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ORANGEPL

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POLISH FINANCIAL SUPERVISION AUTHORITY  
**Annual report RR for the year 2020**

(year)

(according to par. 60 s. 1 pkt 3 of the Decree on current and periodic information)

for the issuers in sectors of production, construction, trade or services

(type of issuer)

for the year **2020**, i.e. from **1 January 2020 to 31 December 2020**

including, separate financial statements prepared under: **IAS**

in currency: **PLN**

date of issuance: **17 February 2021**

**ORANGE POLSKA SA**

(full name of issuer)

**ORANGEPL**

(abbreviated name of the issuer)

**02-326**

(post code)

**Al. Jerozolimskie**

(street)

**22 527 23 23**

(telephone)

**investors@orange.com**

(e-mail)

**526-02-50-995**

(NIP)

**259400TOMPUOLS65II22**

(LEI)

**Telecommunication (tel)**

(classification according to WSE/sector)

**Warsaw**

(location)

**160**

(number)

**22 527 23 41**

(fax)

**www.orange.pl**

(www)

**012100784**

(REGON)

**0000010681**

(KRS)

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

Polish Financial Supervision Authority

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	2020	2019	2020	2019
I. Revenue	10,479,000	10,646,000	2,342,095	2,474,778
II. Operating income	382,000	379,000	85,378	88,103
III. Profit before income tax	57,000	95,000	12,740	22,084
IV. Net income	47,000	79,000	10,505	18,364
V. Earnings per share (in PLN/EUR)	0.04	0.06	0.01	0.01
VI. Weighted average number of shares (in millions)	1,312	1,312	1,312	1,312
VII. Total comprehensive income	34,000	51,000	7,599	11,856
VIII. Net cash provided by operating activities	2,977,000	2,917,000	665,370	678,088
IX. Net cash used in investing activities	(2,082,000)	(1,919,000)	(465,334)	(446,092)
X. Net cash used in financing activities	(941,000)	(1,193,000)	(210,317)	(277,326)
XI. Net change in cash and cash equivalents	(46,000)	(195,000)	(10,281)	(45,330)
	<b>Balance as at 31/12/2020</b>	<b>Balance as at 31/12/2019</b>	<b>Balance as at 31/12/2020</b>	<b>Balance as at 31/12/2019</b>
XII. Total current assets	2,991,000	3,103,000	648,132	728,660
XIII. Total non-current assets	20,913,000	21,492,000	4,531,724	5,046,848
XIV. Total assets	23,904,000	24,595,000	5,179,856	5,775,508
XV. Total current liabilities	7,399,000	4,015,000	1,603,320	942,820
XVI. Total non-current liabilities	5,972,000	10,090,000	1,294,097	2,369,379
XVII. Total equity	10,533,000	10,490,000	2,282,439	2,463,309
XVIII. Share capital	3,937,000	3,937,000	853,125	924,504

The statement of financial position data as at 31 December 2020 and 2019 presented in the table "Selected financial data" was translated into EUR at the average exchange rates of the National Bank of Poland ("NBP") at the end of the reporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the years ended 31 December 2020 and 2019, were translated into EUR at an exchange rates which is the arithmetical average of the average NBP rates published by the NBP on the last day of each month of years ended 31 December 2020 and 2019.

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

1 EUR	31 December 2020	31 December 2019
Statement of financial position	4.6148 PLN	4.2585 PLN
Income statement, statement of comprehensive income, statement of cash flows	4.4742 PLN	4.3018 PLN

**Dear Shareholders,**

Despite unprecedented challenges resulting from the Covid-19 pandemic, 2020 was a successful year for Orange Polska. We delivered on our financial commitments thanks to exceptional measures related to cost savings, our value strategy, strongly supported by fibre, and the concerted efforts of all our teams. Overcoming such difficulties makes us more confident as we enter a new strategic period.

**OPL operations relatively resilient to the pandemic**

The Covid-19 crisis has tested our ability to adapt to dynamically changing external conditions. We reacted very swiftly, organising remote work for around 10,000 employees within just a few days and ensuring continuation of all business processes without disruption. I would like to thank all our teams for this effort, undertaken in exceptional circumstances. As the majority of our profits are derived from subscription services, our operations proved relatively resilient to the pandemic. Data and voice connectivity has become more essential than ever to the needs of consumers and businesses.

**Responding to social needs**

At the beginning of the pandemic, we were able to put our social responsibility values into action in areas where connectivity has become especially crucial. We lent our support in response to the community's needs in numerous initiatives around the country. To mention just a few: we upgraded our network performance in hospitals and other critical public institutions. We provided various hospitals and medical centres with smartphones and free data allowance. For our elderly customers, we put in place delayed payment mechanisms and offered free shipping for online orders. Finally we supported pupils and teachers in the transition to online learning through a special Orange Flex offer, supplies of modems and tablets, and webinars organised by the Orange Foundation.

**Towards a different working model**

The pandemic has forced our teams to work remotely. We do have hopes that the life will return to normal as soon as possible however we believe that this experience is likely to permanently change our work environment. Engaging all our employees we have been developing hybrid work system that we called SMILE (that stands for Safe, Mobile, Integrated, Leading, Efficient). We received feedback from more than 900 of our people with different initiatives how to improve it. The new model is based on the introduction of 2/3 days of flexible working for the majority of our teams. It requires the development of various new digital skills and new tools in our offices. We will start work to optimise our office space after the pandemic.

**Orange fibre network reaches 35% of Polish households**

The crisis proved more than anything that the decision we made a few years ago to heavily invest in fibre was the right one. Our fibre customer base increased almost 40% last year to reach 725,000. Customer take-up accelerated, especially in the second half. Fast fixed broadband is increasingly seen as an essential household utility, and this trend was accelerated by the pandemic. Our strong fibre results were also driven by further extension of the fibre footprint, where our investment process shifted more towards mid and small cities where demand is higher, and by our improved sales performance. Our fibre services have reached five million Polish households, fulfilling our strategic ambition set in 2017. This is a unique infrastructure asset that will constitute our competitive advantage for decades to come. Encouraged by the big potential of this market we plan to extend our footprint, preferably with a different business model. We are looking to work with a financial partner to roll out open-access fibre as a joint venture.

**Our value strategy is working in fixed and mobile**

The shift to value in our commercial approach has been one of our key strategic priorities. In 2020 we successfully combined strong growth of customer numbers with improving trends in the average revenues they generate (ARPO). Growth of our fixed broadband customer base doubled versus 2019 to 95,000, with ARPO marking a spectacular turnaround increasing by almost 5% (as compared to c. 2% decline in 2019). Mobile handset customer base growth was the highest in 3 years. ARPO trend improved to -4% year-on-year (from -6% in 2019), despite a significant negative impact from roaming. Excluding roaming, the decrease was contained to less than 1%. The key drivers of these improvements were tariff increases made in 2019. In fixed broadband, results were additionally boosted by the growing



share of fibre, which generates by far the highest revenue per customer of all technologies. As a result, revenues from key telecom services (combining convergence, mobile and fixed broadband), which are essential to our margin generation, more than doubled their growth rate in 2020 to 2.9%.

### **OPL as strategic partner in digital transformation of business customers**

As part of our strategy we are strongly developing the ICT area, as we see significant synergies with our core telco services for business customers. Polish enterprises digitise their businesses, which means that on top of connectivity and infrastructure they also need software engineering, cloud and other digital enablers. The basis of our development is organic growth coupled with carefully selected acquisitions to complement our competencies. Our acquisitions of BlueSoft in 2019 and Craftware in 2020 perfectly filled gaps and increased our competitive edge against both other telecom operators and pure ICT companies. Craftware gives us premiere exposure to the fast growing CRM market. Rapid shift of purchases to online makes connected CRM a central element of the IT architecture of many businesses.

### **Well-executed Orange.one strategy brought financial turnaround**

In 2020 we completed the implementation of our Orange.one strategy announced in September 2017. I have no doubt it made Orange Polska a much stronger player in all key market segments and much more efficient. We met our financial promises, breaking multi-year negative trends to deliver turnaround, with operating profitability growing in the last three years and revenues in the last two years. Growing operating profitability translated into growth of organic cash flows, reduction of our net debt and financial leverage. Apart from our strictly financial achievements I am particularly happy that Orange has become the most recommended operator on the Polish market as measured by NPS (Net Promoter Score), which was our strategic goal. This highest-ever customer satisfaction is the outcome of consistent, multi-year efforts across the entire customer journey including network, services, distribution and customer care.

### **2021 priorities: Smooth shift into a new strategic period**

In 2021 we are entering a new strategic period. We plan to present its details to the financial community during a special event in the second quarter. We foresee that it will be a mix of pillars continued from Orange.one and new elements. Obviously, an important new topic will be 5G, which opens up new prospects both in business and consumer markets. We want to be more innovative, increasingly benefitting from digitisation across many business processes, use of artificial intelligence and big data analytics. Sustainability will also be an integral part of our strategy. I strongly believe the technology industry has a particular role to play in helping to solve the climate crisis. We plan to diversify sources of energy towards renewables and will assist our customers in making more environmentally friendly choices.

