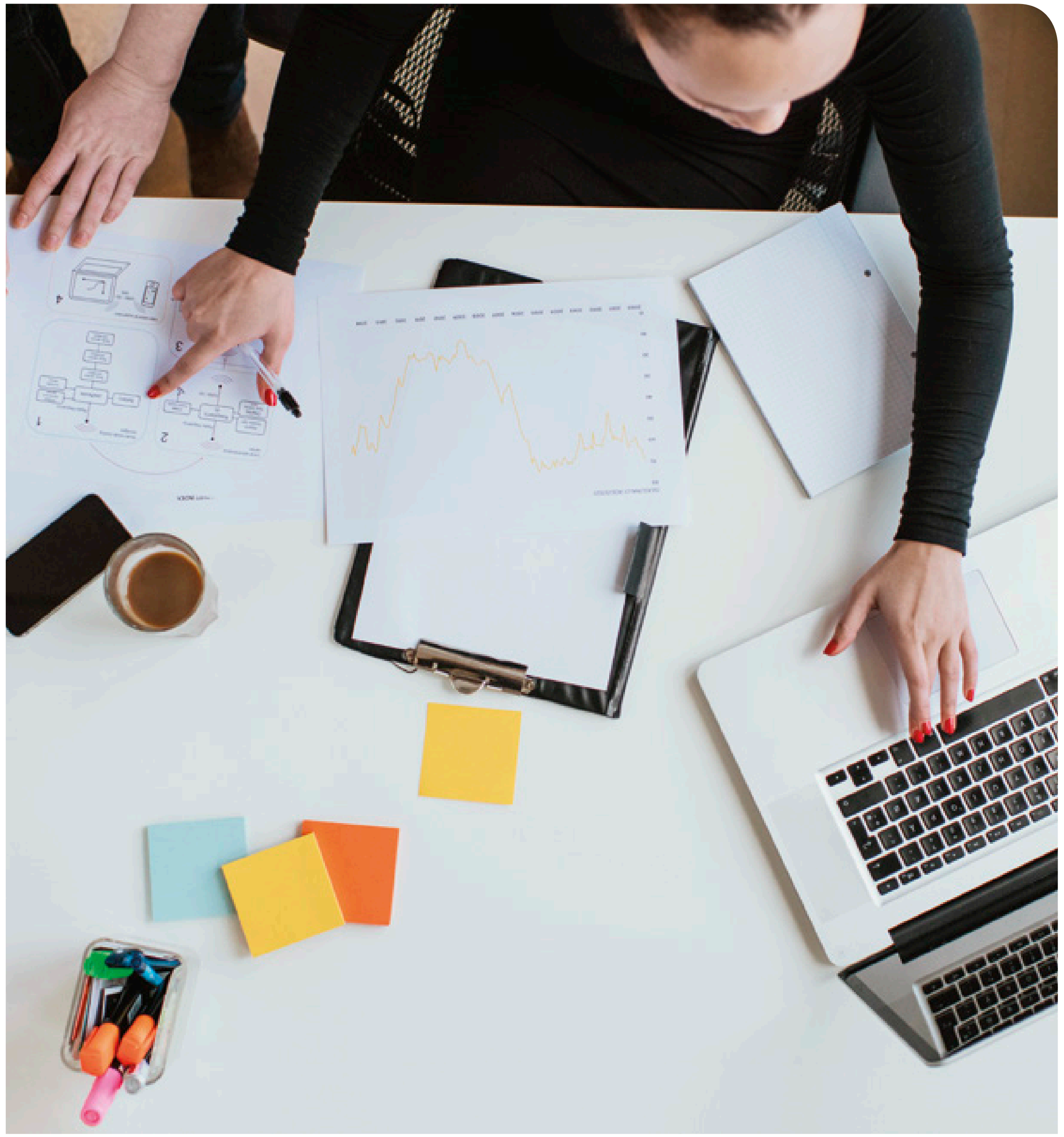
Fixed to mobile substitution affects data as well as voice services
Fixed to mobile substitution continues to have an important adverse effect on market value. In previous years, this trend affected mainly fixed-line voice services; now, it is beginning to affect the fixed broadband segment as well. This is because LTE networks are not yet saturated and offer a good customer experience, with take-up further boosted by attractive price promotions. Orange Polska believes that in the longer term mobile broadband will be a complementary service rather than a substitute for fast fixed broadband, mainly because the inevitable network saturation may happen quite fast.

In subsequent years, key market developments will concentrate around the growing importance of fixed-mobile convergence, further bundling of telecommunication services with television and entertainment, as well as the expansion of services based on 4G technology. Major developments in the business market will most likely include growing popularity of combining telecom offers with ICT offers as well as growth in the machine-to-machine (M2M) segment.

number of smartphones among Orange customers

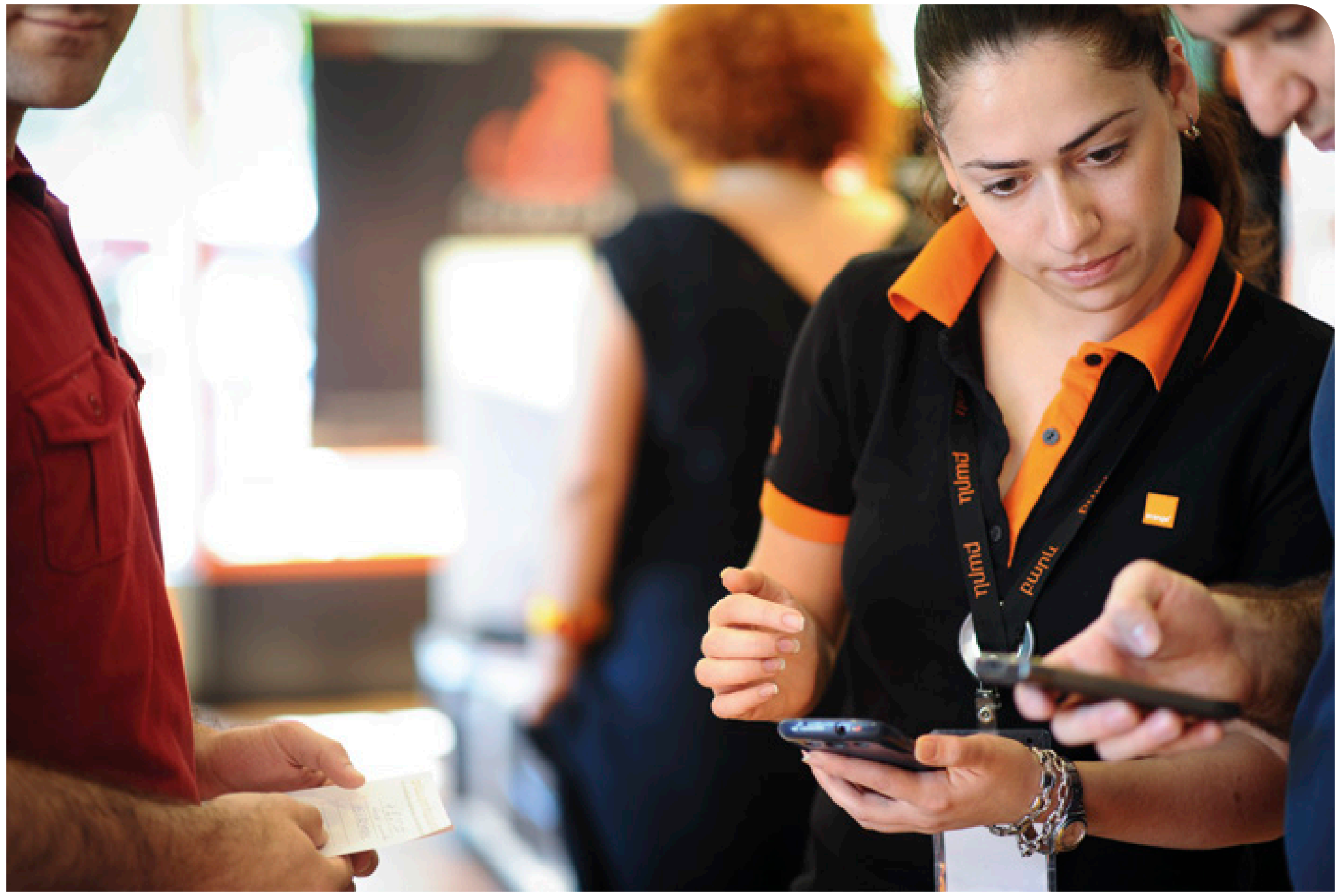
2013	3.8 milion
2014	4.6 milion

increase + 20% yoy



Demand for faster Internet access is driving the broadband market
Poland's fixed line Internet access market is currently transitioning towards a higher share of very high speed broadband in total broadband access. With growing demand for data transmission and better connection speeds, traditional Internet access is losing ground. It has become crucial for telecoms providers to have a product with very high connection speed in their portfolios if they want to stay competitive and to meet the growing needs of consumers. After an extensive FTTH pilot conducted in 2014, Orange Polska is planning to invest in fibre technology on a larger scale in 2015. Orange investment plans will not only meet current market needs, but will provide the backbone infrastructure necessary for future technology revolutions.

Consolidation of ownership, diversification of service portfolios
There were a number of major ownership changes in the Polish telecommunication market in 2014. Deutsche Telekom (owner of T-Mobile Polska) acquired GTS Central Europe and began the merger process. Cyfrowy Polsat took over control of Polkomtel, thus increasing its potential for offering convergent services. Orange Polska sold Wirtualna Polska, which is to be merged with the O2 Group's portal by the new investor. Furthermore, telecoms operators began to diversify their portfolios, branching into complementary service sectors. Operators including Orange Polska started to sell banking services or offer power supply in conjunction with electricity providers. These trends are expected to continue in the future.



regulatory update

The Polish telecom regulator supports regulatory policy favourable for investment environment. The idea is to move from ex ante regulations to ex post verification if competitive environment is already created.

Deregulation helps Orange Polska to compete on similar rules as other market players on broadband

In October 2014, the regulator approved the partial deregulation of the fixed broadband market, giving Orange Polska much more flexibility to adjust prices on the retail market. We reacted to these new market conditions immediately, launching new and more attractive offers in the deregulated areas, which include almost 30% of all Polish households including most major cities (e.g. Warsaw, Katowice, Lodz and Wroclaw). This move by the regulator will definitely contribute to the development of the Internet market in Poland and to the objectives of the Digital Agenda. However, deregulation alone will not be enough to regain the broadband market share. Upgrading the quality of our network is a must, and deregulation has given us the proper conditions to invest in a major fibre network project in 2015.

During 2014 the President of UKE also began consultation on deregulation of the retail markets for national and international calls. Decisions on these matters are expected in 2015, and it is hoped that Orange Polska will be released from existing regulatory pricing obligations in these areas.

4G LTE and spectrum auctions

In the wake of 2013's spectrum licence tenders, 2014 saw a massive increase in the availability of data services based on LTE technology. By the mid-point of the year, all of the infrastructure-based telecom providers in Poland offered 4G services to their retail customers. Orange Polska has been doing so since 2013 when we began using T-Mobile's frequencies under the terms of our RAN sharing agreement. By the end of 2014 population coverage for our 4G services reached almost 61%.

The long awaited auction of frequency licences for 800 MHz abd 2600 MHz, intended to increase the coverage and capacity of Poland's 4G network, is currently underway. Orange Polska is taking part in this auction, which we hope will proceed in a smooth and balanced fashion.

Broadband customer base ('000)

	2013	2014
3P services (TV+BB+VoIP)	351	423
Fixed broadband	2 301	2 241
VHBB (VDSL+FTTH)	64	160
TV	707	748

products & services

2014 was a year of innovation in a number of product and service categories for Orange Polska. In line with our strategy to develop convergent services and explore new revenue streams, we conducted pilot schemes to test the potential value of our plans for very fast broadband (Fibre To The Home) and value-added services (Orange Energia and Orange Finanse). The success of all three projects has helped to shape our plans for 2015 and beyond as we invest selectively for future growth.

Orange Open: growing customer numbers and customer loyalty
We saw strong demand for our convergent Orange Open offer in 2014, with a 90% rise in customer numbers to 539 thousand by the year's end. Orange Open – which allows users to combine mobile and fixed line products – now accounts for 24% of our fixed broadband customers, and on average each customer uses more than four different Orange services. The churn rate is much lower than among single service users, showing that convergent offers have a positive effect on customer loyalty. In the course of 2014 we streamlined the existing promotions into one, and made the system of discounts for bundled services simpler and more attractive.

Mobile: instalment plans and innovative phone number selection
As the popularity of post-paid mobile plans increased, we introduced a new initiative to sell smartphones and tablets on instalments with certain post-paid tariffs. This new scheme complements the traditional handset subsidy model, and is designed to encourage customers to trade up to a more advanced smartphone or switch from SIM-only to a handset deal. Another innovation in mobile was our introduction of 'choose your own number' offer in pre-paid. Instead of assigning a number to each start-up pack at the manufacturing stage, we can now offer customers the opportunity to choose from a far wider range of numbers during SIM card activation. This is the only service of its kind in Poland, and probably the first in Europe.

Fixed line voice: defending share in a shrinking market
According to our estimates, just 22% of Poland's population had fixed telephone lines at the end of 2014, compared to 23% a year earlier. This is a long-term historical trend; because Poland's fixed line penetration rate was relatively low when mobile telephony was introduced, mobile phones quickly became a substitute for fixed voice services. In 2014 we defended our share of the fixed voice market, retaining over 53% of local retail traffic thanks to bundled offers and attractive unlimited tariff plans.

Broadband: adapting to compete in a changing regulatory climate
The overall fixed broadband market grew more slowly in 2014; according to our estimates, the number of fixed broadband access lines rose less than one percent year-on-year. This slowdown is mainly due to substitution by mobile broadband access, which is becoming cheaper and more reliable. Orange Polska saw a rise of 31% in demand for our mobile broadband services, ending the year with 1.5 million subscribers.

+88.5% yoy Orange Open customers

+6.3% yoy mobile customers postpaid

In parallel with the increasing popularity of mobile broadband, there is undoubtedly strong and growing demand for higher speed data in the home, as proven by the success of cable TV operators offering high-speed Internet as part of their TV packages. This type of service now accounts for around 40% of in-home broadband, mainly concentrated in major urban areas. Orange Polska's efforts to address this competition received a major boost in October 2014 when market regulations on broadband pricing eased, allowing us to launch new offers at more competitive prices in areas where cable TV operators – who are not governed by the same telecom regulations – previously had an advantage. Since we already have a strong share of the mobile market (c. 36%) in the same urban areas, Orange Polska is now in a good position to leverage cross-selling opportunities, strengthen our convergent offers and build market share.

But perhaps the most important weapon in our fight to win back broadband market share is speed. In 2014 we simplified our product portfolio to offer fewer options at higher speeds, and we now have 160 thousand users of VHBB (very high-speed broadband) Internet – 150% more than a year ago. We also successfully completed our pilot project to bring fibre-optic broadband technology to homes in Warsaw and Lublin. By the end of the 14-month pilot we had 78,000 FTTH lines ready to connect, and our market share in existing homes in the Warsaw pilot area had grown from 8% to 20%, and 60% in new homes. In 2015 we will step up our investment to build coverage for up to 650,000 households by the end of the year, transforming the availability of high-speed broadband in Poland.