For 2021 alone, the key strategic priorities for us will be the 5G auction and executing the FiberCo project. From a financial perspective we expect continued growth of both revenues and operating profitability. Growth of EBITDAaL should be driven by profitable growth of revenues rather than cost savings (as was the case in prior years). This will be another step towards becoming a more sustainable business. We will face certain regulatory challenges, including cuts in mobile and fixed termination rates as well as changes in prepaid regulations.

Julien Ducarroz  
President of the Management Board and CEO  
Orange Polska S.A.

## INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

### Audit report on the annual financial statements

#### Opinion

We have audited the annual financial statements of Orange Polska S.A. (the 'Company') located in Warsaw at Al. Jerozolimskie 160, containing: the statement of financial position as at 31 December 2020, the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows for the period from 1 January 2020 to 31 December 2020 and additional information to the financial statements, including a summary of significant accounting policies and other explanatory notes (the 'financial statements').

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2020 and its financial performance and its cash flows for the period from 1 January 2020 to 31 December 2020 in accordance with required applicable rules of International Financial Reporting Standards approved by the European Union and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 (the 'Accounting Act').

The opinion is consistent with the additional report to the Audit Committee issued on 17 February 2021.

#### Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific

requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report.

We are independent of the Company in accordance with the International Ethics Standards Board of Accountants' (IESBA) International Code of Ethics for Professional Accountants (including International Independence Standards) (the 'IESBA Code'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. While conducting the audit, the key certified auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

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

### Key audit matters

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

Key audit matter	How the matter was addressed in our audit
<u>Goodwill impairment analysis</u>	
<p>The balance of goodwill in the financial statements of the Company as at 31 December 2020 amounts to PLN 2,014 million.</p> <p>In accordance with International Accounting Standard 36 "Impairment of Assets", the Company's Management is required to annually test the amount of goodwill for impairment.</p>	<p>In the course of the audit of the financial statements we have performed, among others, the following audit procedures in response to the goodwill impairment analysis prepared by the Company's Management:</p> <ul style="list-style-type: none"> <li>understanding of the goodwill impairment testing process and evaluation of the identification of the Cash Generating Units made by the Company's Management;</li> </ul>

Furthermore, impairment tests are largely based on assumptions made by the Company's Management in respect to: future cash flows, including planned capital expenditures, weighted average cost of capital and perpetuity growth rate. As these assumptions are affected by future events they are related with significant risk considering changing market conditions. Considering the inherent uncertainty related to the realization of significant assumptions in the future and the significance of goodwill we have considered goodwill impairment analysis as a key audit matter.

*Reference to related disclosures in the financial statements*

The disclosure about the adopted accounting policy in respect to the goodwill impairment test is included in Note 32.17 "Impairment tests and Cash Generating Units" of the financial statements.

The disclosures about the identification of the Cash Generating Unit and goodwill impairment test are included in Note 8 "Impairment" of the financial statements, which specifically explains the key judgments, estimates and results of the test together with a sensitivity analysis.

- assessing of the impairment model and its assumptions, including benchmarking of the key assumptions with industry range and market expectations including benchmarking of future revenue, cost and margin trends, capital expenditure on network assets and spectrum, market share, customer churn and discount rates, against external data;
- analysing the Company's Management's forecast through a review of actual performance against previous forecasts;
- review of the mathematical accuracy of the cash flow model and agreeing relevant underlying data to forecasts approved by the Company's Management;
- assessing the applied levels of the weighted average cost of capital and perpetuity growth rate;
- assessing of the sensitivity analysis prepared by the Company's Management and performing further sensitivity analysis, focused among others on changes in operating cash flows;

Furthermore, we have assessed the adequacy of the disclosures made in respect to the impairment test and sensitivity analysis.

Deferred tax assets recoverability	
<p>The balance of deferred tax assets in the financial statements of the Company as at 31 December 2020 amounts to PLN 747 million.</p> <p>In accordance with International Accounting Standard 12 "Income Tax", the Company's Management performed a detailed analysis of the deferred tax assets recoverability as at 31 December 2020.</p> <p>This matter was a key audit matter because the balance of the deferred tax assets as at 31 December 2020 was significant to the financial statements. Furthermore, the assessment of recoverability of deferred tax assets is based on significant assumptions in respect to the amount and timing of future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>The disclosures about deferred tax are included in Note 25.2 "Deferred Tax" of the financial statements.</p>	<p>In the course of the audit of the financial statements we have performed, among others, the following audit procedures in response to the deferred tax assets recoverability analysis prepared by the Company's Management:</p> <ul style="list-style-type: none"> <li>• understanding of the deferred tax calculation process and evaluation of the Company's key controls in this respect;</li> <li>• performing tests of selected controls;</li> <li>• assessing of the deferred tax asset recoverability model;</li> <li>• review of the calculation of the current income tax and deferred income tax, as well as of the treatment of significant unusual transactions for tax purposes;</li> <li>• analysis of the assumptions underlying the recognition and measurement of deferred tax assets and assessment of the alignment of the assumptions used to those supporting the goodwill impairment test.</li> </ul> <p>Furthermore, we have assessed the adequacy of the disclosures made in respect to the recoverability of deferred tax assets.</p>



<u>Accuracy of revenue recognition</u>	
<p>The revenues of the Company in the financial statements for the year ended 31 December 2020 amounted to PLN 10,479 million.</p> <p>The accuracy of revenue recognition was considered as a key audit matter because it is an inherent industry risk.</p> <p>Revenues are determined in a complex IT environment, including billing systems which process large volumes of data. Furthermore, the Company sells different products and services, including bundles of products and services with often changing prices, which have different revenue recognition patterns.</p> <p>The Company also enters into significant sales contracts with other telecommunications operators in respect to access to telecommunications infrastructure and wholesale, which require additional focus due to the magnitude of the transactions and complex contractual terms that introduce professional judgment into how they are accounted for.</p> <p>In order to accurately recognize revenue in accordance with International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("IFRS 15") numerous significant judgments are required from the Company's Management in relation to sales contracts, such as e.g. identification of performance obligations and allocation of</p>	<p>In the course of the audit of the financial statements we have assessed the appropriateness of the adopted accounting policies and related judgments and estimates in respect to revenue recognition and their adherence to International Financial Reporting Standards.</p> <p>Furthermore, our audit procedures included also among others:</p> <ul style="list-style-type: none"> <li>• understanding of the process and assessment of the Company's key controls in respect to revenue recognition;</li> <li>• performing tests of selected controls;</li> <li>• evaluation of IT systems relevant to revenue recognition;</li> <li>• assessment of the applied methods of revenue recognition in respect to significant sales contracts and types of offers;</li> <li>• analysis of monthly data and trends for significant revenue streams versus budgets and forecasts;</li> <li>• testing of significant balances of contract assets, contract costs and contract liabilities;</li> <li>• comparison of revenue accruals to actual sales.</li> </ul> <p>Furthermore, we have assessed the adequacy of the disclosures made in respect to revenue recognition and presentation of revenues in the financial statements.</p>

<p>the transaction price towards them, especially in respect to bundled sales.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>The disclosure about the adopted accounting policies and significant judgments in respect to revenue recognition is included in Note 32.9 "Revenue" of the financial statements.</p> <p>The disclosures about revenue are included in Note 5 "Revenue" of the financial statements.</p> <p>The disclosures about assets and liabilities related to contracts with customers are included in Note 13 "Assets and liabilities relating to contracts with customers" of the financial statements.</p>	
<p style="text-align: center;"><u>Application of IFRS 16 "Leases"</u></p>	
<p>IFRS 16 "Leases" ("IFRS 16") requires analysis of contracts and business relationships, as well as making a significant number of key judgments and estimates relating to among others determination of the scope of the new standard, lease terms, lease payments or discount rates. Considering the above, the significance of the impact on the financial statements, the number of types and diversity of contracts the matter was considered as a key audit matter.</p> <p>Considering the IFRS Interpretation Committee's decision on Lease Term and Useful Life of Leasehold Improvements</p>	<p>In the course of the audit of the financial statements, considering the change in accounting policy in respect to the determination of the lease term we have analysed the approach applied by the Company's Management.</p> <p>We have also tested the calculation of the impacts of the change in accounting policy on the financial statements, including comparative financial information considering the retrospective application of the change in the accounting policy in respect to the determination of the lease term, as well as</p>

<p>issued in December 2019, the Company's Management decided to change its accounting policy in 2020 in respect to the determination of the lease term with a retrospective application of the new policy, as if it was applied during the initial application of IFRS 16 on 1 January 2019.</p> <p>As a result of the change in accounting policy, the Company has recognized additional right-of-use assets and lease liabilities as at 1 January 2019 in the amount of PLN 559 million in comparison to the financial data presented in the financial statements for the prior financial year.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>The disclosure related to the change in accounting policy in respect to the determination of the lease term, including the impact of the change on the Company's financial statements is included in Note 2.2 "Changes to accounting policies related to leases" of the financial statements.</p> <p>The disclosures related to right-of-use assets and lease liabilities are included in Note 12 "Leases" of the financial statements.</p> <p>The disclosure about the accounting policies related to the application of IFRS 16 including key judgments and estimates is included in Note 32.15 "Leases" of the financial statements.</p>	<p>assessed the adequacy of disclosures made in the financial statements in this respect.</p> <p>Furthermore, we have also analysed the accounting policies in respect to accounting for contracts subject to IFRS 16 and related judgments and estimates such as among others:</p> <ul style="list-style-type: none"> <li>• assessment of the scope of agreements subject to accounting under IFRS 16;</li> <li>• determination of the lease payments;</li> <li>• assessment of the lease terms;</li> <li>• discount rates;</li> <li>• applied practical expedients.</li> </ul> <p>Furthermore, our audit procedures included also among others:</p> <ul style="list-style-type: none"> <li>• understanding of the process of accounting for contracts subject to IFRS 16 and assessment of the key controls in this respect;</li> <li>• performing tests of selected controls in relation to accounting for contracts under IFRS 16;</li> <li>• performing tests of details for a sample of contracts in order to verify the accuracy of parameters used in the calculation of lease liabilities and right-of-use assets and calculations of lease liabilities and right-of-use assets;</li> <li>• analysis of the completeness of identification of contracts in scope of IFRS 16.</li> </ul> <p>Furthermore, we have assessed the adequacy of the disclosures made in the financial statements in respect to the guidelines provided in IFRS 16, as well as, the key judgments related to accounting for lease contracts.</p>
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## **Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements**

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

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

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

## **Auditor's responsibility for the audit of the financial statements**

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

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

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

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

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Company to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report

because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Other information, including the Directors' Report**

The other information comprises the Directors' Report for the period from 1 January 2020 to 31 December 2020, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

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

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

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

#### *Auditor's responsibility*

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

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

## **Opinion on the Directors' Report**

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

- has been prepared in accordance with article 49 of the Accounting Act and paragraph 70 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the financial statements.

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

## **Opinion on the corporate governance application representation**

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

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the financial statements.

## **Information on non-financial information**

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

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

## **Representation on the provision of non-audit services**

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

### Appointment of the audit firm

We were appointed for the audit of the Company's financial statements initially based on the resolution of the Company's Supervisory Board from 15 June 2015, then we were reappointed based on the resolution from 5 July 2018 and again based on the resolution from 6 February 2020. The financial statements of the Company have been audited by us uninterruptedly starting from the financial year ended on 31 December 2015, i.e. for the past 6 consecutive years.

Warsaw, 17 February 2021

Key Certified Auditor

Partner

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Paweł Niškiewicz  
certified auditor  
no in the register: 13542

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Mikołaj Rytel

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



**ORANGE POLSKA S.A.**

**IFRS SEPARATE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2020**

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February 17, 2021

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## INCOME STATEMENT

(in PLN millions, except for earnings per share)

		12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Notes 2.2, 32.5)
	Note		
<b>Revenue</b>	<b>5</b>	<b>10,479</b>	<b>10,646</b>
External purchases	6.1	(5,681)	(5,794)
Labour expense	6.2	(1,252)	(1,402)
Other operating expense	6.3	(447)	(420)
Other operating income	6.3	270	235
Impairment of receivables and contract assets	6.3, 17	(146)	(132)
Gains on disposal of assets	7	61	260
Employment termination expense	14	13	(190)
Depreciation and impairment of right-of-use assets	12.1	(419)	(379)
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	8, 10, 11	(2,496)	(2,445)
<b>Operating income</b>		<b>382</b>	<b>379</b>
Dividend income	17	14	21
Interest income	17	35	42
Interest expense on lease liabilities	17	(61)	(66)
Other interest expense and financial charges	17	(216)	(236)
Discounting expense	17	(43)	(47)
Foreign exchange gains/(losses)		(54)	2
<b>Finance costs, net</b>		<b>(325)</b>	<b>(284)</b>
Income tax	25.1	(10)	(16)
<b>Net income</b>		<b>47</b>	<b>79</b>
<b>Earnings per share (in PLN)</b>	<b>32.5</b>	<b>0.04</b>	<b>0.06</b>
Weighted average number of shares (in millions)	26.1	1,312	1,312

**STATEMENT OF COMPREHENSIVE INCOME**

(in PLN millions)

		12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Note 2.2)
	Note		
<b>Net income</b>		<b>47</b>	<b>79</b>
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial losses on post-employment benefits	16	(3)	(8)
Income tax relating to items not to be reclassified		1	2
<b>Items that may be reclassified subsequently to profit or loss</b>			
Losses on cash flow hedges	22	(13)	(27)
Income tax relating to items that may be reclassified		2	5
<b>Other comprehensive loss, net of tax</b>		<b>(13)</b>	<b>(28)</b>
<b>Total comprehensive income</b>		<b>34</b>	<b>51</b>

## STATEMENT OF FINANCIAL POSITION

(in PLN millions)

		At 31 December 2020	At 31 December 2019 Restated (see Note 2.2)	At 1 January 2019 Restated (see Note 2.2)
	Note			
<b>ASSETS</b>				
Goodwill	9	2,014	2,014	2,014
Other intangible assets	10	4,079	4,473	4,837
Property, plant and equipment	11	10,397	10,506	10,391
Right-of-use assets	12.1	2,727	2,649	2,381
Investments in subsidiaries	20	334	334	171
Trade receivables	13.1	351	423	522
Contract assets	13.2	70	65	27
Contract costs	13.3	96	95	54
Loans to related parties		60	70	-
Derivatives	22	-	44	48
Other assets		38	59	53
Deferred tax asset	25.2	747	760	769
<b>Total non-current assets</b>		<b>20,913</b>	<b>21,492</b>	<b>21,267</b>
Inventories		184	178	194
Trade receivables	13.1	1,627	1,981	2,239
Contract assets	13.2	87	117	138
Contract costs	13.3	362	327	311
Loans to related parties		115	16	100
Derivatives	22	147	1	52
Other assets		139	111	162
Prepaid expenses		31	29	24
Cash and cash equivalents	21	299	343	538
<b>Total current assets</b>		<b>2,991</b>	<b>3,103</b>	<b>3,758</b>
<b>TOTAL ASSETS</b>		<b>23,904</b>	<b>24,595</b>	<b>25,025</b>
<b>EQUITY AND LIABILITIES</b>				
Share capital	26.1	3,937	3,937	3,937
Share premium		832	832	832
Other reserves		(122)	(88)	(57)
Retained earnings		5,886	5,809	5,727
<b>Total equity</b>		<b>10,533</b>	<b>10,490</b>	<b>10,439</b>
Trade payables	15.1	242	348	473
Lease liabilities	12.1	2,188	2,104	1,717
Loans from related parties	18	2,406	6,432	5,260
Other financial liabilities at amortised cost		-	3	10
Derivatives	22	100	55	31
Provisions	14	639	631	450
Contract liabilities	13.4	315	323	317
Employee benefits	16	51	155	133
Other liabilities	15.2	31	39	11
<b>Total non-current liabilities</b>		<b>5,972</b>	<b>10,090</b>	<b>8,402</b>
Trade payables	15.1	2,014	2,221	2,326
Lease liabilities	12.1	475	434	394
Loans from related parties	18	3,682	66	2,187
Other financial liabilities at amortised cost		4	57	8
Derivatives	22	32	20	19
Provisions	14	248	237	210
Contract liabilities	13.4	449	444	443
Employee benefits	16	166	175	190
Income tax liabilities		16	23	40
Other liabilities	15.2	313	338	367
<b>Total current liabilities</b>		<b>7,399</b>	<b>4,015</b>	<b>6,184</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>23,904</b>	<b>24,595</b>	<b>25,025</b>

## STATEMENT OF CHANGES IN EQUITY

(in PLN millions)

	Share capital	Share premium	Other reserves			Retained earnings	Total equity
			Cash flow hedge reserve	Actuarial losses on post-employment benefits	Deferred tax		
<b>Balance at 1 January 2020 (restated, see Note 2.2)</b>	<b>3,937</b>	<b>832</b>	<b>(50)</b>	<b>(59)</b>	<b>21</b>	<b>5,809</b>	<b>10,490</b>
Total comprehensive income for the 12 months ended 31 December 2020	-	-	(13)	(3)	3	47	34
Share-based payments (see Note 26.3)	-	-	-	-	-	3	3
Transfer to inventories	-	-	(26)	-	5	-	(21)
Other movements (see Note 26.4)	-	-	-	-	-	27	27
<b>Balance at 31 December 2020</b>	<b>3,937</b>	<b>832</b>	<b>(89)</b>	<b>(62)</b>	<b>29</b>	<b>5,886</b>	<b>10,533</b>
<b>Balance at 1 January 2019</b>	<b>3,937</b>	<b>832</b>	<b>(20)</b>	<b>(51)</b>	<b>14</b>	<b>5,727</b>	<b>10,439</b>
Total comprehensive income for the 12 months ended 31 December 2019 (restated)	-	-	(27)	(8)	7	79	51
Share-based payments (see Note 26.3)	-	-	-	-	-	3	3
Transfer to inventories	-	-	(3)	-	-	-	(3)
<b>Balance at 31 December 2019 (restated)</b>	<b>3,937</b>	<b>832</b>	<b>(50)</b>	<b>(59)</b>	<b>21</b>	<b>5,809</b>	<b>10,490</b>

## STATEMENT OF CASH FLOWS

(in PLN millions)