Orange Finanse: a new mobile banking service
In October 2014, after around 6 months of preparation, we launched financial services under the Orange Finanse brand in cooperation with mBank. This new offer is a response to the needs of the large numbers of Polish consumers who now see their smartphone as an all-round life management tool. Banking services are a natural extension of the Orange brand, and Orange Finanse represents a new way to increase customer loyalty as well as a new source of revenue. Customers who sign up for the new service can manage their personal finances via an app on their Android or iOS smartphones, with features that include: opening an account; contactless payments; one-click balance check; phone credit top-ups; and electronic money transfers to contacts in the address book. The service launched fully in the fourth quarter of 2014 and attracted 78,500 users as of mid March.

Orange Energia: household electricity sale and supply
In September 2014 we started to conduct a pilot project concerning the sale of electricity to residential customers and small businesses under the Orange brand. We learned that energy sold in bundles improves loyalty and attracts new customers even more effectively than we anticipated, and a decision about nationwide launch of Orange Energia took place in February 2015. The offer will be available via all Orange sales channels, with Orange Open customers benefiting from the most attractive discounts. As we are reselling energy bought from our partner Polenergia, and supplying it through agreements with Poland's top five energy distribution companies, the new venture requires only a minimal investment in additional staff training and IT systems.

Orange Open customers ('000)

4Q 2013	286
1Q 2014	352
2Q 2014	418
3Q 2014	480
4Q 2014	539

mobile customers ('000)

4Q 2013	15,325
1Q 2014	15,395
2Q 2014	15,461
3Q 2014	15,591
4Q 2014	15,629

sales and distribution

In 2014, we continued to develop our online sales channel to enhance the quality and improve the efficiency of customer care, ensuring that our approach is convergent, competent and cost-effective. We are working to increase the effectiveness of all our sales channels and improve our approach to new customers, with the goal of a fully-profiled sales network that will enable the best customer experience in Poland.

Optimising our sales network
In line with our strategy, we concentrated on increasing the share of online sales throughout 2014. When final sales figures were gathered in December, Orange Polska took third place in online acquisition and first place in online retention among all the Orange Group companies in Europe.

We also continued the process of closing under-performing shops, reducing the total number of shops by 75 in 2014. At the end of the year we had 845 exclusive Orange points of sale, offering our entire portfolio of services (mobile & fixed) and providing a large range of customer service. We updated points of sale in response to customer needs, adding Express points, where customers are served very quickly, and refreshing the look of 280 stores to make sure our customers continue to perceive us as modern and competitive. In addition, we now have more than 500 points of sale via independent distributors like Media Markt, Saturn and Vobis, up from 369 at the end of 2013. Sales results in this channel are still growing strongly, with a year-on-year increase of 305%.

Over and above our points of sale network, prepaid starter packs were available in around 49,000 locations during 2014, and top-ups in about 109,000. We also employ a door-to-door sales force for the active sale of our fixed-line products.

Focus on cross-channel distribution
In line with global trends, our expanding distribution network is centered 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. In December we started commercial implementation of a voucher project (clients who visit POS but do not buy anything are given vouchers to be used for an online purchase). Since November, customers have had the option to pick up their online orders at a convenient point of sale. This project was very successful and the results exceeded our expectations.

Streamlining the sales and delivery process
Nowadays access to the Internet is a basic requirement for our customers, so we have made it easier and faster to get broadband delivered. If for technical reasons we cannot offer a fixed broadband service, the customer can buy mobile broadband on preferential terms. What's more, all the formalities can now be completed with just one visit from an Orange technician. Thanks to the launch of this new initiative, we shortened delivery time for the ADSL service by three days and achieved very good results in both ADSL and VDSL conversion.

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 exploit 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.

customer care

In 2014, we concentrated on service effectiveness, as measured by the number of Orange customers who would recommend our services to a friend after a contact with our customer care operations. We also focused on making the customer experience easier by further developing modern and convenient customer care channels.

Popularity of digital channels
The effectiveness of these efforts was confirmed by the fact that by the end of 2014, nine out of ten customers were choosing alternative channels, such as Orange on-line, the 'My Orange' mobile app or Facebook, over talking to Orange advisors. 'My Orange' application is already downloaded by a million of our customers. For three years we have been Poland's leader in using Facebook for customer care and we are ranked seventh in the worldwide list of Socially Devoted Brands.

Improving and measuring quality of care
As a result of a number of initiatives aimed at improving the quality of our customer care, we have increased the ratio of customers recommending Orange services by 10 percentage points. to almost 70% (according to Post-Contact Hot Survey). In addition, by enhancing and streamlining our processes we have improved our first contact resolution (FCR).

We also follow global standards. Following the certification of our Call Center in Lublin to the Customer Operations Performance Center (COPC) standard, we have joined a prestigious international group of companies which operate according to the best customer operations management standards, particularly in the areas of process management, consultants' competence development, planning and reporting. Each customer using several Orange services, such as fixed line voice, mobile voice, broadband, television and Orange Energy, is guaranteed comprehensive customer care by a dedicated advisor.

More effective, more efficient
We have been consistently improving the effectiveness of our customer care by promoting remote channels, simplifying processes and increasing the number of issues settled per contact. We significantly increased the number of customers using e-invoices, to almost 60% in December 2014. As part of our efforts to support CSR, we carried out campaigns promoting e-invoices as a 'green' and user-friendly solution.

technology

In 2014 we pushed ahead with our modernisation plans for our mobile and broadband infrastructure, improving both network coverage and data transmission rates for our customers. We completed the process of consolidating and upgrading our mobile networks, in cooperation with T-Mobile, resulting in a 60% increase in the number of base stations. On the fixed broadband side, we strengthened and simplified our backbone IP network to handle growing traffic and speed requirements and prepare for a major roll-out of high-speed services in 2015. We continue to focus on our goal of building Poland's best convergent network: readying our infrastructure for the future, upgrading its capacity for high-speed data traffic and optimising it for seamless convergence.

Mobile network consolidation and upgrades
Our joint project with T-Mobile to create Poland's best and most extensive networks was successfully completed in 2014. The project extended 3G coverage from 63% of the population to over 99%, and 4G coverage is now available to almost 61%. The agreement with T-Mobile is strictly technical (the two companies continue to compete in both wholesale and retail markets), and it covers the reciprocal use of radio access networks and the joint operation of a network management, planning, development and maintenance company which operates the co-used access networks.

Infrastructure development
As the popularity of data-intensive digital services continues to grow, our customers are generating increasing quantities of traffic for our networks, and demanding higher Internet access speeds. In 2014 we took steps to anticipate the next phase of traffic requirements by strengthening our backbone IP network and simplifying its topology. We implemented new super-core routers, scalable to 8 Tbps each, which increased the network's capacity to 640 Gbps with protection mechanisms. In addition, the network equipment is now ready to set up IP connections at 100 Gbps.

We added more fibre-optic lines to our mobile network to ease traffic flow, and upgraded the packet data transmission standards to expand 4G LTE capabilities. With the new Evolved Packet Core technology, all mobile data traffic (2G/3G/4G) is now handled by one system.

Underpinning our future plans
In 2015 our primary focus will be on extending provision of very high-speed broadband in urban areas with fibre technology. To support our aims, we will continue to invest in technology to support high-speed data 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.

3G coverage (% of population)

2013	90
2014	99.4

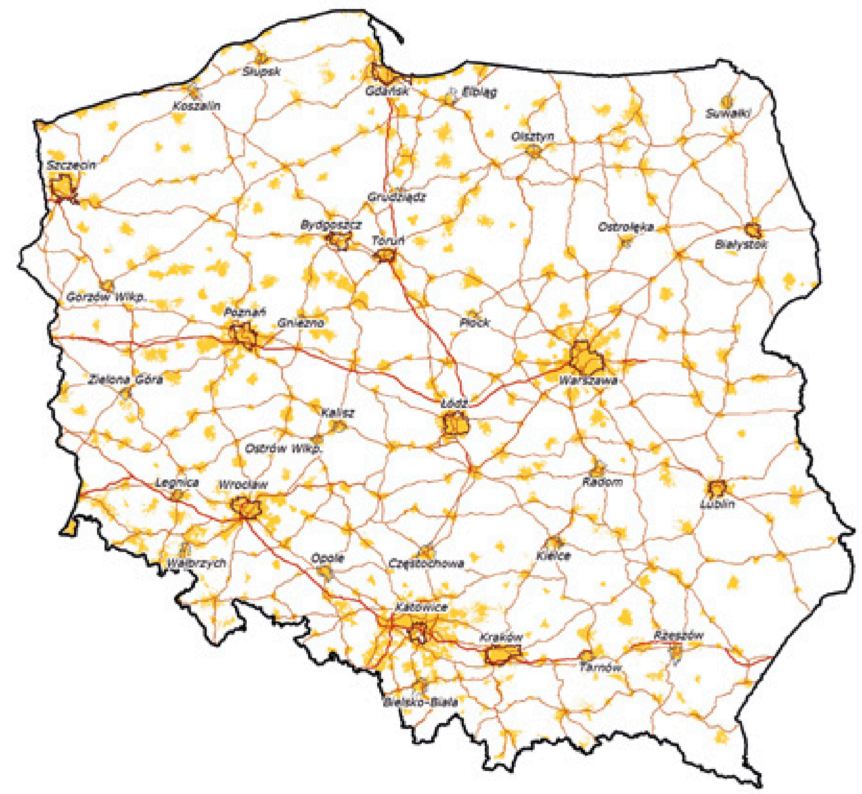
4G coverage (% of population)

2013	16
2014	61

high speed FTTH broadband lines available

2014	78,000
by end of 2015 additional up to	650,000

3G coverage 31.03.2012



UMTS/HSPA+

3G coverage 31.12.2014

UMTS/HSPA+

people

In 2014 we continued to build Orange Polska's reputation as one of the best employers in Poland. A new employer branding campaign was very well received by our target market, and a record number of applicants responded to our recruitment initiatives.

Orange Polska recognised as a top employer
We received several prestigious awards in 2014, including certificates from Top Employers Polska and Top Employers Europe. These awards are granted to enterprises that provide an outstanding work environment and take good care for their employees while enabling them to grow at all organizational levels. In this year's competition, we were particularly praised for our wide range of benefits and extensive employee development opportunities such as the talent management strategy, multidisciplinary training options, international exchange and flexible employment conditions.

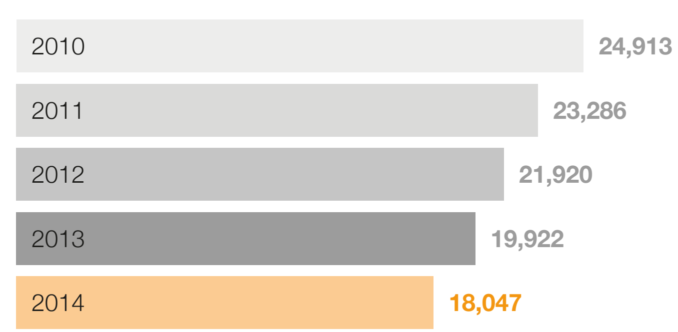
The number of candidates applying for positions at Orange Polska is growing year on year, which is further evidence of our high standing in the employment market. We encourage our employees to participate in volunteer programs, and many of them do this through the Orange Foundation or deliver their own projects thanks to dedicated grants. In 2014, over 3000 Orange Polska employees were active volunteers and worked for 22,655 hours on behalf of those in need.

Opportunities for people with disabilities
One of the ways in which we champion equality and diversity within our company is by drawing attention to the needs of workers with disabilities. Since 2013, Orange Polska has been a signatory to the Diversity Chapter and its guardian in Poland. The Chapter obliges its members to promote diversity, including in relation to employees with disabilities. In order to better address this sensitive matter we developed the Yes for Health programme, which aims to create a safe and friendly work environment for everyone. Disabled employees are also offered an additional package of medical services. In 2014, there were 275 disabled people employed in Orange Polska.

Enhancing the digital work environment
As an innovative company offering its clients the latest technological solutions, we also strive to create a modern work environment within Orange Polska. In 2014 we continued to introduce on-line tools which simplify life for our employees. That includes self-service applications, both for managers and employees.

We also brought new communications and networking applications online. Lync Messenger allows employees to conduct a conference call or video conference and share documents. The latest development is the Orange Plazza social network, which operates in Orange Group companies around the word. It was introduced in October and already hosts 75 social communities from Poland.

employment evolution 2010-2014



Operational efficiency
Workforce optimisation is not easy, yet it is an unfortunate necessity in the current competitive environment. 2014 was the first year of execution of an agreement with our trade unions that allows for 2,950 voluntary departures for 2014 – 2015. According to the terms of this agreement, 1,530 employees left the Group in 2014. With the additional effect of the sale of Wirtualna Polska and other headcount movements, the total workforce went down to 18,047 at the end of 2014. The optimisation process is on track and we believe headcount will reach roughly 16,500 by the end of 2015.

It is always a priority to limit the stress of organisational change on our staff. We are confident that the execution of the 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 2014. These continuing efforts are necessary to bring about operational efficiency improvements and to stay competitive.

1 introduction to Orange Polska
2 medium-term action plan 2013–2015
3 management
4 review of operations
5 CSR
6 corporate governance
7 financial statements

financial performance

We managed to grow organic cash generation slightly in 2014, despite the ongoing pressure on our revenues. Thanks to our persistent focus on financial discipline, we generated significant cost savings and kept capital expenditure much lower, with significant network quality improvement.

Regulatory pressure on revenues largely offset by good results in mobile

Consolidated revenues totalled PLN 12,212 million in 2014, down by 4.5%[1] or PLN 574 million versus 2013. A substantial part of this decline (PLN 255million) can be attributed to regulatory decisions, MTR cuts (which had a big impact on revenues in the first half of the year) and cuts to EU roaming rates. Excluding the impact of regulatory decisions, the top-line decline was limited to PLN 319 million or 2.5% year-on-year, compared to PLN 525 million (3.7%) a year ago. The drop was solely attributable to lower fixed services revenues; mobile and other revenue categories were up in 2014. Mobile revenues were supported by handset sales by instalments (which boosted equipment revenues), and by the growth of the customer base, both of which offset pricing pressures.

Encouraging take-up of convergent products, post-paid mobile services and high-speed broadband; slower decline in demand for fixed-line services

The customer base for our convergent Orange Open products increased by almost 90% in 2014 to 539,000, accounting for 24% of all our retail fixed broadband services. The total number of services used by Orange Open customers exceeded 2.2 million, which implies an average of more than four services per customer. Our convergent solution contributes to customer loyalty by significantly reducing churn versus single offers.

In 2014 the number of customers for Orange Polska's mobile services increased by more than 300,000 – up 2% year-on-year. While the number of pre-paid customers decreased, net additions in post-paid went up by 458,000, a much better result than the previous year. It was driven by the market appeal of Orange's mobile offers (evidenced by improved mobile number portability statistics), and migration from pre-paid as a result of much higher affordability of post-paid and the growing popularity of mobile broadband.

Our total number of mobile broadband customers went up by 31% in 2014, versus 18% in the previous year. This was a consequence of both the rapidly increasing number of mobile data devices and the vast improvement in our network, both 3G and 4G.

KPI (000)	2014	2013	change
Orange Open customers	539	286	+88.5%
3P customers (BB, TV and VoIP)	423	351	+20.5%
number of mobile customers	15 629	15 325	+2.0%
post-paid mobile customers	7 679	7 221	+6.3%
pre-paid mobile customers	7 950	8 104	-1.9%
fixed voice lines (retail)	4 512	4 741	-4.8%
fixed broadband accesses (retail)	2 241	2 301	-2.6%
mobile broadband accesses	1 521	1 165	+30.6%
number of TV customers	748	707	+5.8%

[1] please refer to restatement table on p. 68

Retail average ARPU declined by around 9% last year as a result of persistent pricing pressures (mainly on the business market), higher popularity of SIM-only offers (voice and data) and the dilution effect that followed the introduction of instalment sales.

The fixed line key performance indicators (KPIs) continued to benefit from product bundling and convergence. The evolution of fixed voice customers improved, with the net loss of lines at 229,000 versus 346,000 in 2013. Our TV customer base increased by 41,000 in 2014 delivering growth of close to 6% year-on-year. Despite a drop in the total fixed broadband customer base we saw a big demand for high-speed internet: the number of our VDSL technology customers grew 150% in 2014, reaching 8% of all xDSL customers.

Restated EBITDA[1] margin up 0.5pp to 32.1% thanks to effective cost control measures

Restated EBITDA[1] for 2014 amounted to PLN 3,921 million and stood at 32.1% of revenues. In comparison with 2013, EBITDA decreased by PLN 125 million; however the margin improved by 0.5 percentage points. The pre-regulatory decline was attributable mainly to lower revenues (an impact of PLN 319 million) and from higher interconnect costs (PLN 171 million). The latter is related to the growth in traffic as a consequence of the higher popularity of mobile tariff plans with unlimited options and higher number of customers. These negatives were partially compensated by a PLN 138 million decrease in direct commercial costs (a consequence of effective investments in customer acquisition and retention) and by the ongoing cost optimisation programme, which delivered PLN 307 million of sustainable savings (compared to PLN 223 million in 2013).

2014 net income at PLN 535 million, including gain on sale of Wirtualna Polska

Orange Polska's net income for 2014 came in at PLN 535 million versus PLN 294 million in 2013. This substantial year-on-year increase was predominantly driven by higher reported EBITDA, which included PLN 191 million from the sale of Wirtualna Polska. Growth was also helped by slightly lower depreciation charges (down by PLN 34 million year-on-year) and lower net financial costs (PLN 73 million below last year) as a consequence of debt refinancing completed in May 2014. Income tax was up PLN 30 million compared to 2013, when the effective tax rate benefited from higher technology tax relief and lower non-tax-deductible expenses.

7% drop in capex following completion of mobile network investment project

Excluding the one-off cost of spectrum licence acquisitions, capex amounted to slightly less than PLN 1.8 billion in 2014 and was down 7% compared to 2013. This decrease was driven entirely by a PLN 150 million fall in spending on our mobile network following completion of the network modernisation project. We continued to focus capex on growth areas and future efficiency savings: investments in our fixed access network continued to grow slightly, and we invested an extra PLN 79 million on simplifying our IT solutions.

[1] please refer to restatement table on p. 68

PLN 1.15 bn organic cash flow

2014 cash objective achieved, with Organic Cash Flow[1] at PLN 1,149 million

Organic cash flow[1] amounted to PLN 1,149 million in 2014, up PLN 44 million compared to 2013, and in line with the Group's full year guidance[1]. There were two negative factors affecting cash generation in 2014. Firstly, net cash from operating activities (before income tax paid, change in working capital and also excluding the settlement with Netia) was PLN 125 million lower, mainly as a result of contraction in restated EBITDA[2]. Secondly, working capital requirement was higher by more than PLN 300 million as a consequence of a much higher balance of receivables due to the introduction of instalment sales. However, these two negatives were fully offset by much lower capital expenditure as well as by lower income tax paid and by asset disposals.

Sound balance sheet maintained with net debt at 1.1 times restated EBITDA[2]

We reduced our net debt by PLN 378 million in 2014, following a reduction of about PLN 500 million the year before. In consequence, we held net debt at 1.1 times restated EBITDA[2], while our gearing was limited to 25%. As a result of debt refinancing we have reduced our effective cost of debt from more than 6% in 2013 to 5% in 2014. In 2015 this cost will be down further, following the full-year effect of the refinancing.

Our balance sheet is sound, and our liquidity is supported by close to PLN 3 billion of cash and unused credit facilities.

Shareholder remuneration

The management of Orange Polska is committed to the responsible use of the company's cash resources. While we understand how important remuneration is to our shareholders, we need to balance this with the need to reinvest into profitable growth opportunities, and the need to maintain the strength of the balance sheet.

Regarding the need to invest, we face a major uncertainty related to the LTE spectrum cost, and we have decided to invest in fibre rollout. We also remain committed to keeping our leverage below 1.5 times EBITDA in the long term. In order to achieve the right balance between these priorities, and taking into account that we delivered on our 2014 commitments, the Management has recommend to General Meeting of Shareholders a cash dividend of PLN 0.50 per share, to be paid in 2015.

Looking ahead

We expect 2015 to be another challenging year, with repricing in the B2B segment putting pressure on our revenues and EBITDA. New cost initiatives and further reductions to capital expenditure (excluding fibre access network project) should help mitigate this adverse trend. The recently launched LTE auction calls for caution regarding our future cash outflow. However, we are encouraged by strong market demand for fast Internet, a more favourable regulatory environment and the promising results of our FTTH pilot. As a consequence, we plan to make significant investments in our fibre access network. We anticipate 2015 organic cash flow[1] to be around PLN 900 million, including the new investment project.

Cost savings (in PLN millions)

2010	481
2011	182
2012	101
2013	223
2014	307

OPEX up to EBITDA (in PLN billions)

2010	9.9
2011	9.4
2012	9.3
2013	8.8
2014	8.3

[1] excluding one-offs: renewal of existing spectrum, acquisition of new spectrum, potential payment of the EC fine, and other claims and litigations
[2] please refer to restatement table on p. 68

1.1x net debt/restated EBITDA

please refer to restatement table on p. 68

25% net gearing

PLN 1.78 bn Capex

corporate social responsibility

Corporate Social Responsibility

For several years now, Orange Polska has been successfully developing and implementing a corporate social responsibility (CSR) policy that reaches all areas of our business.

digital inclusion

digital inclusion | safe network | clean environment | enquiring team

to ensure that everyone, regardless of their skills, residence, age or ability, can make use of the opportunities offered by the digital world

We strongly believe in the importance of maintaining and strengthening Poland's social fabric, and we support a number of important initiatives for the development of both civic society and the information society. We are a partner in the Digital Lighthouse Keepers project and the Coalition for Digital Inclusion of the 50+ Generation, Maturity on the Net.

We want our services to be accessible to all customers, including those with disabilities. Over 150 of our sales outlets across the country have been specially adapted for our disabled customers.

The Orange Foundation has been encouraging young people to gain knowledge, participate in culture and build communities using the Internet and new technologies; in the process, they build their e-competence and awareness of Internet dangers.

10,000 schools with broadband access
on preferential terms

3,500 libraries
receive grants in the Orange for Libraries programme,
providing free access to the Internet for over 5 million Poles

50 Orange Studios
with modern multimedia equipment, serving 250,000 people in small towns and villages

46 grants
for digital education projects, which involved a total of 5,000 children and young people

safe network

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to make the use of the latest technologies easy and risk-free

For us, customer education, ensuring safety of use of our services and providing proper tools and procedures for handling problems are a natural consequence of the development of modern technologies.

Young people are among the most vulnerable to cyber dangers. For the last ten years Orange Polska has collaborated with the Nobody's Children Foundation (FDN), a leading Polish NGO that deals with children's safety on the net. Owing to our support, parents and teachers can use a number of educational portals, as well as e-learning courses and educational materials. We offer a website and helpline for children faced with dangers on the net, helpline.org.pl / 800 100 100.

49,000 students used e-learning courses
on how to use the Internet safely in 2014

267,000 registered users of the sieciaki.pl
('Net Pets') portal

14,000 children attended lessons
conducted by Orange
volunteers accross in Poland in 2014

164,000 children contacted helpline.org.pl

clean environment

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

Orange Polska is not indifferent to the global challenges we all face in relation to the natural environment and natural resources.

In accordance with our drive for greater ecological efficiency, Orange has launched www.orangerecykling.pl, a website where customers can easily re-sell their old handsets. We also refurbish unwanted equipment returned by our customers, putting products that are still serviceable back on the market at discounted prices.

A few years ago, we launched the Green IT project, a comprehensive 'green' approach to the development and operation of our IT environment, particularly with respect to resource virtualisation, power consumption or printing methods.

437,000 pieces of equipment refurbished

80,000 handsets collected

over **4 mn** customers using e-invoices

6,185 tons reduction in CO_2 emissions as a result of the Green IT project

enquiring team

digital inclusion | safe network | clean environment | enquiring team

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

The company attaches great importance to ensuring equal treatment, clear evaluation and promotion criteria, professional and personal development opportunities, as well as good and safe working conditions.

Ensuring equal access to positions in the company, regardless of gender or age, from the recruitment process to subsequent professional development is a key priority for us. A major challenge for Orange Polska is to promote the professional development of women and to increase their percentage in management. The company co-operates with the international community in this area, participating in a platform for knowledge and experience exchange funded by the European Commission. It is also a signatory of the Diversity Charter and became the main partner of the Charter in Poland. In addition, Orange Polska runs the Yes to Health programme, offering additional assistance to our employees with disabilities.

Orange Polska's corporate volunteering programme is one the best and the biggest in Poland. Our volunteers get involved in charity initiatives all over Poland. The Orange Foundation encourages and prepares them to share their knowledge and competence with others, getting them involved in conducting computer and Internet literacy courses for senior citizens and school lessons on how to use the Internet safely or developing colourful play rooms for children in hospitals.

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

3,080 employees got involved in the corporate volunteering programme
about 19% of our workforce

77% of employees would recommend Orange as an employer

42.7% women in workforce

35.6% of managerial positions held by women

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 our website 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.

In 2014 Orange Polska's shares were once again included in the RESPECT Index, the first CSR index in Central and Eastern Europe – as they have been every year since the index was established in 2009. This confirms 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 the Warsaw Stock Exchange, the Company's shares have also been traded publicly on the London Stock Exchange, where one share is equal to one GDR.

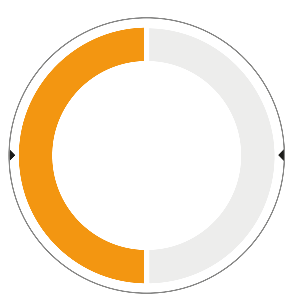
However, due to a reduced interest in depositary receipts among investors, Orange Polska has decided to cancel the listing of its GDRs. The Company's intention is to list its shares on one market, namely the Warsaw Stock Exchange. In order to effect the delisting, the Company sent a notice to The Bank of New York Mellon on 21 January 2015 to terminate the Deposit Agreement, dated 17 November 1998, which established the Company's GDR programme. In accordance with its terms, the Deposit Agreement will be terminated on the date falling 90 days after such notice.

As of December 31, 2014, 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.

Orange Polska S.A share price evolution

2014 saw a contraction of the value of indices on the Warsaw Stock Exchange (WSE). Orange Polska shares ended 2014 down 10.5% compared to the start of the year (after the dividend-related reference price change), while the large-cap index, WIG20, lost 3.5% over the same period. Over the course of 2014, Orange Polska S.A. shares were trading within PLN 8.18 – PLN 11.89 range.

Ownership structure of Orange Polska share capital (as of 31 December 2014)



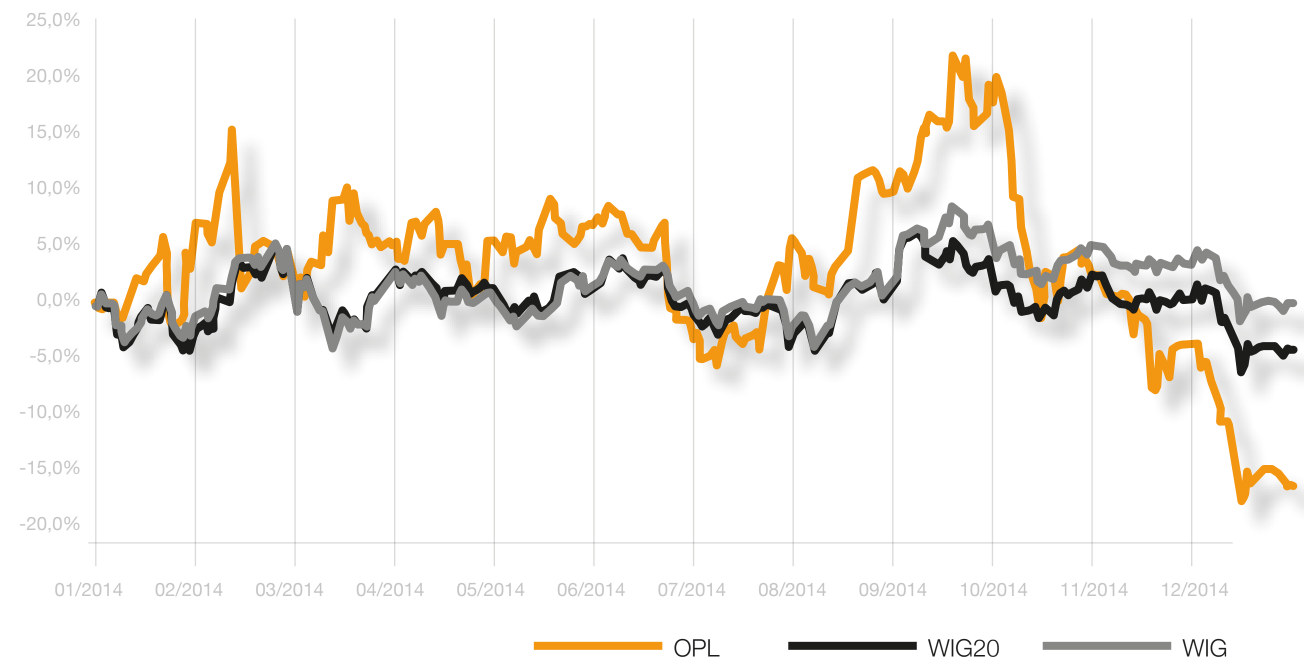
50.67%
Orange SA (previously France Telecom SA)

49.33%
Other shareholders

PLN 0.5
dividend
subject to AGM approval

5.3%
dividend yield
based on share price at 13 February 2015

OPL shares evolution in 2014 vs WIG20, WIG



PLN **10.9 bn**
market cap:
based on share price at 30 December 2014

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 in exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to 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 our website: www.orange-ir.pl/corporate-governance
The Supervisory Board report follows on page 60.

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 the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy, economic and financial plans; establishment, transformation and liquidation of the Company's business units; and governance of the Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly. The powers of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl

Internal control including risk management
The system of internal control and risk management in the Orange Polska 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 key elements of the Orange Polska's internal control and risk management system include the following:

(1) Commitment to integrity and ethical values. The internal rules comprehensively cover ethical, anti-fraud, anti-corruption issues and provide well-developed reporting systems including whistle blowing channels and awareness-raising training systems which support the execution of the Orange Polska's principle – zero tolerance toward corruption. In 2014 Orange Polska developed further the existing Compliance Program by implementation of subsequent elements of the Policy on dealing with Economic Sanctions issues and Personal data protection.

(2) Ongoing assessments of the quality of the risk management system and internal controls. This process enables identification and classification of the Orange Polska's financial and non-financial risks.

(3) An internal audit function, which reports directly to the President of the Management Board. The internal audit program is annually reviewed by the Audit Committee which also analyses the Orange Polska'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 Orange Polska Internal Audit Director, as well as his/her evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Orange Polska Internal Audit Director attends all meetings of the Audit Committee.

(4) Ongoing communication with the Polish and international investment community, as well as fulfilling Orange Polska's disclosure obligations. The Disclosure Committee (comprising of key managers responsible for the financial, legal, regulatory and internal control functions) reviews the financial statements 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 2014, the Disclosure Committee had six meetings. In addition, the Audit Committee reviews financial disclosures before they are published.