		12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Notes 2.2, 32.5)
	Note		
<b>OPERATING ACTIVITIES</b>			
Net income		47	79
Adjustments to reconcile net income to cash from operating activities			
Gains on disposal of assets	7	(61)	(260)
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets	8,10,11,12.1	2,915	2,824
Finance costs, net	17	325	284
Income tax	25.1	10	16
Change in provisions and allowances		(155)	70
Operational foreign exchange and derivatives gains , net		(8)	(1)
Change in working capital			
Decrease in inventories, gross		3	23
Decrease in trade receivables, gross	13.1	440	363
(Increase)/decrease in contract assets, gross	13.2	26	(18)
Increase in contract costs	13.3	(36)	(57)
Decrease in trade payables		(139)	(59)
Increase/(decrease) in contract liabilities	13.4	(3)	7
Increase in prepaid expenses and other receivables		(24)	(19)
Increase/(decrease) in other payables	15.2	(43)	4
Dividends received		14	21
Interest received		35	42
Interest paid and interest rate effect paid on derivatives, net		(370)	(385)
Exchange rate effect received on derivatives, net		2	-
Income tax paid		(1)	(17)
<b>Net cash provided by operating activities</b>		<b>2,977</b>	<b>2,917</b>
<b>INVESTING ACTIVITIES</b>			
Payments for purchases of property, plant and equipment and intangible assets	10,11	(2,014)	(2,276)
Investment grants received	15.2	177	136
Investment grants paid to property, plant and equipment and intangible assets suppliers	15.2	(221)	(153)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		10	5
Proceeds from sale of property, plant and equipment and intangible assets		60	485
Proceeds from sale of investments in subsidiaries		-	2
Cash paid for investments in subsidiaries	20	(5)	(133)
Receipts from/(payments on) loans to related parties and other financial instruments, net		(89)	15
<b>Net cash used in investing activities</b>		<b>(2,082)</b>	<b>(1,919)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of long-term loans from related party	19	-	(17)
Repayment of lease liabilities	19	(406)	(348)
Decrease in revolving credit line and other debt	19	(535)	(886)
Exchange rate effect received on derivatives hedging debt, net	19	-	58
<b>Net cash used in financing activities</b>		<b>(941)</b>	<b>(1,193)</b>
<b>Net change in cash and cash equivalents</b>		<b>(46)</b>	<b>(195)</b>
Effects of exchange rate changes on cash and cash equivalents		2	-
Cash and cash equivalents at the beginning of the period	21	343	538
<b>Cash and cash equivalents at the end of the period</b>	<b>21</b>	<b>299</b>	<b>343</b>



## **1. Orange Polska S.A.**

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. Orange Polska shares are listed on the Warsaw Stock Exchange.

Orange Polska is the principal provider of telecommunications services in Poland. The Company provides mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV. In addition, Orange Polska provides IT and integration services, leased lines and other telecommunications value added services, sells telecommunications equipment, provides data transmission and sells electrical energy.

Orange Polska’s registered office is located in Warsaw, Poland, at 160 Aleje Jerozolimskie St.

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

## **2. Statement of compliance and basis of preparation**

### **2.1 Basis of preparation**

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

These Separate Financial Statements have been prepared in millions of Polish złoty (“PLN”). Comparative amounts for the year ended 31 December 2019 have been compiled using the same basis of preparation, except for impact of a change in the accounting policy described below.

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

The Separate Financial Statements have been prepared on the going concern basis. As at 31 December 2020, the Company’s current liabilities exceeded current assets and unused credit facilities (excluding short term) by PLN 2,568 million (see Note 24.6). It was mainly due to current liabilities from the related party loans of PLN 3,576 million (presented in Note 18) with repayment date in May and June 2021. In order to ensure an adequate level of financial liquidity and cover the excess of current liabilities over current assets and unused credit facilities, Orange Polska and Orange Group concluded new loan agreement for PLN 2,700 million in January 2021 (see Note 31). Considering the new loan agreement, the amount of current liabilities would decrease by PLN 2,700 million to PLN 4,699 million and would be fully covered by current assets of PLN 2,991 million and unused credit facilities (excluding short term) of PLN 1,840 million. Furthermore, the Management analysed the timing, nature and scale of potential financing needs of the Company and believes that available cash as well as expected operating cash inflows will be sufficient to fund the Company’s anticipated cash requirements for working capital purposes.

Orange Polska S.A. is the parent company of the Orange Polska Group (“the Group”, “OPL Group”) and prepares consolidated financial statements for the year ended 31 December 2020. The Group is a part of Orange Group, based in France.

These Separate Financial Statements were authorised for issuance by the Management Board on 17 February 2021 and are subject to approval at the General Meeting of Orange Polska S.A.

The principles applied to prepare financial data relating to the year ended 31 December 2020 are described in Note 32 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2020,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2020 but for which the Company has opted for earlier application,
- accounting positions adopted by the Company in accordance with paragraphs 10 to 12 of International Accounting Standard (“IAS”) 8 (Use of judgements).

#### Adoption of standards and interpretations in 2020

There were no new standards or interpretations issued from the date when the IFRS Separate Financial Statements for the year ended 31 December 2019 were published. Changes to standards and interpretations in 2020, other than described in Note 2.2 below, did not result in any changes to accounting policies applied by the Company.

### **2.2 Changes to accounting policies related to leases**

In 2020, the Company changed its accounting policy in respect of the determination of the lease term of cancellable lease (described below) and changed presentation of foreign exchange gains/losses arising on revaluation and settlement of lease liabilities and related hedging instruments (described in Note 32.5).

#### IFRS Interpretation Committee’s decision on Lease Term and Useful Life of Leasehold Improvements

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

As a result of the Decision and the analysis performed in 2020, the Company changed its accounting policy in respect of the determination of the lease term of cancellable leases. The change was applied retrospectively and impacted the statement of financial position as at 1 January 2019. The Company assessed the reasonably certain lease terms of cancellable lease contracts to be equal to 5 years for all lease contracts, except for 18 years for road occupancy leases where fixed network infrastructure is placed. This change in accounting policy resulted in the recognition of additional right-of-use assets and additional lease liabilities, mainly in respect of leases of premises and ground for fixed and mobile network infrastructure.

Adoption of changes described above affected the statement of financial position as at 1 January 2019 and 31 December 2019, the income statement, total comprehensive income and statement of cash flows for the 12 months ended 31 December 2019 as follows:

## INCOME STATEMENT:

(in PLN millions)

	12 months ended 31 December 2019		
	Before changes	Impact of changes <sup>(1)</sup>	After changes
<b>Revenue</b>	<b>10,646</b>	-	<b>10,646</b>
External purchases	(5,889)	95	(5,794)
Other operating expense	(417)	(3)	(420)
Other operating income	238	(3)	235
Depreciation and impairment of right-of-use assets	(289)	(90)	(379)
<b>Operating income</b>	<b>380</b>	<b>(1)</b>	<b>379</b>
Interest expense on lease liabilities	(50)	(16)	(66)
Other interest expense and financial charges	(240)	4	(236)
Foreign exchange gains/(losses)	-	2	2
<b>Finance costs, net</b>	<b>(274)</b>	<b>(10)</b>	<b>(284)</b>
Income tax	(18)	2	(16)
<b>Net income</b>	<b>88</b>	<b>(9)</b>	<b>79</b>
<b>Earnings per share (in PLN)</b>	<b>0.07</b>	<b>(0.01)</b>	<b>0.06</b>
<b>Total comprehensive income</b>	<b>60</b>	<b>(9)</b>	<b>51</b>

<sup>(1)</sup> Includes changes related to presentation of foreign exchange gains/losses described in Note 32.5.

## STATEMENT OF FINANCIAL POSITION:

(in PLN millions)

	At 1 January 2019		
	Before changes	Impact of changes	After changes
<b>ASSETS</b>			
Right-of-use assets	1,822	559	2,381
<b>Total non-current assets</b>	<b>20,708</b>	<b>559</b>	<b>21,267</b>
<b>Total current assets</b>	<b>3,758</b>	<b>-</b>	<b>3,758</b>
<b>TOTAL ASSETS</b>	<b>24,466</b>	<b>559</b>	<b>25,025</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Total equity</b>	<b>10,439</b>	<b>-</b>	<b>10,439</b>
Lease liabilities	1,249	468	1,717
<b>Total non-current liabilities</b>	<b>7,934</b>	<b>468</b>	<b>8,402</b>
Lease liabilities	303	91	394
<b>Total current liabilities</b>	<b>6,093</b>	<b>91</b>	<b>6,184</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>24,466</b>	<b>559</b>	<b>25,025</b>

(in PLN millions)

	At 31 December 2019		
	Before changes	Impact of changes	After changes
<b>ASSETS</b>			
Right-of-use assets	2,082	567	2,649
Deferred tax assets	758	2	760
<b>Total non-current assets</b>	<b>20,923</b>	<b>569</b>	<b>21,492</b>
<b>Total current assets</b>	<b>3,103</b>	<b>-</b>	<b>3,103</b>
<b>TOTAL ASSETS</b>	<b>24,026</b>	<b>569</b>	<b>24,595</b>
<b>EQUITY AND LIABILITIES</b>			
Retained earnings	5,818	(9)	5,809
<b>Total equity</b>	<b>10,499</b>	<b>(9)</b>	<b>10,490</b>
Lease liabilities	1,622	482	2,104
<b>Total non-current liabilities</b>	<b>9,608</b>	<b>482</b>	<b>10,090</b>
Lease liabilities	338	96	434
<b>Total current liabilities</b>	<b>3,919</b>	<b>96</b>	<b>4,015</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>24,026</b>	<b>569</b>	<b>24,595</b>