(5) Procedures and mechanisms providing a framework for ongoing risk-controlling activities (i.e. legal, regulatory, environmental, financial reporting and operational).

In 2014, the Management Board again completed a comprehensive assessment of the Orange Polska's internal controls over financial reporting. Any 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 internal control over financial reporting at 31 December 2014.

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 2014

I. Composition:

Composition of the Supervisory Board on January 1, 2014:

1. Maciej Witucki – Chairman
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 – 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

In 2014 the following changes occurred in the composition of the Supervisory Board:
On April 10 the mandates of Messrs. Benoit Scheen, Timothy Boatman, Pierre Louette and Gérard Ries expired.

On the same day, Messrs. Benoit Scheen, Russ Houlden, Gérard Ries and Ms. Valérie Thérond were appointed by the Annual General Assembly as Members of the Supervisory Board.

On July 10, Mr. Benoit Scheen resigned as a Member of the Supervisory Board, effective on August 31, 2014.

On October 9, Mr. Ramon Fernandez was appointed by the Supervisory Board as a Member.

Composition on December 31, 2014:

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

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

Three permanent committees operate within the Supervisory Board. Their composition was the following (as of December 31, 2014):

– Audit Committee: Russ Houlden – Chairman, Sławomir Lachowski, Marie-Christine Lambert and Marc Ricau – members;
– Remuneration Committee: Dr. Wiesław Rozłucki – Chairman, Prof. Andrzej K. Koźmiński, Marc Ricau and Valérie Thérond – members;
– Strategy Committee: Gervais Pellissier – Chairman, Dr Henryka Bochniarz, Eric Debroeck, Dr. Mirosław Gronicki, Sławomir Lachowski and Gérard Ries – members;

The Audit Committee is chaired by Mr. Russ Houlden an independent member of the Supervisory Board with relevant experience and qualifications in finance, accounting and audit.

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 2014 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 2013 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 2013;
3. Evaluation of the Management Board's report on PTK Centertel Sp. z o.o. operations and the financial statements for the financial year 2013 and the Management Board's motion for distribution of the Company's profit;
4. Evaluation of the Management Board's report on Orange Polska Sp. z o.o. operations and the financial statements for the financial year 2013 and the Management Board's motion for distribution of the Company's profit;
5. 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,
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 assessment of the Orange Polska Group's standing in 2013, including an assessment of the internal control system and the significant risks management system,
5) deciding on the composition of the Management Board, its terms of remuneration and the evaluation of its performance.

The Supervisory Board met 5 times in 2014. The SVB adopted 33 resolutions, of which 5 were 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 2014 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 2014

This section contains the Supervisory Board assessment of the Orange Polska Group's performance in 2014 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 2014 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 2014, the Supervisory Board focused on the following issues:

a) Group's financial results and performance in comparison to the budget;
b) Supervision over implementation of the medium term action plan for 2013–2015;
c) Participation of Orange Polska in the auction for the reservation of frequencies in the 800 and 2600 MHz bands;
d) Orange Finanse project;
e) Orange Energia pilot;
f) Concluding financing agreements with Orange Group;
g) Monitoring of the key programs for the Group's future, particularly the program of mobile access co-use with T-Mobile;
h) Customer satisfaction – the customer excellence programme;
i) Opportunities regarding investments into fibre access network project
j) Adoption of the Remuneration Policy.

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

In a very challenging market that persisted in 2014 Orange Polska managed to continue good commercial progress from 2013. In particular, commercial momentum was maintained in post-paid services. The number of post-paid subscriber base increased by more than 6% in 2014. Post-paid services have become significantly more affordable for customers, encouraging customers to migrate to this segment from pre-paid in greater numbers during 2014. The growing popularity of mobile broadband and the second mobile brand, nju.mobile, also contributed to this achievement. Mobile broadband performed particularly well, increasing its customer base by more than 30%. It was driven by the proliferation of smartphones and tablets combined with development of 3G and 4G networks. In 2014, Orange Polska continued a strong focus on the convergent offer, Orange Open, combining mobile and fixed line products. Its customer base grew by nearly 90% to 539 thousand and constituted close to 25% of all fixed broadband users. The customer base of fixed broadband decreased by 60,000, with ADSL and CDMA as the sole reasons of the decrease. The number of users of fast VHBB services grew 150%, accounting for 8% of all Orange Polska's DSL customers by the end of the year. In fixed voice, the Group, for another consecutive year, managed to limit churn of fixed voice customers. The net loss of lines came in at 229,000 versus 346,000 in 2013 due to benefits from product bundling and convergence.

In October 2014 the Polish regulator approved partial deregulation of the fixed broadband market, a decision which affects almost 30% of all Polish households. This was an important development for Orange Polska as it means greater price flexibility on the retail market and the introduction of commercial terms of cooperation on the wholesale market. The Group reacted immediately, launching new, more attractive offers in the deregulated areas. The recent deregulation has reinforced the decision to make significant investments in fibre technology in 2015.

Another major event was the completion of the mobile network modernisation project implemented in co-operation with T-Mobile. As a result, 3G network coverage for Orange Polska customers now extends to close to 100% of the population (compared to 63% before the project started), and 95% of Poland's geographical area (up from a mere 12%). The project has already created important savings in terms of operating expenses and allowed us to avoid significant capital expenditure. In terms of 4G LTE network construction, which started in Q3 2013, it covered 61% of the population by the end of 2014. The Group had more than 600 thousand LTE users by the end of the year and the 4G network already carried close to 20% of Orange Polska's mobile data traffic.

In 2014, in line with its strategic plan of seeking growth opportunities outside of the telecom sector, Orange Polska introduced two new commercial initiatives: Orange Finanse and Orange Energia. These products – a mobile banking platform and an energy retail platform – complement the Group's telecom services, and are designed to improve customer loyalty. The initial response to Orange Finanse has been very promising, with 36 thousand customers signing up in the first three months through December 2014. Orange Energia was launched as a pilot service in October and, in February 2015, Management positively assessed its results and decided on full commercial rollout.

Group's Financial Overview

The Group's key goals in 2014 were to:

- Draw benefits from the merger of TP S.A. and PTK Centertel Sp. z o.o. and to put further focus on the convergent product strategy and 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 at 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 T-Mobile Polska through the NetWorkS! joint venture;
- Pursue the rollout of 4G LTE services and make reasonable efforts to ensure access to the 4G LTE spectrum.

Consolidated revenues totalled PLN 12,212 million in 2014, down by 4.5% or PLN 574 million versus 2013. A substantial part of this decline (PLN 255m) can be attributed to regulatory decisions, MTR cuts (impact on H1) and EU roaming rates cuts. Excluding this regulatory impact, the top-line decline was limited to PLN 319 million or 2.5% year-on-year, compared to PLN 525 million (3.7%) a year ago. The drop was only due to lower fixed services revenues. Both mobile and other revenue categories were up in 2014. Mobile was supported by handset sales on instalments (which boosted equipment revenues), and by the growth of the customer base, both of which offset pricing pressures. Group's restated EBITDA came in at PLN 3,921 million in 2014. In comparison with 2013 it decreased by PLN 125 million, however the margin improved by 0.5 pp to 32.1%. The decline resulted mainly from lower revenue while it was supported by lower direct commercial costs and the cost optimisation program. The Company generated PLN 1,149 million of organic cash flow, 4% more than in 2013. It delivered on its guidance of least repeating the level from 2013.

Group's net debt decreased by close to PLN 400 million to PLN 4,134 million at the end of 2014. The Group has preserved a sound financial structure, with net debt at 1.1 times restated EBITDA (unchanged from the previous year) and net gearing at 25% (reduced from 26% in 2013). In 2014 Orange Polska switched almost fully to intra-group financing which has already generated savings on interest costs. The full impact of the savings will be visible in 2015.

In 2014, the Group paid a dividend of PLN 656 million, an equivalent of PLN 0.5 per share, payable in cash.

Conclusions and 2015 Recommendations

2014 brought new challenges to the business of Orange Polska. While in the mobile mass market there are finally some signs of stabilisation, competitive pressure intensified in the business segment, both on the mobile and fixed markets. Despite these challenges the Company delivered on its cash flow guidance. The Supervisory Board believes that the Management Board will make the appropriate efforts to reach the Group's 2015 objectives.

The Supervisory Board's opinion is that in 2015 the Group should, among others, focus its activities on the following key aspects:

- Drawing benefits from the fixed broadband market deregulation
- Execution of the fibre access network project that includes coverage of up to 650,000 households with the very fast fixed broadband service in fibre technology
- Further growth of LTE network coverage on 1,800 MHz
- Participation in the spectrum auction for 800 MHz and 2,600 MHz frequencies so as to facilitate access to LTE spectrum
- Development of new commercial actions to strengthen the company's position in all of its markets of operation, in particular use of the Group's unique resources to fully utilise the benefits of convergent opportunities
- Launch action to counteract competitive pressure in the business segment
- Continuing the development of the new initiatives – Orange Finanse and Orange Energia
- Increasing customer satisfaction and loyalty, also by further implementation of the customer excellence program
- Generating organic cash flow of around PLN 900 million[2]
- Further optimisation of the company's assets, including disposal of unused properties
- Development of new cost optimisation initiatives to mitigate impact of revenue pressure
- Maintaining financial stability and monitor closely the level of debt ratios
- Further enhancing internal control and risk management measures
- Monitoring business performance closely to be able to react quickly to unfavourable changes in market environment
- Monitoring and analysing any acquisition opportunities on the market
- Remunerating shareholders at a reasonable level, taking into consideration the Group's financial structure and future capital requirements

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

[1] excluding one-offs: renewal of existing spectrum, at ca. PLN 0.3bn, acquisition of any new spectrum, potential payment of the EC fine, and certain other claims and litigations.
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 one-offs: acquisition of any new spectrum, potential payment of the EC fine, and certain other claims and litigations

1 introduction to Orange Polska
2 medium-term action plan 2013–2015
3 management
4 review of operations
5 CSR
6 corporate governance
7 financial statements

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 2014, published on February 12, 2015.

In 2014, 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, 2014. Continued efforts by the Management in this regard are also needed in 2015.

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.

REPORT on the 2014 activities of the Audit Committee of the Orange Polska S.A. Supervisory Board

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

The principal tasks of the AC are to advise the Supervisory Board on proper implementation of budgetary and financial reporting and internal control (including risk management) principles in Orange Polska S.A. (the "Company", "OPL") and Orange Polska Group (the "Group"), and to liaise with its auditors.

Composition

In 2014, the AC was composed of the following persons:

Chairman:

until 10 April 2014: Mr. Timothy Boatman ("Independent Director")
from 10 April 2014: Mr. Russ Houlden ("Independent Director")

Members:

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

The Secretary of the AC was
Mr. Jerzy Klonecki (until 6 February 2014)
and Mr. Jacek Hutyra (from 6 February 2014).

Chief Executive Officer (Mr. Bruno Duthoit) and Chief Financial Officer (Mr. Jacques de Galzain until 28 February 2014 and Mr. Maciej Nowohoński from 17 March 2014), as well as Internal Audit Director (Mr. Jacek Chaber) generally attended all meetings of the AC. Other members of the Management Board, Executive Directors and other managers and invited guests attended the meetings when appropriate. The AC meetings were also attended, when appropriate, by representatives of the Company's external auditor, Deloitte.

Functions of the Committee

The key functions of the Audit Committee, as specified in its Terms of Reference attached to the Regulations of the Supervisory Board, 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 2014

The Audit Committee held 11 meetings in 2014, out of which 9 were regular meetings and 2 were dedicated ad-hoc meetings. The AC performed in particular the following activities:

1) Review of the Group's 2014 budget and addressing recommendations on it to the Supervisory Board;
2) Review of the Company's and Group's 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;
3) Improvement of non-GAAP measures disclosure;
4) Review of reserves available for distribution as dividends and their reconciliation to retained earnings;
5) Review of the 2014 dividend proposed by the Management;
6) Monitoring the accounting standards evolution and expected relevant changes in the legislation;
7) Review of the accounting policies and approaches, and in particular quarterly consideration of all accounting issues, one-offs, estimates and judgments, as well as of the application of the IAS revenue recognition rules;
8) Review of the prior year performance of the external auditor and recommending to the Supervisory Board on the selection of 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 Polska Sp. z o.o. Sp. k. to the audit of the Company and the Group for the financial year 2014 and to review half-yearly financial statements for the period of six months ended June 30, 2014. Deloitte Polska Sp. z o.o. Sp. k. was first appointed as statutory auditor for the year ended December 31, 2009;
9) Review of the scope and the results of the external audit, independence and objectivity (including scepticism) of the auditors and reporting 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 2014, including the materiality level set for audit testing, in the light of the Group's present circumstances and changes in accounting and auditing standards. The Committee has also 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;
10) Consideration of the Polish component of audit tenders submitted in 2014 as part of the Orange SA Group audit tender process and providing advice to Orange SA of OPL preferences regarding the selection of two preferred joint auditors for Orange SA Group to allow an appropriate choice to be made by OPL in 2015;
11) Review of 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;
12) Review of the annual plan of Internal Audit, its budget and progress reports, as well as monitoring 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 and reviewed the independence of Internal Audit. The Committee was also provided with a report regarding the renewal in 2014 of the certification of Internal Audit activities by Institut Français de l'Audit et du Contrôle Internes (IFACI);
13) Review of the Company's compliance system, including reorganising the reporting to the AC on ethics and compliance by appropriate units into five clearly defined areas: ethics, overall compliance with laws and regulations; anti-fraud; security; anti-corruption. The Committee monitored, moreover, the operations of the Group's Ethics Committee and of the Group's Compliance office, as well as the results of investigations initiated by whistle-blowing;
14) Review of and opinions on significant transactions with related parties as defined by the corporate rules, in particular regarding the financing arrangements with the Orange Group (and the operation thereof); in line with internal regulations and best practices of corporate governance, the independent members of the Committee played the leading role in these considerations;
15) Issuing opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board;
16) Review of other matters of interest to the Committee, including but not limited to revenue assurance, hedging and insurance.

The Audit Committee 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.

Russ Houlden
Chairman of the Audit Committee
of the Supervisory Board

March 12, 2015

REPORT
on the activity of the Remuneration Committee
of the Supervisory Board of Orange Polska S.A. in 2014

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 2014, the Remuneration Committee was composed of the following persons:

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

Members:
Benoit Scheen – until August 31, 2014
Prof. Andrzej K. Koźmiński ("Independent Director")
Marc Ricau
Valérie Thérond – from October 9, 2014

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

Activity in 2014:
In 2014, the Remuneration Committee held 5 meetings and in particular developed recommendations for Supervisory Board consideration focused on the following remuneration-related issues:

1. RemCo provided a positive opinion on the Remuneration policy in Orange Polska, and accepted the implementation of this document to the Orange Polska Group Annual Report for 2013.
2. RemCo provided an overview of the employment conditions of the Management Board Members following the Remuneration Policy and the Performance Management system rules, and recommended to standardize from the 1st of January 2014 conditions of the variable part of remuneration for the Management Board Members in Orange Polska.
3. RemCo monitored Executive Directors remuneration level to keep consistency in the area of remuneration.
4. Recommendation to the Supervisory Board regarding appointments and the contract conditions of: Management Board Member in Charge of Finance – CFO; Management Board Member in Charge of Human Resources and Vice-President of Management Board in charge of Operations.
5. RemCo positively recommended Mariusz Gaca's nomination as Vice-President of Orange Polska.
6. RemCo provided a positive recommendation on the variable part of remuneration for the Vice-President of Management Board in charge of Value Management and Convergence.
7. Evaluation of MBOs of the Management Board Members for H2 2013, overview and final approval of the goals for H1 2014 and overview of the goals for H2 2014.