**STATEMENT OF CASH FLOWS:**

(in PLN millions)

	12 months ended 31 December 2019		
	Before changes	Impact of changes <sup>(1)</sup>	After changes
<b>OPERATING ACTIVITIES</b>			
Net income	88	(9)	79
Adjustments to reconcile net income to cash from operating activities			
Depreciation, amortisation and impairment of property, plant and equipment, intangible assets and right-of-use assets	2,734	90	2,824
Finance costs, net	274	10	284
Income tax	18	(2)	16
Operational foreign exchange and derivatives gains, net	(7)	6	(1)
Interest paid and interest rate effect paid on derivatives, net	(370)	(15)	(385)
<b>Net cash provided by operating activities</b>	<b>2,837</b>	<b>80</b>	<b>2,917</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of lease liabilities	(268)	(80)	(348)
<b>Net cash used in financing activities</b>	<b>(1,113)</b>	<b>(80)</b>	<b>(1,193)</b>
<b>Net change in cash and cash equivalents</b>	<b>(195)</b>	<b>-</b>	<b>(195)</b>

<sup>(1)</sup> Includes changes related to presentation of foreign exchange gains/losses described in Note 32.5.**Amendment to IFRS 16 COVID-19-Related Rent Concessions**

On 28 May 2020, the International Accounting Standards Board has issued an amendment “COVID-19-Related Rent Concessions” to IFRS 16 Leases to make it easier for lessees to account for COVID-19-related rent concessions. The amendment exempts lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allows lessees to account for such rent concessions as if they were not lease modifications. The amendment has been endorsed by the European Union in October 2020. The adoption of the amendment did not have a significant effect on the Company’s financial statements.

**3. Segment information**

The Orange Polska Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on a consolidated basis. Segment information is disclosed in Note 3 to Orange Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2020.

**4. Impact of COVID-19 pandemic**

In March 2020, COVID-19 was officially declared as a pandemic. The authorities closed the borders, introduced a lockdown on schools, some businesses and facilities and restricted movement of people to leaving home for essential reasons only. The imposed restrictions have been progressively lifted starting from end of April 2020. The situation is dynamic, Poland and other countries experience a second wave of COVID-19, some restrictions have been imposed again. The pandemic has significantly impacted the Polish economy. Preliminary estimations of the Polish Statistical Office show that Poland’s GDP fell by 2.8% in 2020. At the same time the consensus

indicates that GDP in Poland could return to growth and increase by 3.7% in 2021 although the pace of the recovery is highly uncertain at the moment. The government has introduced a few sets of legislation (Anti-crisis Shields and Financial Shield) targeted mainly on micro, small and medium companies, aimed at counterbalancing the crisis impact.

Since mid-March, the Company has implemented a number of actions to adapt to the crisis situation, ensure business continuity and reduce the risks of the pandemic. The pandemic had an impact on the Company's ability to achieve its business goals in the 12 months ended 31 December 2020. The Management has adopted a number of counteractive measures to mitigate the negative impact of the pandemic on Company's business performance. Based on the up to date observations, the Company discloses the following major impacts of COVID-19 pandemic on its operations, financial position and performance in the 12 months ended 31 December 2020:

1. The results achieved in the 12 months ended 31 December 2020 indicate that the core of the Company's operations remain relatively immune to the impact of the pandemic. Data and voice connectivity has become more essential than ever to the needs of consumers and businesses. The majority of revenue and profits are derived from subscription-based services, which allows the Company to rely on relatively stable and predictable revenue streams.
2. The Company observed increased voice and data traffic in its mobile and fixed networks. The networks were working without disruption and were handling the higher volumes well, benefitting from fibre infrastructure in core and access layers.
3. Despite many restrictions which are still in place our distribution network remains open, after around 45% of points of sale were closed from mid-March until beginning of May 2020. The sales volumes have recovered and significantly improved as a result of strong efforts made by the Company and high demand, mainly for mobile voice and fixed broadband services. However, sale of equipment and related accessories dropped due to clients reluctance to additional commitment. Pandemic also impacted activations of new pre-paid cards due to lower mobility and lower sales to foreign residents.
4. Restrictions for people's mobility (Polish borders were closed from mid-March and opened on 13 June 2020, only for European Union citizens, since then some new travel restrictions appeared) and adverse attitude to travel negatively influenced revenue from international roaming, accompanied by lower roaming interconnection expenses. On the other hand, revenue from wholesale mobile incoming calls considerably increased during the lockdown, reflecting much higher traffic, in line with mobile outgoing costs.
5. The Company performed an impairment test of the single telecom operator Cash Generating Unit as at 31 December 2020 (see Note 8). No impairment loss was recognised as a result of this test.
6. The Company performed an analysis of available information about past events, current conditions and forecasts of future economic conditions to evaluate the impact of COVID-19 on the bad debt allowance. Based on an analysis of current conditions, a scenario analysis and the bad debt experience in 2011-2012 when a significant reduction in GDP growth last occurred, the Company recognised additional PLN 26 million of impairment of trade receivables in the 12 months ended 31 December 2020.
7. Significant weakening of PLN against EUR in the 12 months ended 31 December 2020 resulted in the recognition of foreign exchange losses (mainly on unhedged long-term lease liabilities), which are presented in finance costs, net. Weakening of PLN had a limited negative influence on operating costs and level of capital expenditures, as the Company uses financial instruments to hedge majority of these exposures. Currency loans from related party and bank borrowings are also hedged and the Company's debt is effectively denominated in PLN.

8. As at 31 December 2020, the Company performed an analysis to evaluate the impact of COVID-19 on the realization of contractual commitments. The results of the analysis have been adequately recognised in the Company's financial statements.

Impact of COVID-19 pandemic on the Company, its financial position and performance in next periods depends on many factors which are beyond the control of the Company. These factors include, among others: the length and severity of the pandemic, measures taken by the government to limit the pandemic and to protect society from the effects of the crisis and in result its ultimate impact on the Polish economy. The Company will monitor the COVID-19 situation, its impact on the Polish economy, as well as indicators more specific to the Company.

## 5. Revenue

Revenue is disaggregated as follows:

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

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019
<b>Mobile only services</b>	<b>2,552</b>	<b>2,593</b>
<b>Fixed only services</b>	<b>2,081</b>	<b>2,192</b>
Narrowband	798	917
Broadband	856	854
Network solutions (business market)	427	421
<b>Convergent services (consumer market)</b>	<b>1,741</b>	<b>1,558</b>
<b>Equipment sales</b>	<b>1,344</b>	<b>1,555</b>
<b>IT and integration services</b>	<b>199</b>	<b>187</b>
<b>Wholesale</b>	<b>2,422</b>	<b>2,278</b>
Mobile wholesale	1,438	1,287
Fixed wholesale	654	689
Other	330	302
<b>Other revenue</b>	<b>140</b>	<b>283</b>
<b>Total revenue</b>	<b>10,479</b>	<b>10,646</b>

Wholesale and other revenue for the 12 months ended 31 December 2020 and 2019 include PLN 94 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

Other revenue for the 12 months ended 31 December 2019 included PLN 27 million of compensation based on the Act on Electricity Prices that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

Revenue is generated mainly in the territory of Poland. Approximately 4.5% and 4.6% of the total revenue for the 12 months ended 31 December 2020 and 2019, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

## 6. Operating expense and income

### 6.1 External purchases

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Note 2.2)
Commercial expenses	(1,964)	(2,196)
– cost of handsets and other equipment sold	(1,320)	(1,529)
– commissions, advertising, sponsoring costs and other	(644)	(667)
Interconnect expenses	(1,992)	(1,827)
Network and IT expenses	(666)	(617)
Other external purchases	(1,059)	(1,154)
<b>Total external purchases</b>	<b>(5,681)</b>	<b>(5,794)</b>



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

## 6.2 Labour expense

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019
Average number of active employees (full time equivalent)	10,649	11,867
Wages and salaries	(1,231)	(1,264)
Social security and other charges	(296)	(296)
Long-term employee benefits (see Note 16.1)	61	(4)
Capitalised personnel costs	234	218
Other employee benefits	(20)	(56)
<b>Total labour expense</b>	<b>(1,252)</b>	<b>(1,402)</b>

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

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Note 32.5)
Taxes other than income tax	(277)	(257)
Orange brand fee (see Note 30.2)	(116)	(112)
Other expense and changes in provisions, net	(54)	(51)
<b>Total other operating expense</b>	<b>(447)</b>	<b>(420)</b>
<b>Total other operating income</b>	<b>270</b>	<b>235</b>
<b>Total impairment of receivables and contract assets</b>	<b>(146)</b>	<b>(132)</b>

Other operating income includes mainly income from scrapped assets, income from compensation and income from related parties resulting from shared resources.

## 6.4 Research and development

During the 12 months ended 31 December 2020 and 2019, research and development costs expensed in the income statement amounted to PLN 59 million and PLN 53 million, respectively.