Wiesław Rozłucki
Chairman of the Remuneration Committee

March 12, 2015

REPORT
from the activities of the Strategy Committee
of the Supervisory Board of Orange Polska S.A.
in 2014

The Strategy Committee was established by virtue of the Resolution of the Supervisory Board no. 417/05 dated June 15, 2005.

The major goal of the Strategy Committee is to give necessary support and advice to the Management Board in the area of Orange Polska Group strategic plans and initiatives of strategic importance.

Strategy Committee members in 2014:

Chairman:
Benoit Scheen – until August 31, 2014
Gervais Pellissier – from October 9, 2014

Members:
Dr. Henryka Bochniarz ("Independent Director")
Eric Debroeck
Dr. Mirosław Gronicki ("Independent Director")
Sławomir Lachowski ("Independent Director")
Gérard Ries

Permanent guests:
Maciej Witucki, Chairman of the Supervisory Board
Timothy Boatman, Chairman of the Audit Committee – until April 10, 2014
Russ Houlden, Chairman of the Audit Committee – from April 10, 2014

Activities in 2014:

In 2014, the activities of the Strategy Committee concentrated on recommendations for OPL investment strategy with special focus on development of VHBB network. Among subjects discussed during the Committee meetings was also the execution of OPL strategy in new growth areas including ICT, Orange Finance and Orange Energy.

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

There were three Strategy Committee meetings in 2014.

Gervais Pellissier
Chairman of the Strategy Committee

March 12, 2015

restatements made to financial data

(in PLN millions)	2013	2014
revenue	**12,923**	**12,212**
– revenue of Wirtualna Polska and ORE	-137	–
restated revenue	**12,786**	**12,212**
EBITDA	**3,904**	**4,076**
– EBITDA of Wirtualna Polska and ORE	-38	–
– employment termination expenses	145	-8
– gain on disposal of Wirtualna Polska	–	-191
– impact of certain claims and litigation	–	44
– write-off of certain assets following the merger and other restatements	35	–
restated EBITDA	**4,046**	**3,921**
capital expenditures	**2,180**	**2,153**
– acquisition of telecommunications licences	-264	-378
capital expenditures (outlook definition)	**1,916**	**1,775**

financial statements

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Consolidated Income Statement

(in PLN millions, except for earnings per share)	Note	12 months ended 31 December 2014 (audited)	31 December 2013 (audited)
Revenue	**5**	**12,212**	**12,923**
External purchases	6.1	(6,113)	(6,440)
Labour expense	6.2	(1,874)	(1,946)
Other operating expense	6.3	(718)	(807)
Other operating income	6.3	313	320
Gains on disposal of assets	7	57	40
Gain on disposal of Wirtualna Polska S.A.	8	191	–
Employment termination expense	14	8	(186)
Depreciation and amortisation	11, 12	(3,073)	(3,107)
Impairment of non-current assets	9.3	(17)	(9)
Operating income		**986**	**788**
Interest income	17	14	12
Interest expense and other financial charges	17	(303)	(388)
Foreign exchange losses	17	(2)	(2)
Discounting expense	17	(114)	(100)
Finance costs, net		**(405)**	**(478)**
Income tax	24	(46)	(16)
Consolidated net income		**535**	**294**
Net income attributable to owners of Orange Polska S.A.		535	294
Net income attributable to non-controlling interests		–	–
Earnings per share (in PLN) (basic and diluted)	**31.5**	**0.41**	**0.22**
Weighted average number of shares (in millions) (basic and diluted)	31.5	1,312	1,312

Consolidated Statement of Comprehensive Income

(in PLN millions)	Note	12 months ended 31 December 2014 (audited)	31 December 2013 (audited)
Consolidated net income		**535**	**294**
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on post-employment benefits	16	(48)	38
Income tax relating to items not reclassified		9	(7)
Items that may be reclassified subsequently to profit or loss			
Losses on cash flow hedges	21	(90)	(1)
Translation adjustment		–	5
Income tax relating to items that may be reclassified		17	–
Other comprehensive income/(loss), net of tax		**(112)**	**35**
Total comprehensive income		**423**	**329**
Total comprehensive income attributable to owners of Orange Polska S.A.		423	329
Total comprehensive income attributable to non-controlling interests		–	–

Consolidated Statement of Financial Position

(in PLN millions)	Note	At 31 December 2014 (audited)	At 31 December 2013 (audited)
ASSETS			
Goodwill	10	3,940	3,940
Other intangible assets	11	3,215	3,081
Property, plant and equipment	12	11,715	12,768
Trade receivables	13	138	–
Derivatives	21	70	4
Other financial assets		14	9
Deferred tax assets	24	934	923
Total non-current assets		**20,026**	**20,725**
Inventories		198	200
Trade receivables	13	1,372	1,199
Derivatives	21	21	89
Other financial assets		10	15
Income tax assets		4	7
Other assets		154	56
Prepaid expenses		71	88
Cash and cash equivalents	20	248	198
Total current assets		**2,078**	**1,852**
Assets held for sale	8	–	225
TOTAL ASSETS		**22,104**	**22,802**
EQUITY AND LIABILITIES			
Share capital	25.1	3,937	3,937
Share premium		832	832
Other reserves	16,21,25.4	(119)	(7)
Retained earnings		7,746	7,867
Equity attributable to owners of Orange Polska S.A.		**12,396**	**12,629**
Non-controlling interests		2	2
Total equity		**12,398**	**12,631**
Trade payables	15.1	866	921
Loans from related party	19.1	3,229	1,157
Other financial liabilities at amortised cost	19.2,19.3	59	79
Derivatives	21	148	9
Employee benefits	16	345	296
Provisions	14	303	313
Deferred income	15.3	47	25
Total non-current liabilities		**4,997**	**2,800**
Trade payables	15.1	2,006	1,921
Loans from related party	19.1	1,078	237
Other financial liabilities at amortised cost	19.2,19.3	65	3,106
Derivatives	21	–	276
Employee benefits	16	179	187
Provisions	14	790	899
Income tax liabilities		58	95
Other liabilities	15.2	131	185
Deferred income	15.3	402	427
Total current liabilities		**4,709**	**7,333**
Liabilities related to assets held for sale	8	–	38
TOTAL EQUITY AND LIABILITIES		**22,104**	**22,802**

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
				Losses on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments					
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)	–	–	–
Dividend	–	–	–	–	–	–	–	–	(656)	(656)	–	(656)
Balance at 31 December 2013 (audited)	**3,937**	**832**	**–**	**(16)**	**(89)**	**19**	**79**	**–**	**7,867**	**12,629**	**2**	**12,631**
Balance at 1 January 2014 (audited)	**3,937**	**832**	**–**	**(16)**	**(89)**	**19**	**79**	**–**	**7,867**	**12,629**	**2**	**12,631**
Total comprehensive income for the 12 months ended 31 December 2014	–	–	–	(90)	(48)	26	–	–	535	423	–	423
Dividend	–	–	–	–	–	–	–	–	(656)	(656)	–	(656)
Balance at 31 December 2014 (audited)	**3,937**	**832**	**–**	**(106)**	**(137)**	**45**	**79**	**–**	**7,746**	**12,396**	**2**	**12,398**

[1] See Note 25.3.

Consolidated Statement of Cash Flows

(in PLN millions)	Note	12 months ended 31 December 2014 (audited)	31 December 2013 (audited)
OPERATING ACTIVITIES			
Consolidated net income		535	294
Adjustments to reconcile net income to cash from operating activities			
Gains on disposal of assets	7	(57)	(40)
Gain on disposal of Wirtualna Polska S.A.	8	(191)	–
Depreciation and amortisation	11, 12	3,073	3,107
Impairment of non-current assets	9	17	9
Finance costs, net		405	478
Income tax	24	46	16
Change in provisions and allowances		(328)	(55)
Operational foreign exchange and derivatives losses, net		2	–
Change in working capital (trade)			
Increase in inventories, gross		(2)	(3)
(Increase)/decrease in trade receivables, gross		(281)	141
Increase/(decrease) in trade payables		137	(40)
Change in working capital (non-trade)			
(Increase)/decrease in prepaid expenses and other receivables		(28)	29
Decrease in deferred income and other payables		(81)	(73)
Interest received		14	12
Interest paid and interest rate effect paid on derivatives, net		(447)	(458)
Exchange rate effect received/(paid) on derivatives, net		4	(20)
Income tax paid		(65)	(105)
Net cash provided by operating activities		**2,753**	**3,292**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	11, 12	(2,153)	(2,180)
Decrease in amounts due to fixed assets suppliers		(79)	(74)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		5	–
Proceeds from sale of property, plant and equipment and intangible assets		100	67
Decrease in receivables related to leased fixed assets		9	9
Proceeds from sale of subsidiaries, net of cash and transaction costs	4	371	9
Cash paid for subsidiaries, net of cash acquired	4	(2)	(8)
Decrease in other financial assets		3	8
Exchange rate effect received on other derivatives, net		1	3
Net cash used in investing activities		**(1,745)**	**(2,166)**
FINANCING ACTIVITIES			
Redemption of bonds		(2,969)	–
Issuance of long-term debt	19	2,016	1,172
Repayment of long-term debt	19	(50)	(934)
Increase/(decrease) in short-term debt	19	814	(904)
Exchange rate effect paid on derivatives, net	19	(120)	(2)
Dividend paid	25.3	(656)	(656)
Net cash used in financing activities		**(965)**	**(1,324)**
Net change in cash and cash equivalents		**43**	**(198)**
Effect of changes in exchange rates and other impacts on cash and cash equivalents		–	(3)
Cash and cash equivalents at the beginning of the period		205 [1]	406
Cash and cash equivalents at the end of the period		**248**	**205 [1]**

[1] Includes PLN 7 million classified as assets held for sale (see Note 8).

1. Corporate information

1.1. The Orange Polska Group

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

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 and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV. In addition, the Group provides leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission, sells electrical energy and financial services.

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

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

1.2. Entities of the Group

The Group comprises Orange Polska and the following subsidiaries:

Entity	Location	Scope of activities	Share capital owned by the Group	
			31 December 2014	31 December 2013
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for OPL S.A. customers.	100%	100%
Ramsat S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Wirtualna Polska S.A. (1)	Gdańsk, Poland	Internet portal and related services including internet advertising.	–	100%
Orange Real Estate Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100%	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. (2)	Warsaw, Poland	Call-centre services and telemarketing.	100%	–
– Orange Szkolenia Sp. z o.o. (2)	Warsaw, Poland	Training and hotel services.	100%	100%
– TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100%	100%
– Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
– Telefon 2000 Sp. z o.o.	Warsaw, Poland	No operational activity, in liquidation.	100%	100%
– TPSA Eurofinance France S.A.	Paris, France	No operational activity.	99.99%	99.99%
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	100%

(1) The company was disposed of in 2014 (see Note 8).
(2) Contact Center Sp. z o.o. was divided into two entities: Contact Center Sp. z o.o. (a new entity) and Orange Szkolenia Sp. z o.o. (previously Contact Center Sp. z o.o.).

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

In the 12 months ended 31 December 2014 and 2013, 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,
Mariusz Gaca – Vice President in charge of Business Market,
Piotr Muszyński – Vice President in charge of Operations,
Jacek Kowalski – Board Member in charge of Human Resources,
Maciej Nowohoński – Board Member in charge of Finance.

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

Maciej Witucki – Chairman of the Supervisory Board,
Prof. Andrzej K. Koźmiński – Deputy Chairman of the Supervisory Board, Independent Member of the Supervisory Board,
Gervais Pellissier – Deputy Chairman of the Supervisory Board,
Marc Ricau – Secretary of the Supervisory Board,
Dr. Henryka Bochniarz – Independent Member of the Supervisory Board,
Jean-Marie Culpin – Member of the Supervisory Board,
Eric Debroeck – Member of the Supervisory Board,
Ramon Fernandez – Member of the Supervisory Board,
Dr. Mirosław Gronicki – Independent Member of the Supervisory Board,
Russ Houlden – Independent Member of the Supervisory Board,
Sławomir Lachowski – Independent Member of the Supervisory Board,
Marie-Christine Lambert – Member of the Supervisory Board,
Gérard Ries – Member of the Supervisory Board,
Dr. Wiesław Rozłucki – Independent Member of the Supervisory Board,
Valérie Thérond – Member of the Supervisory Board.

The following changes occurred in the Management Board of the Company in the year ended 31 December 2014 and in the year 2015 until the date of the authorisation of these Consolidated Financial Statements:

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. On 14 October 2014, Mr Mariusz Gaca was appointed as Vice President of the Management Board of OPL S.A. in charge of Business Market.

On 24 February 2014, Mr Jacques de Galzain submitted his resignation as the Member of the Management Board of OPL S.A. in charge of Finance with effect on 28 February 2014.

On 17 March 2014, OPL S.A.'s Supervisory Board appointed Mr Maciej Nowohoński as the Member of the Management Board of OPL S.A. in charge of Finance.

On 9 September 2014, Mr Vincent Lobry submitted his resignation as the Member of the Management Board of OPL S.A. in charge of Value Management and Convergence with effect on 15 October 2014.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2014 and in the year 2015 until the date of the authorisation of these Consolidated Financial Statements:

On 10 April 2014, OPL S.A. Supervisory Board Members' mandates of Mr Timothy Boatman and Mr Pierre Louette expired and were not renewed. On the same day the General Meeting of OPL S.A. appointed Mr Russ Houlden and Ms Valérie Thérond as Members of the Supervisory Board of OPL S.A.

On 10 July 2014, Mr Benoit Scheen submitted his resignation as a Member of the Supervisory Board of OPL S.A. with effect on 31 August 2014.

On 9 October 2014, the Supervisory Board of OPL S.A. appointed Mr Ramon Fernandez as a Member.

2. Statement of compliance and basis of 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 2013 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 12 February 2015.

The principles applied to prepare financial data relating to the year ended 31 December 2014 are described in Note 31 and are based on:
- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2014,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2014 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard ("IAS") 8 (Use of judgements).

3. Segment information

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

Basic financial data of the operating segment is presented below:

(in PLN millions)	12 months ended	
	31 December 2014	31 December 2013
Restated revenue	12,212	12,786
Restated EBITDA	3,921	4,046
Net income as per consolidated income statement	535	294
Restated organic cash flows	1,149	1,105
Restated capital expenditures	1,775	1,916
	At 31 December 2014	At 31 December 2013
Net gearing ratio	25%	26%
Net financial debt / restated EBITDA ratio	1.1	1.1

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

(in PLN millions)	12 months ended	
	31 December 2014	31 December 2013
Revenue	12,212	12,923
– restatement for data of WP and ORE [1]	–	(137)
Restated revenue	12,212	12,786
EBITDA	4,076	3,904
– restatement for gain on disposal of WP (see Note 8)	(191)	–
– restatement for employment termination expense (see Note 14) net of related curtailment of long-term employee benefits (see Note 16)	(8)	145
– restatement for data of WP and ORE [1]	–	(38)
– restatement for the impact of certain claims and litigation	44	–
– restatement for the write-off of certain assets following the merger (see Note 1.1) and other restatements	–	35
Restated EBITDA	3,921	4,046
Organic cash flows	626	1,105
– restatement for payments for acquisition of telecommunications licences (see Note 11)	378	–
– restatement for the impact of certain claims and litigation	145	–
Restated organic cash flows	1,149	1,105
Capital expenditures	2,153	2,180
– restatement for expenditures on acquisition of telecommunications licences (see Note 11)	(378)	(264)
Restated capital expenditures	1,775	1,916

[1] Restated revenue and restated EBITDA for 12 months ended 31 December 2013 include Wirtualna Polska S.A.'s ("WP") data for the period up to February 2013 (see Note 8) and do not include data of Otwarty Rynek Elektroniczny S.A. ("ORE", see Note 4).

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

On 13 February 2014, the Group disposed of its 100% shareholding in Wirtualna Polska S.A. (see Note 8).

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 on the purchase date and PLN 2 million was paid in 2014. 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.

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

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

5. Revenue

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Mobile services	**5,713**	**6,110**
Voice traffic revenue	3,064	3,545
Data, messaging, content and M2M (machine-to-machine)	1,903	1,794
Wholesale revenue (including interconnect)	746	771
Mobile equipment sales	**427**	**149**
Fixed services	**5,520**	**6,057**
Fixed narrowband	1,983	2,297
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,663	1,687
Enterprise solutions and networks	933	1,020
Wholesale revenue (including interconnect)	941	1,053
Other revenue	**552**	**607**
Total revenue	**12,212**	**12,923**

Revenue is generated mainly in the territory of Poland. Approximately 2.9% and 2.9% of the total revenue for the 12 months ended 31 December 2014 and 2013 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 2014	12 months ended 31 December 2013
Commercial expenses	(2,545)	(2,765)
– cost of handsets and other equipment sold	(1,590)	(1,710)
– commissions, advertising, sponsoring costs and other	(955)	(1,055)
Interconnect expenses	(1,231)	(1,251)
Network and IT expenses	(788)	(846)
Other external purchases	(1,549)	(1,578)
Total external purchases	**(6,113)**	**(6,440)**

Other external purchases include mainly customer support and management services, postage costs, costs of content, rental costs and real estate operating and maintenance costs. From 2014, the Group classifies costs of equipment used in ICT (Information and Communications Technology) projects as commercial expenses (previously classified as other external purchases). As a result, comparative amounts in this note were adjusted.

6.2. Labour expense

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Average number of active employees (full time equivalent)	19,094	21,214
Wages and salaries	(1,625)	(1,735)
Social security and other charges	(380)	(398)
Long-term employee benefits (see Note 16)	(10)	34
Capitalised personnel costs	199	211
Other employee benefits	(58)	(58)
Total labour expense	**(1,874)**	**(1,946)**

6.3. Other operating expense and income

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Trade and other receivables impaired or sold, net	(172)	(221)
Taxes other than income tax	(329)	(323)
Orange brand fee (see Note 29.2)	(134)	(164)
Other expense and changes in provisions, net	(83)	(99)
Total other operating expense	**(718)**	**(807)**
Recoveries on customer bad debts	111	97
Other income	202	223
Total other operating income	**313**	**320**

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

6.4. Research and development

In the 12 months ended 31 December 2014 and 2013, research and development costs expensed in the consolidated income statement amounted to PLN 63 million and PLN 61 million, respectively.

7. Gains on disposal of assets

In the 12 months ended 31 December 2014 and 2013, gains on disposal of assets amounted to PLN 57 million and PLN 40 million, respectively, and included mainly gains on disposal of properties.

8. Gain on disposal of Wirtualna Polska S.A.

On 13 February 2014, the Group and o2 Sp. z o.o. finalised a share sale agreement under which the Group disposed of its 100% shareholding in Wirtualna Polska S.A. ("WP"), for a total consideration amounting to PLN 367 million, consisting of consideration received in cash amounting to PLN 382 million, decreased by PLN 15 million of liabilities assumed by the Group. Additionally, the Group incurred transaction costs of PLN 4 million.

The Group disposed of the following assets and liabilities:

(in PLN millions)	
Assets:	**202**
– Goodwill	85
– Other intangible assets	7
– Property, plant and equipment	43
– Deferred tax assets	5
– Trade receivables	25
– Bonds issued by the Group [1]	26
– Cash and cash equivalents	7
– Other	4
Liabilities:	**30**
– Trade payables	20
– Employee benefits	8
– Other	2
Net assets disposed of	**172**

[1] Bonds issued by the Group to WP were recognised at the disposal date in the consolidated statement of financial position as current Other financial liabilities at amortised cost.

Gain on disposal amounting to PLN 191 million is presented separately in the consolidated income statement.

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 were 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.

9. Impairment

9.1. Information concerning the Cash Generating Unit

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, therefore the Group identifies the telecom operation as the telecom operator Cash Generating Unit ("CGU").

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 2014 and 2013 the Group performed impairment tests of the CGU (including goodwill). No impairment loss was recognised in 2014 or 2013 as a result of these tests.

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

- value of the market, penetration rate, market share and the level of the competition, 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 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 is likely to be lower in 2015. Operating expenses, excluding impact of claims and litigation, may also decrease, but possibly at a slower pace than the decline of the revenue. The EBITDA will therefore be under pressure. Capital expenditures are expected to increase due to planned investments in fibre network and acquisition of telecommunications licences.

Discount rates used to determine value 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 activities of the CGU. Growth rates to perpetuity reflect Management's assessment of cash flows evolution after the last year covered by the cash flow projections.

Telecom operator CGU	At 31 December 2014	At 31 December 2013
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan 5 years cash flow projections	Business plan 5 years cash flow projections
Growth rate to perpetuity	1%	1%
Post-tax discount rate	8.8%	8.8%
Pre-tax discount rate [1]	10.2%	10.2%

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

Sensitivity of recoverable amount

Management believes that no reasonably possible change to any of the above key assumptions would cause the carrying value of telecom operator CGU to exceed its recoverable amount.

9.2. Goodwill

In the 12 months ended 31 December 2014 and 2013, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 9.1.

9.3. Other property, plant and equipment and intangible assets

In the 12 months ended 31 December 2014 and 2013, the impairment loss on property, plant and equipment and intangible assets charged to the income statement amounted to PLN 17 million and PLN 9 million respectively, primarily including a net impairment loss as a result of a review of certain of the Group's properties.

10. Goodwill

(in PLN millions)	At 31 December 2014			At 31 December 2013		
CGU	Cost	Accumulated impairment	Net	Cost	Accumulated impairment	Net
Telecom operator	3,940	–	3,940	3,940	–	3,940
Total goodwill	**3,940**	**–**	**3,940**	**3,940**	**–**	**3,940**

11. Other intangible assets

(in PLN millions)	At 31 December 2014			
	Cost	Accumulated amortisation	Accumulated impairment	Net
Telecommunications licences	2,617	(1,252)	–	1,365
Software	6,873	(5,095)	–	1,778
Other intangibles	224	(139)	(13)	72
Total other intangible assets	**9,714**	**(6,486)**	**(13)**	**3,215**

(in PLN millions)	At 31 December 2013				At 1 January 2013
	Cost	Accumulated amortisation	Accumulated impairment	Net	Net
Telecommunications licences	2,609	(1,477)	–	1,132	996
Software	6,665	(4,824)	–	1,841	1,857
Other intangibles	232	(111)	(13)	108	114
Total other intangible assets	**9,506**	**(6,412)**	**(13)**	**3,081**	**2,967**

Details of telecommunications licences are as follows:

(in PLN millions)			Net book value	
	Acquisition date	Licence term	At 31 December 2014	At 31 December 2013
1800 MHz	1997	2027	–	–
900 MHz	1999	2014	–	14
900 MHz	2014	2029	348	–
2100 MHz	2000	2023	765	860
900 MHz [1]	2013	2018	45	35
1800 MHz [1]	2013	2028	207	223
Total telecommunications licences			**1,365**	**1,132**

[1] Licences held under agreements with T-Mobile Polska S.A.

On 27 June 2014, the Group was granted a 900 MHz licence for a period of next 15 years for a consideration of PLN 358 million paid on 1 July 2014.

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

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Opening balance net of accumulated amortisation and impairment	**3,081**	**2,967**
Acquisitions of intangible assets	943	790
Disposals and liquidations	–	(3)
Amortisation	(811)	(729)
Transfer to assets held for sale (see Note 8)	–	(6)
Reclassifications and other, net	2	62
Closing balance	**3,215**	**3,081**

12. Property, plant and equipment

(in PLN millions)	At 31 December 2014			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	3,248	(1,689)	(118)	1,441
Network	37,625	(28,346)	–	9,279
Terminals	2,031	(1,506)	–	525
Other IT equipment	1,598	(1,239)	–	359
Other	355	(242)	(2)	111
Total property, plant and equipment	**44,857**	**(33,022)**	**(120)**	**11,715**

(in PLN millions)	At 31 December 2013				At 1 January 2013
	Cost	Accumulated depreciation	Accumulated impairment	Net	Net
Land and buildings	3,334	(1,616)	(107)	1,611	1,807
Network	38,037	(27,881)	–	10,156	10,884
Terminals	2,065	(1,526)	–	539	552
Other IT equipment	1,587	(1,218)	–	369	603
Other	338	(241)	(4)	93	105
Total property, plant and equipment	**45,361**	**(32,482)**	**(111)**	**12,768**	**13,951**

During the 12 months ended 31 December 2014 and 2013 the Group recognised respectively PLN 34 million and PLN 45 million of non-repayable investment grants received from the government and the European Union. These grants related 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 2014	12 months ended 31 December 2013
Opening balance net of accumulated depreciation and impairment	**12,768**	**13,951**
Acquisitions of property, plant and equipment	1,210	1,390
Disposals and liquidations	(54)	(56)
Depreciation	(2,262)	(2,378)
Impairment	(17)	(9)
Transfer to assets held for sale (see Note 8)	–	(43)
Dismantling costs, reclassifications and other, net	70	(87)
Closing balance	**11,715**	**12,768**

13. Trade receivables

(in PLN millions)	At 31 December 2014	At 31 December 2013
Non-current trade receivables, net	138	–
Current trade receivables, net	1,372	1,199
Trade receivables, net	**1,510**	**1,199**

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

Movement in the impairment of trade receivables in the 12 months ended 31 December 2014 and 2013 is presented below.

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Beginning of period	**164**	**136**
Impairment losses, net	78	135
Impaired receivables sold or written-off	(99)	(107)
End of period	**143**	**164**

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

(in PLN millions)	At 31 December 2014	At 31 December 2013
Trade receivables collectively analysed for impairment, net:		
Not past due	862	537
Past due less than 180 days	305	275
Past due between 180 and 360 days	22	21
Past due more than 360 days	1	7
Total trade receivables collectively analysed for impairment, net	**1,190**	**840**
Trade receivables individually analysed for impairment, net: (1)		
Not past due	238	215
Past due	82	144
Total trade receivables individually analysed for impairment, net	**320**	**359**
Total trade receivables, net	**1,510**	**1,199**

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

14. Provisions

Movements of provisions for the 12 months ended 31 December 2014 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 2014	**781**	**176**	**255**	**1,212**
Increases	165	1	62	228
Reversals (utilisations)	(192)	(83)	(19)	(294)
Reversals (releases)	(89)	(9)	–	(98)
Foreign exchange effect	15	–	–	15
Discounting effect	17	4	9	30
At 31 December 2014	**697**	**89**	**307**	**1,093**
Current	697	89	4	790
Non-current	–	–	303	303

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

The discount rate used to calculate the present value of provisions amounted to 2.21% – 2.81% as at 31 December 2014 and 2.75% – 4.70% as at 31 December 2013.

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

Provisions for employment termination expense
Provisions for employment termination expense as at 31 December 2014 and 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. Reversals of these provisions during the 12 months ended 31 December 2013 related 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 were entitled to take advantage of the voluntary departure package in years 2014–2015. 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 and inflation.

15. Trade payables, other liabilities and deferred income

15.1. Trade payables

(in PLN millions)	At 31 December 2014	At 31 December 2013
Trade payables	1,294	1,189
Fixed assets payables	562	590
Telecommunications licence payables	1,016	1,063
Total trade payables	**2,872**	**2,842**
Current	2,006	1,921
Non-current [(1)]	866	921

[(1)] Includes telecommunications licence payables only.

15.2. Other liabilities

(in PLN millions)	At 31 December 2014	At 31 December 2013
VAT payables	64	102
Other taxes payables	21	20
Other	46	63
Total other liabilities	**131**	**185**
Current	131	185
Non-current	–	–

15.3. Deferred income

(in PLN millions)	At 31 December 2014	At 31 December 2013
Subscription (including unused balances in subscription system)	192	204
Unused balances in the pre-paid system	161	183
Connection fees	44	46
Other	52	19
Total deferred income	**449**	**452**
Current	402	427
Non-current	47	25

16. Employee benefits

(in PLN millions)	At 31 December 2014	At 31 December 2013
Jubilee awards	145	122
Retirement bonuses and other post-employment benefits	221	197
Salaries and other employee-related payables	158	164
Total employee benefits	**524**	**483**
Current	179	187
Non-current	345	296

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 31.22). These benefits are not funded.

Changes in the present and carrying value of obligations related to long-term employee benefits for the 12 months ended 31 December 2014 and 2013 are detailed below:

(in PLN millions)	12 months ended 31 December 2014			
	Jubilee awards	Retirement bonuses	Other post-employment benefits	Total
Present/carrying value of obligation at the beginning of the period	**122**	**98**	**99**	**319**
Current service cost [1]	8	5	–	13
Past service cost [1] [2]	–	–	(30)	(30)
Interest cost [3]	5	4	3	12
Benefits paid	(17)	(1)	(5)	(23)
Actuarial losses for the period	27 [1]	29 [4]	19 [4]	75
Present/carrying value of obligation at the end of the period	**145**	**135**	**86**	**366**
Weighted average duration (in years)	9	16	14	13

[1] Recognised under labour expense in the consolidated income statement.
[2] Curtailment of other post-employment benefits for retirees of the Group.
[3] Recognised under discounting expense in the consolidated income statement.
[4] Recognised under actuarial gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

(in 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**
Weighted average duration (in years)	8	15	12	11

[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 gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

The valuation of obligations as at 31 December 2014 and 2013 was performed using the following assumptions:

	At 31 December 2014	At 31 December 2013
Discount rate	2.6%	4.5%
Wage increase rate	2.5% – 3.0%	2.5% – 3.0%

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 2014 by PLN 24 million or PLN 22 million, respectively.

17. Finance income and expense

(in PLN millions)	12 months ended 31 December 2014							
	Finance costs, net					Operating income		
	Interest Income	Interest expense and other financial charges	Foreign exchange gains / (losses)	Dis-counting expense	**Finance income / (costs), net**	Interest income	Impair-ment losses	Foreign exchange gains / (losses)
Loans and receivables	14	–	–	–	**14**	23 [2]	(78) [3]	3
– including cash and cash equivalents	9	–	–	–	**9**	–	–	–
Liabilities at amortised cost	–	(137) [1]	(103)	(75)	**(315)**	–	–	(17)
Derivatives	–	(166)	101	4	**(61)**	–	–	27
– hedging derivatives	–	(68)	94	–	**26**	–	–	–
– derivatives held for trading [4]	–	(98)	7	4	**(87)**	–	–	27
Non-financial items [5]	–	–	–	(43)	**(43)**	–	–	(15)
Total	**14**	**(303)**	**(2)**	**(114)**	**(405)**	**23**	**(78)**	**(2)**

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

(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)**	–	–	(9)
Derivatives	–	(160)	36	4	**(120)**	–	–	16
– hedging derivatives	–	(48)	25	–	**(23)**	–	–	2
– derivatives held for trading [4]	–	(112)	11	4	**(97)**	–	–	14
Non-financial items [5]	–	–	–	(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 interest on trade receivables.
[3] Includes impairment losses on trade receivables.
[4] Derivatives economically hedging commercial or financial transactions.
[5] Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2014 and 2013 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 2014	At 31 December 2013
Loans from related party	19.1	4,307	1,394
Bonds	19.2	–	3,016
Other financial debt	19.3	124	130
Derivatives – net [1]	21	57	192
Gross financial debt after derivatives		**4,488**	**4,732**
Cash and cash equivalents	20	(248)	(198)
Other financial assets at fair value through profit or loss		–	(6)
Effective portion of cash flow hedges		(106)	(16)
Net financial debt		**4,134**	**4,512**

[1] Liabilities less assets.