## 7. Gains on disposal of assets

During the 12 months ended 31 December 2020 and 2019, gains on disposal of assets amounted to PLN 61 million and PLN 260 million, respectively, and included mainly gains on disposal of real estate.

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

## 8. Impairment

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

As at 31 December 2020 and 2019 the Company performed impairment tests of the CGU (including goodwill). No impairment loss was recognised in the years 2020 and 2019.

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

- value of the market, penetration rate, market share and the level of the competition, level of prices and decisions of the regulator in terms of pricing, customer base, the level of commercial expenses required to replace products and keep up with existing competitors or new market entrants, the impact of changes in revenue on direct costs;
- the level of capital expenditures which may be affected by the roll-out of necessary new technologies or regulatory decisions concerning telecommunications licences allocation;
- the length and severity of the COVID-19 pandemic and its impact on the CGU performance;
- discount rate which is based on weighted average cost of capital and reflects current market assessment of the time value of money and the risks specific to activities of the CGU; and
- perpetuity growth rate which reflects Management's assessment of cash flows evolution after the last year covered by the cash flow projections.

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

Telecom operator CGU		
	At 31 December 2020	At 31 December 2019
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
Perpetuity growth rate	1.5 %	1.5 %
Post-tax discount rate	7.25 %	8.25 %
Pre-tax discount rate <sup>(1)</sup>	8.47 %	9.65 %

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

### Sensitivity of recoverable amount

The value in use of the telecom operator CGU as at 31 December 2020 exceeds its carrying value by PLN 2.9 billion. Any of the following changes in key assumptions:

- a 16% fall in projected cash flows after fifth year or
- a 0.9 p.p. decrease in growth rate to perpetuity or
- a 1.1 p.p. increase in post-tax discount rate

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

## 9. Goodwill

(in PLN millions)	At 31 December 2020			At 31 December 2019		
	Cost	Accumulated impairment	Net	Cost	Accumulated impairment	Net
CGU						
Telecom operator	3,909	(1,895)	2,014	3,909	(1,895)	2,014
<b>Total goodwill</b>	<b>3,909</b>	<b>(1,895)</b>	<b>2,014</b>	<b>3,909</b>	<b>(1,895)</b>	<b>2,014</b>

The goodwill of PLN 3,909 million arose in 2005 on acquisition of the remaining 34% of non-controlling interest in the mobile business controlled by OPL S.A. through its subsidiary (PTK-Centertel Sp. z o.o.). Before 2013, when the merger with PTK-Centertel Sp. z o.o. was carried out, the goodwill was recognised only in consolidated financial statements of the Orange Polska Group.

## 10. Other intangible assets

(in PLN millions)	At 31 December 2020			
	Cost	Accumulated amortisation	Accumulated impairment	Net
Telecommunications licences	5,760	(3,109)	-	2,651
Software	5,862	(4,496)	-	1,366
Other intangibles	177	(104)	(11)	62
<b>Total other intangible assets</b>	<b>11,799</b>	<b>(7,709)</b>	<b>(11)</b>	<b>4,079</b>

(in PLN millions)	At 31 December 2019			
	Cost	Accumulated amortisation	Accumulated impairment	Net
Telecommunications licences	5,760	(2,750)	-	3,010
Software	5,886	(4,481)	-	1,405
Other intangibles	176	(107)	(11)	58
<b>Total other intangible assets</b>	<b>11,822</b>	<b>(7,338)</b>	<b>(11)</b>	<b>4,473</b>

Details of telecommunications licences are as follows:

(in PLN millions)	Acquisition date	Years to expiration <sup>(2)</sup>	Net book value	
			At 31 December 2020	At 31 December 2019
800 MHz	2016	10.1	2,062	2,266
900 MHz	2014	8.5	204	228
900 MHz <sup>(1)</sup>	2018	-	-	12
1800 MHz <sup>(1)</sup>	2013	7.0	111	127
1800 MHz	1997	6.6	-	-
2100 MHz	2000	2.0	195	290
2600 MHz	2016	10.1	79	87
<b>Total telecommunications licences</b>			<b>2,651</b>	<b>3,010</b>

<sup>(1)</sup> Licences held under agreements with T-Mobile Polska S.A.

<sup>(2)</sup> Remaining useful life in years as at 31 December 2020.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2020 were as follows:

(in PLN millions)	Telecommunications			Total other intangible assets
	licences	Software	Other intangibles	
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>3,010</b>	<b>1,405</b>	<b>58</b>	<b>4,473</b>
Acquisitions of intangible assets	-	384	18	402
Amortisation	(359)	(440)	(13)	(812)
Reclassifications and other, net	-	17	(1)	16
<b>Closing balance</b>	<b>2,651</b>	<b>1,366</b>	<b>62</b>	<b>4,079</b>

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

(in PLN millions)	Telecommunications			Total other intangible assets
	licences	Software	Other intangibles	
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>3,369</b>	<b>1,409</b>	<b>59</b>	<b>4,837</b>
Acquisitions of intangible assets	-	416	11	427
Amortisation	(359)	(420)	(12)	(791)
<b>Closing balance</b>	<b>3,010</b>	<b>1,405</b>	<b>58</b>	<b>4,473</b>

## 11. Property, plant and equipment

(in PLN millions)	At 31 December 2020			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	2,303	(1,764)	(14)	525
Network	40,337	(31,032)	(80)	9,225
Terminals	1,987	(1,642)	-	345
Other IT equipment	1,255	(1,027)	-	228
Other	249	(175)	-	74
<b>Total property, plant and equipment</b>	<b>46,131</b>	<b>(35,640)</b>	<b>(94)</b>	<b>10,397</b>

(in PLN millions)	At 31 December 2019			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	2,340	(1,736)	(17)	587
Network	39,719	(30,429)	(58)	9,232
Terminals	1,937	(1,544)	-	393
Other IT equipment	1,237	(1,015)	-	222
Other	243	(171)	-	72
<b>Total property, plant and equipment</b>	<b>45,476</b>	<b>(34,895)</b>	<b>(75)</b>	<b>10,506</b>

As at 31 December 2020 and 2019, the amount of expenditures recognised in the carrying amount of items of property, plant and equipment in the course of their construction amounted to PLN 1,396 million and PLN 1,331 million, respectively.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2020 were as follows:

(in PLN millions)

	Land and buildings	Network	Terminals	Other IT equipment	Other	Total property, plant and equipment
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>587</b>	<b>9,232</b>	<b>393</b>	<b>222</b>	<b>72</b>	<b>10,506</b>
Acquisitions of property, plant and equipment	35	1,255	112	64	25	1,491
Disposals and liquidations	(12)	(1)	-	-	(1)	(14)
Depreciation	(75)	(1,347)	(160)	(60)	(18)	(1,660)
Impairment, net	2	(26)	-	-	-	(24)
Dismantling costs, reclassifications and other, net	(12)	112	-	2	(4)	98
<b>Closing balance</b>	<b>525</b>	<b>9,225</b>	<b>345</b>	<b>228</b>	<b>74</b>	<b>10,397</b>

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2019 were as follows:

(in PLN millions)

	Land and buildings	Network	Terminals	Other IT equipment	Other	Total property, plant and equipment
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>673</b>	<b>9,035</b>	<b>414</b>	<b>206</b>	<b>63</b>	<b>10,391</b>
Acquisitions of property, plant and equipment	46	1,434	144	63	31	1,718
Disposals and liquidations	(45)	(2)	-	-	-	(47)
Depreciation	(93)	(1,260)	(164)	(63)	(21)	(1,601)
Impairment, net	5	(58)	-	-	-	(53)
Dismantling costs, reclassifications and other, net	1	83	(1)	16	(1)	98
<b>Closing balance</b>	<b>587</b>	<b>9,232</b>	<b>393</b>	<b>222</b>	<b>72</b>	<b>10,506</b>

#### Potential contribution of network assets to jointly controlled vehicle

In 2020, Orange Polska initiated a review of options for potential partnership into further development of fibre-to-the-home ('FTTH') network through a jointly controlled vehicle ('FiberCo'). These options assume contribution by Orange Polska of certain existing fibre infrastructure with about 0.7 million of households connectable.

Based on the analysis conducted by the Management Board and taking into account the process of preparation of assets to be sold, the assets planned to be contributed to FiberCo are not assets held for sale as defined in IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The assets are not ready to be sold at their present condition. Significant noncustomary organizational and operational changes (such as preparation of IT systems and other processes) still have to be made in 2021 to prepare these assets for sale. The sale of assets, if any, will be preceded by negotiations with investors and the outcome of negotiations cannot be reasonably assessed and significant changes to the sale plan might be needed in 2021. Furthermore, the Management Board and the Supervisory Board have not been yet presented with a concrete proposal and they have formed no judgement yet on whether they would approve such a proposal.

In 2020, OPL incurred costs to prepare FiberCo for potential disposal, mainly legal and advisory costs in the amount of PLN 5 million, which are presented within external purchases in the income statement. These costs are excluded from the calculation of EBITDAaL as these costs are directly attributable to the planned disposal of FiberCo.

## 12. Leases

### 12.1. The Company as a lessee

The Company leases mainly land and buildings. Some of the agreements are denominated in foreign currencies and some of them are indexed with price indices applicable for a given currency. Some of the agreements include extension and termination options.

(in PLN millions)

	At 31 December 2020			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	3,094	(669)	(2)	2,423
Terminals	370	(133)	-	237
Other	113	(46)	-	67
<b>Total right-of-use assets</b>	<b>3,577</b>	<b>(848)</b>	<b>(2)</b>	<b>2,727</b>

In 2020, as part of the change in accounting policy in respect to leases, the Company changed the presentation of the right-of-use assets resulting from administrative decisions for road occupation. It is presented as land and buildings to better reflect the nature of the underlying assets, previously in 2019 it was presented as other. As at 31 December 2020 and 2019, the net book value of right-of-use assets described above amounted respectively to PLN 328 million and PLN 281 million (PLN 78 million before the restatement, see Note 2.2).

(in PLN millions)

	At 31 December 2019 (restated, see Note 2.2)			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land and buildings	2,756	(362)	(2)	2,392
Terminals	265	(71)	-	194
Other	110	(47)	-	63
<b>Total right-of-use assets</b>	<b>3,131</b>	<b>(480)</b>	<b>(2)</b>	<b>2,649</b>

Movements in the net book value of right-of-use assets for the 12 months ended 31 December 2020 were as follows:

(in PLN millions)

	Land and buildings	Terminals	Other	Total right-of-use assets
<b>Opening balance net of accumulated depreciation and impairment (restated, see Note 2.2)</b>	<b>2,392</b>	<b>194</b>	<b>63</b>	<b>2,649</b>
Additions	193	105	42	340
Modifications, terminations and disposals	139	-	(13)	126
Depreciation	(333)	(62)	(24)	(419)
Dismantling costs, reclassifications and other, net	32	-	(1)	31
<b>Closing balance</b>	<b>2,423</b>	<b>237</b>	<b>67</b>	<b>2,727</b>

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

(in PLN millions)

	Land and buildings	Terminals	Other	Total right-of-use assets
<b>Opening balance net of accumulated depreciation and impairment (restated, see Note 2.2)</b>	<b>2,190</b>	<b>124</b>	<b>67</b>	<b>2,381</b>
Additions	239	115	24	378
Modifications, terminations and disposals	266	-	-	266
Depreciation	(309)	(45)	(25)	(379)
Dismantling costs, reclassifications and other, net	6	-	(3)	3
<b>Closing balance (restated)</b>	<b>2,392</b>	<b>194</b>	<b>63</b>	<b>2,649</b>

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

Gains arising from sale and leaseback transactions are disclosed in Note 7.

Information on lease liabilities is disclosed in Notes 17, 19, 24.3 and 24.6.

## 12.2. The Company as a lessor

When considering the Company as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2020 and 2019 amounted to PLN 105 million and PLN 111 million, respectively, and related mainly to the lease of land and buildings.

## 13. Assets and liabilities relating to contracts with customers

### 13.1. Trade receivables

(in PLN millions)	At 31 December 2020	At 31 December 2019
Trade receivables measured at amortised cost	1,767	2,186
Trade receivables measured at fair value through other comprehensive income	211	218
<b>Total trade receivables</b>	<b>1,978</b>	<b>2,404</b>
Current	1,627	1,981
Non-current	351	423

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

OPL S.A. 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 Company'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.

On 11 September 2020, the Company and BNP Paribas S.A. extended an agreement (concluded on 20 June 2019) under which OPL S.A. sells selected receivables arising from sales of mobile handsets in instalments, based on which sold receivables are derecognised from the statement of financial position. The impact on cash flows from operating activities for the 12 months ended 31 December 2020 and 2019 amounted to PLN 67 million and PLN 291 million, respectively, and loss on derecognition recognised in other operating expense for the same periods amounted to PLN 6 million and PLN 4 million, respectively. As a result of the agreement, PLN 202 million of trade receivables held at 20 June 2019 were reclassified out of the measured at amortised cost into the measured at fair value through other comprehensive income category, as the business model for those receivables is to collect contractual cash flows and sell them. Part of the price paid by BNP Paribas S.A. amounting to PLN 41 million and PLN 24 million, respectively, is deferred and presented as other assets as at 31 December 2020 and 2019.

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

Movements in the impairment of trade receivables during the 12 months ended 31 December 2020 and 2019 were as follows:

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019
<b>Beginning of period</b>	<b>257</b>	<b>264</b>
Impairment losses, net	128	129
Utilisation of impairment for receivables sold or written-off	(135)	(136)
<b>End of period</b>	<b>250</b>	<b>257</b>

As a result of COVID-19 pandemic the Company recognised additional PLN 26 million of impairment of trade receivables in the 12 months ended 31 December 2020 (see Note 4).

Information about the credit risk exposure on the Company's trade receivables as at 31 December 2020 was as follows:

(in PLN millions)	Not past due	Days past due			Total
		< 180 days	180-360 days	>360 days	
Expected credit loss rate	4.8 %	17.4 %	72.7 %	90.3 %	
Total trade receivables, gross	1,898	184	33	113	2,228
Accumulated impairment loss	(92)	(32)	(24)	(102)	(250)
<b>Total trade receivables, net</b>	<b>1,806</b>	<b>152</b>	<b>9</b>	<b>11</b>	<b>1,978</b>

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

(in PLN millions)	Not past due	Days past due			Total
		< 180 days	180-360 days	>360 days	
Expected credit loss rate	5.3 %	13.5 %	45.9 %	86.6 %	
Total trade receivables, gross	2,252	275	37	97	2,661
Accumulated impairment loss	(119)	(37)	(17)	(84)	(257)
<b>Total trade receivables, net</b>	<b>2,133</b>	<b>238</b>	<b>20</b>	<b>13</b>	<b>2,404</b>

### 13.2. Contract assets

(in PLN millions)	At 31 December 2020	At 31 December 2019
Non-current contract assets	70	65
Current contract assets	87	117
<b>Total contract assets</b>	<b>157</b>	<b>182</b>

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



Movements in the contract assets balance for the 12 months ended 31 December 2020 and 2019 were as follows:

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019
<b>Beginning of period</b>	<b>182</b>	<b>165</b>
Additions	127	189
Invoiced amounts transferred to trade receivables	(153)	(171)
Impairment, net	1	(1)
<b>End of period</b>	<b>157</b>	<b>182</b>

Expected credit loss rate for contract assets as at 31 December 2020 and 2019 amounted to 2.7% and 2.3%, respectively.

### 13.3. Contract costs

(in PLN millions)	At 31 December 2020	At 31 December 2019
Non-current contract costs	96	95
Current contract costs	362	327
<b>Total contract costs</b>	<b>458</b>	<b>422</b>

Contract costs comprise mainly incremental customer acquisition and retention costs.

Movements in the contract costs balance for the 12 months ended 31 December 2020 and 2019 were as follows:

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019
<b>Beginning of period</b>	<b>422</b>	<b>365</b>
Contract costs recognised as assets	538	564
Contract costs expensed	(500)	(502)
Impairment, net	(2)	(5)
<b>End of period</b>	<b>458</b>	<b>422</b>

### 13.4. Contract liabilities

(in PLN millions)	At 31 December 2020	At 31 December 2019
Upfront fee for wholesale access to fibre network (see below)	238	257
Subscription (including unused post-paid balances)	183	173
Unused pre-paid balances	151	165
Connection fees	100	86
Other	92	86
<b>Total contract liabilities</b>	<b>764</b>	<b>767</b>
Current	449	444
Non-current	315	323

Approximately PLN 444 million of the contract liabilities balance as at 1 January 2020 was recognised as revenue in the 12 months ended 31 December 2020. Approximately PLN 443 million of the contract liabilities balance as at 1 January 2019 was recognised as revenue in the 12 months ended 31 December 2019.

In 2018, the Company and T-Mobile Polska signed a long term contract on telecommunications access to Orange Polska's fiber network in the form of Bitstream Access. OPL S.A. started providing services in December 2018.

The fees under the contract comprise mainly a fixed upfront fee of PLN 275 million, a fixed fee for infrastructure set-up, IT systems integration and monthly fees for each customer. The revenue from the contract is recognised during 15 years which currently is the estimated period of the contract. The Company applies input method to measure revenue for the period with the application of constraint in respect to recognition of revenue to the level that is highly probable not to be reversed in the future. As a result, the fixed fee elements will be evenly accounted as revenue over 15 years, while the variable fees dependent on the number of end-customers will be recognised as revenue based on the actual number of customers in the period.

### 13.5. Performance obligations

As at 31 December 2020 and 2019, the transaction price allocated to unsatisfied performance obligations resulting from contracts with customers amounted to PLN 4,037 million and PLN 3,955 million, respectively. The following table presents the time bands in which the Company expects to satisfy those performance obligations and recognise revenue. More information on the nature of typical contracts with customers and related performance obligations can be found in Note 32.9.