19. Financial liabilities at amortised cost excluding trade payables

19.1. Loans from related party

(in millions of currency)		Amount outstanding at [1]			
Creditor	Repayment date	31 December 2014		31 December 2013	
		Currency	PLN	Currency	PLN
Floating rate					
Atlas Services Belgium S.A. (EUR)	31 March 2016	280	1,192	280	1,157
Atlas Services Belgium S.A. (EUR)	20 May 2019	480	2,041	–	–
Atlas Services Belgium S.A. (PLN) [2]	30 March 2018	1,074	1,074	237	237
Total loans from related party			**4,307**		**1,394**
Current			1,078		237
Non-current			3,229		1,157

[1] Includes accrued interest, arrangement fees and the fair value adjustment to the loans hedged by fair value hedge.
[2] Revolving credit line.

The weighted average effective interest rate on loans from related party, before swaps, amounted to 1.91% as at 31 December 2014 and 2.19% as at 31 December 2013.

19.2. 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 2014	31 December 2013
TPSA Eurofinance France S.A.	A1	500 EUR	6.000%	22 May 2009	22 May 2014	–	2,147
TPSA Eurofinance France S.A.	A2	200 EUR	6.000%	17 July 2009	22 May 2014	–	869
Total bonds issued by the Group						**–**	**3,016**
Current						–	3,016
Non-current						–	–

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

On 22 May 2014, the Group redeemed at maturity bonds of the nominal value of EUR 700 million issued by TPSA Eurofinance France S.A. in 2009 under the European Medium Term Note issuance programme. The weighted average effective interest rate on the Group's bonds, before swaps, amounted to 5.76% as at 31 December 2013. 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 included 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 8). Bonds issued by OPL S.A. to WP (presented in other financial liabilities at amortised cost and assets held for sale) are not included in the calculation of net financial debt in Note 18.

19.3. Other financial debt

(in millions of currency)		Amount outstanding at [1]			
		31 December 2014		31 December 2013	
Creditor	Repayment date	Currency	PLN	Currency	PLN
Floating rate					
European Investment Bank (EUR)	15 December 2015	8	36	17	70
Other credit lines (PLN)	4 December 2015	4	4	3	3
Fixed rate					
Instituto de Credito Oficial (USD)	2 January 2021	10	34	11	34
Bank borrowings			**74**		**107**
Finance lease liabilities and other (PLN)			50		23
Total other financial debt			**124**		**130**
Current			65		51
Non-current			59		79

[1] Includes accrued interest and bank borrowings issue costs.

The weighted average effective interest rate on the Group's bank borrowings, before swaps, amounted to 1.17% as at 31 December 2014 and 1.07% as at 31 December 2013.

20. Cash and cash equivalents

(in PLN millions)	At 31 December 2014	At 31 December 2013
Cash on hand	1	1
Current bank accounts and overnight deposits	175	158
Deposits with Orange S.A.	69	37
Bank deposits up to 3 months	3	2
Total cash and cash equivalents	**248**	**198**

The Group's cash surplus is invested into short-term highly-liquid financial instruments – mainly bank deposits and deposits with Orange S.A. under the Cash Management Treasury Agreement concluded in 2013. 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.

As at 31 December 2014 and 2013, cash and cash equivalents included an equivalent of PLN 26 million and PLN 12 million, respectively, 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 Orange S.A. and leading financial institutions with investment grade. 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.

21. Derivatives

As at 31 December 2014 and 2013, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives) i.e. interest rate swaps, currency swaps and non-deliverable forwards. 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. A fair value of swap/forward transaction represents discounted future cash flows calculated using quoted market forward interest rates and converted into PLN at the National Bank of Poland period-end average exchange rate.

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

(in PLN millions) Type of instrument [1]	Hedged risk	Nominal amount (in millions of currency)	Maturity	Fair value [2] Financial Asset	Fair value [2] Financial Liability
		At 31 December 2014			
Derivative instruments – fair value hedge					
CCIRS	Currency and interest rate risk	80 EUR	2016	1	(0)
Total fair value hedges				1	(0)
Derivative instruments – cash flow hedge					
CCIRS	Currency and interest rate risk	680 EUR	2016–2019	69	–
IRS	Interest rate risk	2,800 PLN	2016–2019	–	(147)
NDF	Currency risk	75 EUR	2015	5	–
NDF	Currency risk	2 USD	2015	0	–
Total cash flow hedges				74	(147)
Derivative instruments – held for trading [3]					
NDF	Currency risk	264 EUR	2015	13	–
NDF	Currency risk	15 USD	2015	3	(0)
IRS	Interest rate risk	350 PLN	2020	–	(1)
Total derivatives held for trading				16	(1)
Total derivative instruments				**91**	**(148)**
Current				21	–
Non–current				70	(148)

[1] CCIRS – cross currency interest rate 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.
[3] Derivatives economically hedging commercial or financial transactions.

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

The Group's maximum exposure to credit risk is represented by the carrying amounts of derivatives. The Group enters into derivatives contracts with Orange S.A. and leading financial institutions. Limits are applied to monitor the level of exposure 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.

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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 2014			12 months ended 31 December 2013		
	Before tax	Tax	After tax	Before tax	Tax	After tax
Effective part of gains/(losses) on hedging instrument	(62)	12	(50)	40	(8)	32
Reclassification to the income statement, adjusting:	(27)	5	(22)	(37)	7	(30)
– interest expense presented in finance costs, net	50	(10)	40	33	(6)	27
– foreign exchange differences presented in finance costs, net	(77)	15	(62)	(68)	13	(55)
– foreign exchange differences presented in other operating expense	–	–	–	(2)	–	(2)
Transfer to the initial carrying amount of the hedged item	(1)	–	(1)	(4)	1	(3)
Total losses on cash flow hedges	**(90)**	**17**	**(73)**	**(1)**	**–**	**(1)**

Losses on cash flow hedges cumulated in other reserves as at 31 December 2014 are expected to mature and affect the income statement in years 2015–2019.

22. Fair value of financial instruments

22.1. Fair value measurements

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

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

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

(in PLN millions)		At 31 December 2014			
		Fair value measurement			
	Note	Level 1	Level 2	Level 3	Total
Derivatives	21	–	91	–	91
Total financial assets measured at fair value		**–**	**91**	**–**	**91**
Derivatives	21	–	148	–	148
Total financial liabilities measured at fair value		**–**	**148**	**–**	**148**

(in PLN millions)		At 31 December 2013			
		Fair value measurement			
	Note	Level 1	Level 2	Level 3	Total
Derivatives	21	–	93	–	93
Other financial assets at fair value through profit or loss		6	–	–	6
Total financial assets measured at fair value		**6**	**93**	**–**	**99**
Derivatives	21	–	285	–	285
Total financial liabilities measured at fair value		**–**	**285**	**–**	**285**

During the 12 months ended 31 December 2014 and 2013, 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.

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

As at 31 December 2014 and 2013, the carrying amount of cash and cash equivalents, current trade receivables and current trade payables, current other financial assets and current financial liabilities at amortised cost approximated their fair value due to relatively short term maturity of those instruments or cash nature.

As at 31 December 2014 and 2013, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximated their fair value.

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

(in PLN millions)		At 31 December 2014		At 31 December 2013	
	Note	Carrying amount	Estimated fair value Level 2	Carrying amount	Estimated fair value Level 2
Telecommunications licence payables	15.1	1.016	1.233	1.063	1.106
Bank borrowings with fixed interest rate	19.3	34	34	34	34
Bonds issued with fixed interest rate[1]	19.2	–	–	3.016	3.086
Total		**1.050**	**1.267**	**4.113**	**4.226**

[1] On 22 May 2014, the Group redeemed the bonds at maturity.

The fair value of financial instruments is calculated by discounting expected future cash flows at the prevailing market zero-coupon rates for a given currency. Fair value amounts are translated to PLN at the National Bank of Poland period-end average exchange rate.

23. Objectives and policies of financial risk management

23.1. Principles of financial risk management

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

23.2. 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 31.18). 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 21.

23.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial liabilities denominated in foreign currencies, namely loans from related party, bank borrowings denominated in EUR and USD (see Note 19) and trade receivables, trade payables and provisions of which a significant balance relates to the 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 28.b).

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

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

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

	Hedge ratio	
Currency exposure	At 31 December 2014	At 31 December 2013
Loans from related party, bonds and bank borrowings	99.7%	99.8%
2100 MHz licence payable	55.1%	64.8%
EC proceedings provision (see Note 28.b)	75.5%	77.5%

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 2014		At 31 December 2013		At 31 December 2014		At 31 December 2013	
					+10%	-10%	+10%	-10%
Hedged item	Currency	PLN	Currency	PLN	PLN		PLN	
Bank borrowings (USD)	3	11	3	9	1	(1)	1	(1)
2100 MHz licence payable (EUR)	80	341	69	285	34	(34)	28	(28)
EC proceedings provision (EUR) (see Note 28.b)	34	145	31	127	15	(15)	13	(13)
Total		**497**		**421**	**50**	**(50)**	**42**	**(42)**

The sensitivity analysis presented above is based on the following principles:
- unhedged portion of the discounted amount of liabilities is exposed to foreign exchange risk (effective exposure),
- derivatives 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.

From 2014, the above sensitivity analysis is based on discounted amount of liabilities (previously on nominal amounts). As a result, comparative amounts in this note were adjusted.

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 2014 and 2013 indicated that there was no significant impact on other comprehensive income resulting from a hypothetical 10% appreciation/depreciation of the PLN against other currencies.

23.4. Interest rate risk

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

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

According to the 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 2014 and 2013, the Group's proportion between fixed/floating rate debt (after hedging activities) was 73/27% and 67/33%, respectively.

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

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

(in PLN millions)	Sensitivity to 1 p.p. change of interest rates			
	At 31 December 2014		At 31 December 2013	
	+1 p.p.	-1 p.p.	+1 p.p.	-1 p.p.
Finance costs, net	4	(5)	–	1
Other comprehensive income	87	(91)	–	–

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 fair value hedges b) the change in the fair value of derivatives that do not qualify for hedge accounting and are classified as held for trading (see Note 21),
- other comprehensive income includes the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 21),
- as at 31 December 2014, the gross financial debt based on floating rate, after derivatives classified as fair value hedges, amounted to PLN 1,152 million (as at 31 December 2013, PLN 1,528 million).

23.5. 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 2014, the Group had the following unused credit facilities amounting to PLN 2,723 million (as at 31 December 2013, PLN 2,571 million):

- PLN 973 million of credit lines, mainly from the Orange Group,
- PLN 1,750 million of the abovementioned back-up credit facility from Orange S.A.

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 2014	At 31 December 2013
Liquidity ratio (incl. derivatives) – next 12 months	238%	76%
Unused credit facilities	2,723	2,571
Cash and cash equivalents	248	198
Debt repayments [1]	1,170	3,379
Derivatives repayments [2]	78	249
Liquidity ratio (incl. derivatives) – next 18 months	120%	75%
Unused credit facilities	2,723	2,571
Cash and cash equivalents	248	198
Debt repayments [1]	2,380	3,407
Derivatives repayments [2]	98	264

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

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2014 and 2013 is presented below.

As at 31 December 2014 and 2013, amounts in foreign currency were translated at the National Bank of Poland period-end average exchange rates. The variable interest payments arising from the financial instruments were calculated using the latest interest rates fixed before 31 December 2014 and 2013, 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)	At 31 December 2014									
	Undiscounted contractual cash flows [1]									
				Non-current						
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Loans from related party	19.1	4,307	1,124	1,225	27	28	2,060	–	3,340	4,464
Other financial debt	19.3	124	67	18	16	13	8	8	63	130
Derivative assets	21	(91)	39	19	35	35	(18)	–	71	110
Derivative liabilities	21	148	39	32	29	28	14	–	103	142
Gross financial debt after derivatives		**4,488**	**1,269**	**1,294**	**107**	**104**	**2,064**	**8**	**3,577**	**4,846**
Trade payables	15.1	2,872	2,013	157	156	151	143	560	1,167	3,180
Total financial liabilities (including derivative assets)		**7,360**	**3,282**	**1,451**	**263**	**255**	**2,207**	**568**	**4,744**	**8,026**

[1] Includes both nominal and interest payments.

(in PLN millions)	At 31 December 2013									
	Undiscounted contractual cash flows [1]									
				Non-current						
	Note	Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total non-current	Total
Loans from related party	19.1	1,394	258	16	1,166	–	–	–	1,182	1,440
Bonds	19.2	3,016	3,077	–	–	–	–	–	–	3,077
Other financial debt	19.3	130	54	44	9	9	9	11	82	136
Derivative assets	21	(93)	(67)	17	5	–	–	–	22	(45)
Derivative liabilities	21	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.

The average duration for the existing debt portfolio as at 31 December 2014 was 3.2 years (as at 31 December 2013, 0.9 years).

23.6. 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 13, 20, 21.

23.7. Management of covenants

As at 31 December 2014 and 2013 the Group was a party to guarantee agreements containing a financial covenant, upon which the Group should meet the following financial ratio: Net Debt / restated EBITDA to be no higher than 3.5:1 confirmed on a semi-annual basis.

In years 2014 and 2013 the covenant was met.

24. Income tax

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Current income tax	(31)	(75)
Deferred tax	(15)	59
Total income tax	**(46)**	**(16)**

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 2014	12 months ended 31 December 2013
Consolidated net income before tax	**581**	**310**
Less: Gain on disposal of Wirtualna Polska S.A. (tax neutral)	(191)	–
Consolidated net income before tax, adjusted	390	310
Statutory tax rate	19%	19%
Theoretical tax	**(74)**	**(59)**
Tax relief on new technologies	25	36
Current income tax adjustments of prior years	36	6
Income not subject to/(expense not deductible for) tax purposes, net and other	(33)	1
Total income tax	**(46)**	**(16)**

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 2014 OPL S.A., 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 2013 Telekomunikacja Polska 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.

Deferred tax

(in PLN millions)	Consolidated statement of financial position		Consolidated income statement	
	At 31 December 2014	At 31 December 2013	12 months ended 31 December 2014	12 months ended 31 December 2013
Property, plant and equipment and intangible assets	513	444	69	52
Receivables and payables recognised on accrual basis	122	146	(24)	16
Deferred income	77	91	(14)	(11)
Employee benefit plans	90	82	(1)	(8)
Provisions	85	102	(17)	15
Net financial debt	22	26	(21)	(16)
Accumulated impairment losses on financial assets	30	33	(3)	(4)
Other	(5)	(1)	(4)	15
Deferred tax assets, net [1]	**934**	**923**	**–**	**–**
Total deferred tax	**–**	**–**	**(15)**	**59**

[1] As at 31 December 2013, PLN 5 million was presented as assets held for sale (see Note 8). During the 12 months ended 31 December 2014 and 2013, PLN 26 million and PLN (7) million of change in deferred tax asset was recognised in the consolidated statement of comprehensive income, respectively.

In 2014, the Group changed the classification of temporary differences disclosed in the table above. As a result, comparative amounts were also adjusted.

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 2014 and 2013, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 55 million and PLN 32 million gross, respectively.

25. Equity

25.1. Share capital

As at 31 December 2014 and 2013, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as at 31 December 2014 and 2013 was as follows:

(in PLN millions)	At 31 December 2014			At 31 December 2013		
	% of votes	% of shares	Nominal value	% of votes	% of shares	Nominal value
Orange S.A.	50.67	50.67	1,995	50.67	50.67	1,995
Other shareholders	49.33	49.33	1,942	49.33	49.33	1,942
Total	**100.00**	**100.00**	**3,937**	**100.00**	**100.00**	**3,937**

25.2. 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).

25.3. Dividend

On 10 April 2014, the General Meeting of OPL S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from 2013 profit. Total dividend, paid on 10 July 2014, amounted to PLN 656 million.

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 5.1 billion as at 31 December 2014. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.3 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2014 was available for dividend payments by subsidiaries to OPL S.A.

25.4. 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. These instruments were not included in the calculation of diluted earnings per share because they are antidilutive for the periods presented.

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

	12 months ended 31 December 2014		12 months ended 31 December 2013	
	number	exercise price (PLN)	number	exercise price (PLN)
Outstanding at the beginning of the period	3,096,231	21.57	3,381,234	21.57
Cancelled during the year	(69,303)	–	(285,003)	–
Outstanding at the end of the year	**3,026,928**	**21.57**	**3,096,231**	**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 National Bank of Poland 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.

26. Management of capital

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

The Group's capital management policy takes into consideration the following key elements:

- business performance together with applicable investments and development plans,
- debt repayment schedule,
- financial market environment,
- distribution policy to the Group's shareholders.

In order to combine these factors the Group periodically establishes a framework for the financial structure. The current Group's objectives in that area are the following:

- Net Gearing ratio – remaining below 40% in the long term,
- Net financial debt to restated EBITDA ratio – remaining below 1.5 in the long term.

The table below provides the capital ratios as at 31 December 2014 and 2013 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 2014	At 31 December 2013
Net financial debt (see Note 18)	4,134	4,512
Equity	12,398	12,631
Equity and Net financial debt	16,532	17,143
Restated EBITDA (see Note 3)	3,921	4,046
Net Gearing ratio [1]	**25%**	**26%**
Net financial debt / restated EBITDA ratio	**1.1**	**1.1**

[1] 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.

27. Unrecognised contractual obligations

27.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate mainly to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2014 and 2013 amounted to PLN 387 million and PLN 438 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 2014 and 2013, were as follows:

(in PLN millions)	At 31 December 2014	At 31 December 2013
Within one year	215	187
After one year but not more than five years	405	429
More than five years	241	320
Total minimum future lease payments	**861**	**936**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2014 and 2013 amounted to PLN 66 million and PLN 68 million, respectively.

27.2. 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 2014	At 31 December 2013
Property, plant and equipment	88	274
Intangibles	47	173
Total investment commitments	**135**	**447**
Amounts contracted to be payable within 12 months after the end of the reporting period	119	376

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

1 introduction to Orange Polska
2 medium-term action plan 2013–2015
3 management
4 review of operations
5 CSR
6 corporate governance
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28. Litigation, claims and contingent liabilities

a. 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 UOKiK related to IP traffic
On 20 December 2007, 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. 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. On 15 May 2014, the Supreme Court dismissed the cassation appeal. That verdict ended the appeal procedure on the fine imposed by UOKiK on Orange Polska.

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 further prolonged the proceedings. The indicated date of prolongation is 12 March 2015. 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. UOKiK informed the Company that it prolonged the proceedings. The indicated date of prolongation is 20 March 2015.
The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

As at 31 December 2014, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UKE and UOKiK, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed as, in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

b. Proceedings by the European Commission related to broadband access

On 22 June 2011, the European Commission imposed on Orange Polska a EUR 127.6 million fine (approximately PLN 508 million) for abuse of dominant position on the wholesale broadband access market, before October 2009. Orange Polska has recorded a provision for the whole amount of the fine. 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. In December 2014, the General Court informed Orange Polska that Netia S.A. withdrew its intervention.

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. At the court session held on 10 May 2012, the parties did not reach an agreement. On 5 November 2014 Orange Polska and Netia S.A. and its subsidiaries concluded a settlement agreement under which all parties waived mutual, actual and potential, claims and Orange Polska paid Netia S.A. PLN 145 million increased by applicable VAT. The waiver encompassed the potential damage claim based on the decision of the European Commission.

c. 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. Magna Polonia has filed no statement of claim against Orange Polska and it has filed no call for any payment since then.

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.

d. Proceedings by the tax authorities

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

e. 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.

f. Issues related to the incorporation of Orange Polska

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

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.

29. Related party transactions

29.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	12 months ended 31 December 2014		12 months ended 31 December 2013	
	Paid	Accrued but not paid	Paid	Accrued but not paid
Short-term benefits excluding employer social security payments [1]	12,218	1,335	11,045	1,302
Post-employment benefits	2,358	–	3,310	–
Total	**14,576**	**1,335**	**14,355**	**1,302**

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

Compensation (remuneration, bonuses, post-employment benefits 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 2014 and 2013 (including PLN 1.3 million and PLN 0.7 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 2014:

(in PLN thousands)	12 months ended 31 December 2014		12 months ended 31 December 2013	
	Paid	Accrued but not paid	Paid	Accrued but not paid
Bruno Duthoit	2,878	268	494 [1]	315
Mariusz Gaca	1,577 [1]	294	–	–
Piotr Muszyński	2,380	324	2,200	325
Jacek Kowalski	1,577	246	1,495	206
Maciej Nowohoński	861 [1]	203	–	–
Total	**9,273**	**1,335**	**4,189**	**846**

[1] From the date of appointment.

Persons that were Members of the Management Board of the Company in 2014 and in previous periods:

(in PLN thousands)	12 months ended 31 December 2014		12 months ended 31 December 2013	
	Paid	Accrued but not paid	Paid	Accrued but not paid
Maciej Witucki	–	–	5,878 [1]	–
Jacques de Galzain	2,350 [1]	–	2,100	243
Vincent Lobry	2,953 [1]	–	2,188	213
Total	**5,303**	**–**	**10,166**	**456**

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

In the years ended 31 December 2014 and 2013, the Members of OPL S.A.'s Management Board did not receive any compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause – cash, benefits in kind or any other benefits) from the Group's subsidiaries.

Supervisory Board compensation was as follows:

(in PLN thousands)	12 months ended 31 December 2014	12 months ended 31 December 2013
Maciej Witucki [1]	386	71
Prof. Andrzej K. Koźmiński	361	367
Gervais Pellissier [2]	–	–
Marc Ricau [2]	–	–
Dr. Henryka Bochniarz	192	186
Jean-Marie Culpin [2]	–	–
Eric Debroeck [2]	–	–
Ramon Fernandez [2]	–	–
Dr. Mirosław Gronicki	192	186
Russ Houlden	229	–
Sławomir Lachowski	192	186
Marie-Christine Lambert [2]	–	–
Gérard Ries [2]	–	–
Dr. Wiesław Rozłucki	289	278
Valérie Thérond [2]	–	–
Timothy Boatman [3]	133	322
Thierry Bonhomme [2] [3]	–	–
Jacques Champeaux [3]	–	69
Pierre Louette [2] [3]	–	–
Benoit Scheen [2] [3]	–	–
Total	**1,974**	**1,665**

[1] The Chairman of the Supervisory Board since 19 September 2013. Compensation from the date of appointment.
[2] Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.
[3] Persons that were not Members of the Supervisory Board of the Company as at 31 December 2014 but were Members of the Supervisory Board of OPL S.A. in 2014 or previous periods.

In the years ended 31 December 2014 and 2013, the Members of OPL S.A.'s Supervisory Board did not receive any compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause – cash, benefits in kind or any other benefits) from the Group's subsidiaries.

In the years ended 31 December 2014 and 2013, 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 2014 and 2013, 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.

29.2. Related party transactions

As at 31 December 2014, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board appoints and dismisses Members of the Management Board.

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

In 2013 and 2014, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 760 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 19.1). Additionally, 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. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2014 was EUR 760 million and PLN 3,150 million with a total negative fair value of PLN 78 million (as at 31 December 2013, nominal amount of EUR 280 million and PLN 650 million with a total negative fair value of PLN 4 million).
Financial receivables, payables, financial expense and other comprehensive loss concerning transactions with the Orange Group relate to the abovementioned agreements. 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 23.5).

(in PLN millions)	12 months ended 31 December 2014	12 months ended 31 December 2013
Sales of goods and services and other income:	**212**	**216**
Orange S.A. (parent)	131	148
Orange Group (excluding parent)	81	68
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(286)**	**(334)**
Orange S.A. (parent)	(99)	(112)
Orange Group (excluding parent)	(187)	(222)
– including Orange Brand Services Limited (brand licence agreement)	*(134)*	*(164)*
Financial income:	**7**	**2**
Orange S.A. (parent)	7	2
Financial expense, net:	**(159)**	**(31)**
Orange S.A. (parent)	(21)	(21)
Orange Group (excluding parent)	(138)	(10)
Other comprehensive loss:	**(112)**	**–**
Orange S.A. (parent)	(112)	–
Dividend paid:	**332**	**332**
Orange S.A. (parent)	332	332

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.

(in PLN millions)	At 31 December 2014	At 31 December 2013
Receivables:	**71**	**79**
Orange S.A. (parent)	46	61
Orange Group (excluding parent)	25	18
Payables:	**106**	**112**
Orange S.A. (parent)	43	54
Orange Group (excluding parent)	63	58
Financial receivables:	**70**	**5**
Orange S.A. (parent)	70	5
Cash and cash equivalents deposited with:	**69**	**37**
Orange S.A. (parent)	69	37
Financial payables:	**4,455**	**1,403**
Orange S.A. (parent)	148	9
Orange Group (excluding parent)	4,307	1,394

30. Subsequent events

In January 2015, the Group signed with Trade Unions an agreement which curtailed other post-employment benefits for retirees of the Group. As a result a credit of PLN 82 million will be recognised in labour expense in the first quarter of 2015.

31. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2014.

31.1. Use of estimates and judgement

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 2014 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		Estimates and judgements
5, 31.9	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). Fair value of early termination fees charged to customers.
9, 31.13, 31.17	Impairment of cash generating unit and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
11, 12, 31.14, 31.15	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
13, 31.18	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
14, 28, 31.21	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates and other assumptions.
14	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
16, 31.22	Employee benefits	Discount rates, salary increases.
21, 22, 31.18	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
24, 31.20	Income tax	Assumptions used for recognition of deferred tax assets.
31.19	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

The Group considers that the most significant adjustments to the carrying amounts of liabilities could result from changes in estimates and judgements relating to provisions for claims, litigation and risks (see Notes 14 and 28).

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.

31.2. Application of new standards and interpretations

Adoption of standards in 2014

No new standards or interpretations were adopted by the Group since 1 January 2014.

Standards and interpretations issued but not yet adopted

- IFRS 15 "Revenue from Contracts with Customers". This standard was issued on 28 May 2014 and is currently intended to be applied for reporting periods beginning on or after 1 January 2017. This standard has not yet been endorsed by the European Union.
  The standard will mainly affect:
  - recognition of revenue from multiple elements arrangements: the allocation of the revenue between the communication and handset component will change and therefore the timing of the revenue recognition will be accelerated;
  - subscriber acquisition and retention costs: the portion of these costs relating to incremental costs to acquire a contract (i.e. payment to distributors directly attributable to contract acquisition, excluding subsidies) will be eligible for deferral. Overall costs will not change.

- IFRIC 21 "Levies". This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. This interpretation has been endorsed by the European Union to apply at the latest as from 1 January 2015. The Group has decided against earlier application of this Interpretation. The Group considers that future application of IFRIC 21 should not have a significant impact on the financial statements.

- IFRS 9 "Financial Instruments". The aim of IFRS 9 is to supersede IAS 39 "Financial Instruments: Recognition and Measurement". The standard was issued on 24 July 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has not yet been endorsed by the European Union.
  The standard provides for:
  - classification and measurement of financial assets based on cash flow characteristics and on the entity's business model;
  - impairment methodology, which replaces existing incurred loss model with expected credit loss model;
  - new model for hedge accounting, more closely aligned with risk management.

  The Management estimates that the application of the standard will have no material impact on the financial statements.

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

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

Multiple-elements arrangements

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

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31.4. Options available under IFRSs and used by the Group

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

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

31.5. Presentation of the financial statements

Presentation of the statement of financial position

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

Presentation of the income statement

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

Earnings 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 25.4).

31.6. Consolidation rules

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

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

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

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

Intercompany transactions and balances are eliminated on consolidation.

31.7. Investments in joint arrangements

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

31.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish złoty.

Transactions in foreign currencies

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

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

31.9. Revenue

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

Separable components of packaged and bundled offers

For the sale of multiple products or services, the Group evaluates all deliverables in the arrangement to determine whether they represent separate units of accounting. A delivered item is considered a separate unit of accounting if (i) it has value to the customer on a standalone basis and (ii) there is objective and reliable evidence of the fair value of the undelivered item(s). The total fixed or determinable amount of the arrangement is allocated to the separate units of accounting based on its relative fair value. However, when an amount allocated to a delivered item is contingent upon the delivery of additional items or meeting specified performance conditions, the amount allocated to that delivered item is limited to the non contingent amount. This case arises e.g. in the mobile business for sales of bundled offers including a handset and a telecommunications service contract. The handset is considered to have value on a standalone basis to the customer, and there is objective and reliable evidence of fair value for the telecommunications service to be delivered. As the amount allocable to the handset generally exceeds the amount received from the customer at the date the handset is delivered, revenue 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 recognised over the average expected life of the contractual relationship.

Equipment sales

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

When equipment associated 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.

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

Service revenue

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

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

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

Promotional offers

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

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.

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".

31.10. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs, other than loyalty program costs (see Note 31.9), are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

31.11. Borrowing costs

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

31.12. 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.

31.13. Goodwill

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

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

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

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

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

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

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.

31.14. Intangible assets (excluding goodwill)

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

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

Telecommunications licences

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

Research and development costs

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

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

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

Software

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

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

From 2015, the Group will extend the estimated useful lives for certain items of software. As a result, depreciation expense in 2015 relating to these assets is expected to be lower by approximately PLN 100 million than in 2014.

31.15. Property, plant and equipment

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

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

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

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

Investment grants

The Group may receive grants from the government or the European Union 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	3 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.

31.16. Non-current assets held for sale

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

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

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

31.17. 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.

31.18. 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.

31.19. 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.

31.20. Income tax

The tax expense comprises current and deferred tax.

Current tax

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

Deferred taxes

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

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

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

31.21. Provisions

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

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

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

Provisions for dismantling and restoring sites

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

31.22. Pensions and other employee benefits

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

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

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

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

31.23. 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.

Deloitte.

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Auditor's opinion

To the Shareholders and Supervisory Board of Orange Polska S.A.

We have audited the attached consolidated financial statements of the Orange Polska Group ("the Group") with Orange Polska S.A., with its registered office in Warsaw at Al. Jerozolimskie 160, as the Parent Company ("the Company"), which comprise consolidated statement of financial position prepared as of 31 December 2014, 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 2014 to 31 December 2014 and notes comprising a summary of significant accounting policies and other explanatory information as required by the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations.

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 2014 as well as its profit in the financial year from 1 January 2014 to 31 December 2014
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Group for the 2014 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 2014, item 133) 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, 12 February 2015

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.

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

contact

Investor Relations Issues
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General queries
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