(in PLN millions)	At 31 December 2020	At 31 December 2019
Within one year	2,356	2,436
Between one and two years	777	666
Between two and three years	244	147
Between three and four years	139	161
Between four and five years	124	150
More than five years	397	395
<b>Total unsatisfied performance obligations</b>	<b>4,037</b>	<b>3,955</b>

## 14. Provisions

Movements of provisions for the 12 months ended 31 December 2020 were as follows:

(in PLN millions)	Provisions for claims and litigation, risks and other charges	Provisions for employment termination expense	Dismantling provisions	Total provisions
<b>At 1 January 2020</b>	<b>126</b>	<b>184</b>	<b>558</b>	<b>868</b>
Increases	43	-	86	129
Reversals (utilisations)	(10)	(89)	(7)	(106)
Reversals (releases)	(2)	(13)	-	(15)
Discounting effect	2	2	7	11
<b>At 31 December 2020</b>	<b>159</b>	<b>84</b>	<b>644</b>	<b>887</b>
Current	158	84	6	248
Non-current	1	-	638	639

Movements of provisions for the 12 months ended 31 December 2019 were as follows:

(in PLN millions)	Provisions for claims and litigation, risks and other charges	Provisions for employment termination expense	Dismantling provisions	Total provisions
<b>At 1 January 2019</b>	<b>108</b>	<b>96</b>	<b>456</b>	<b>660</b>
Increases	21	190	105	316
Reversals (utilisations)	(3)	(103)	(8)	(114)
Reversals (releases)	(1)	-	(4)	(5)
Discounting effect	1	1	9	11
<b>At 31 December 2019</b>	<b>126</b>	<b>184</b>	<b>558</b>	<b>868</b>
Current	123	107	7	237
Non-current	3	77	551	631

#### Provisions for claims and litigation, risks and other charges

These provisions relate mainly to claims and litigation described in Note 29. As a rule, provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management Board, such disclosure could prejudice the outcome of the pending cases.

#### Provisions for employment termination expense

On 12 December 2019, OPL S.A. concluded with Trade Unions the Social Agreement under which up to 2,100 employees are entitled to take advantage of the voluntary departure package in years 2020-2021. The value of voluntary departure package varies depending on individual salary, employment duration, age and year of resignation. The basis for calculation of the provision for employment termination expense is the estimated number, remuneration and service period of employees who will accept the voluntary termination until the end of 2021.

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

The discount rate used to calculate the present value of provisions for employment termination expense amounted to 0.11% as at 31 December 2020 and 1.49% as at 31 December 2019.

#### Dismantling provisions

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

The amount of dismantling provisions is based on the estimated number of items that should be utilised/sites to be restored, time to their liquidation/restoration, current utilisation/restoration cost and inflation. The discount rate used to calculate the present value of provisions for dismantling amounted to 1.40% as at 31 December 2020 and 2.01% as at 31 December 2019.

## 15. Trade payables and other liabilities

### 15.1. Trade payables

(in PLN millions)	At 31 December 2020	At 31 December 2019
Trade payables	1,195	1,322
Fixed assets payables	671	749
Telecommunications licence payables	390	498
<b>Total trade payables</b>	<b>2,256</b>	<b>2,569</b>
Current	2,014	2,221
Non-current <sup>(1)</sup>	242	348

<sup>(1)</sup> Includes telecommunications licence payables only.

As at 31 December 2020 and 2019, trade payables subject to reverse factoring amounted to PLN 106 million and PLN 137 million, respectively. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Company indicates they have retained their trade nature.

### 15.2. Other liabilities

(in PLN millions)	At 31 December 2020	At 31 December 2019
Investment grants received	146	169
VAT payable	40	66
Other taxes payables	18	18
Contingent consideration related to acquisition of subsidiaries (see Note 20)	30	35
Other	110	89
<b>Total other liabilities</b>	<b>344</b>	<b>377</b>
Current	313	338
Non-current	31	39

### Operational Programme “Digital Poland”

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

In the 12 months ended 31 December 2020 and 2019, Orange Polska received PLN 177 million and PLN 136 million of investment grants under the Programme, respectively. In the 12 months ended 31 December 2020 and 2019, PLN 194 million and PLN 171 million was deducted from the cost of related assets as a result of the Programme and PLN 221 million and PLN 153 million, respectively, was paid to fixed assets suppliers.

Investment grants are presented separately within investing activities in the statement of cash flows. Received advances for investment grants are presented as cash and cash equivalents and other liabilities in the statement of financial position.

Grants might not be paid by the financing institution or once obtained might become repayable under certain circumstances resulting from not complying with conditions of the financing. The Company assesses that it is reasonably assured that grants corresponding to the scope of investments completed will be received and they will not become repayable.

## 16. Employee benefits

(in PLN millions)	At 31 December 2020	At 31 December 2019
Jubilee awards	18	93
Retirement bonuses	53	48
Salaries and other employee-related payables	146	189
<b>Total employee benefits</b>	<b>217</b>	<b>330</b>
Current	166	175
Non-current	51	155

In June 2020, Orange Polska signed with Trade Unions amendments to the Collective Labour Agreement. Under the current provisions of the Collective Labour Agreement, employees are entitled to jubilee awards upon completion of a certain number of years of service. According to the agreed changes, these current rules regarding jubilee awards will be cancelled from April 2021. At the same time, in the period between April and December 2021, employees with 15-30 years of service will receive a one-off jubilee award at the specified amount depending on a number of years of service. As a result, negative past service cost of PLN 64 million was recognised as a decrease in labour expense in the 12 months ended 31 December 2020 with a corresponding decrease in liabilities relating to employee benefits.

On 12 December 2019, OPL S.A. concluded with Trade Unions the Social Agreement for years 2020 - 2021 (see Note 14) in which the Company, as a part of the negotiated employment optimisation programme, committed to make additional contributions in the fixed amount totalling PLN 19 million to the employee social programmes carried out by the Company. As a result, this amount was recognised as other employee-related payables as at 31 December 2019 and labour expense in the 12 months ended 31 December 2019. As at 31 December 2020, the liability amounted to PLN 7 million.

### 16.1. Jubilee awards and retirement bonuses

Certain employees of the Company are entitled to long-term employee benefits in accordance with the Company's remuneration policy (see Note 32.22). 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 2020 and 2019 are detailed below:

(in PLN millions)	12 months ended 31 December 2020		
	Jubilee awards	Retirement bonuses	Total
<b>Present/carrying value of obligation at the beginning of the period</b>	<b>93</b>	<b>48</b>	<b>141</b>
Current service cost <sup>(1)</sup>	6	2	8
Past service cost <sup>(1) (4)</sup>	(64)	-	(64)
Interest cost <sup>(2)</sup>	1	1	2
Benefits paid	(13)	(1)	(14)
Actuarial losses for the period	(5) <sup>(1)</sup>	3 <sup>(3)</sup>	(2)
<b>Present/carrying value of obligation at the end of the period</b>	<b>18</b>	<b>53</b>	<b>71</b>
Weighted average duration (in years)	1	13	10

<sup>(1)</sup> Recognised under labour expense in the income statement.

<sup>(2)</sup> Recognised under discounting expense in the income statement.

<sup>(3)</sup> Recognised under actuarial losses on post-employment benefits in the statement of comprehensive income.

<sup>(4)</sup> Impact of the amendment to the Collective Labour Agreement signed in 2020 and described above.

(in PLN millions)

	12 months ended 31 December 2019		
	Jubilee awards	Retirement bonuses	Total
<b>Present/carrying value of obligation at the beginning of the period</b>	<b>93</b>	<b>47</b>	<b>140</b>
Current service cost <sup>(1)</sup>	7	2	9
Past service cost <sup>(1) (4)</sup>	(7)	(10)	(17)
Interest cost <sup>(2)</sup>	2	2	4
Benefits paid	(14)	(1)	(15)
Actuarial losses for the period	12 <sup>(1)</sup>	8 <sup>(3)</sup>	20
<b>Present/carrying value of obligation at the end of the period</b>	<b>93</b>	<b>48</b>	<b>141</b>
Weighted average duration (in years)	7	13	9

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

The valuation of obligations as at 31 December 2020 and 2019 was performed using the following assumptions:

	At 31 December 2020	At 31 December 2019
Discount rate	1.6 %	1.9 %
Long-term wage increase rate	2.5 %	2.5 %

A change of the discount rate by 0.5 p.p. would increase or decrease the present/carrying value of obligations related to long-term employee benefits by PLN 3 million as at 31 December 2020.

## 16.2. Cash-settled share-based payment plan

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

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

The terms of the programme are as follows:

- Participation in the programme was voluntary.
- The participants could purchase at the beginning of the programme a total of up to 2,315,000 phantom shares from the basic pool for a price of PLN 1 per phantom share.
- In case of meeting certain criteria regarding the average price of Orange Polska shares (not fulfilled) and NPS (Net Promoter Score) (fulfilled), the participants could purchase in the fourth quarter of 2020 additional packages of up to 1,438,500 and 616,500 phantom shares, respectively, for a price of PLN 1 per phantom share.
- Phantom shares shall be bought back from the participants by the Company, at Orange Polska’s average share price in the first quarter of 2021, only when it is not lower than the average of Orange Polska’s closing share prices in the third quarter of 2017. Otherwise, phantom shares shall not be bought back, resulting in the loss of invested funds by the participants.

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

(number)	Phantom shares		Options for additional phantom shares	
	Basic pool	Additional pool	NPS condition	Share price condition
<b>Outstanding at 1 January 2020</b>	<b>1,950,000</b>	-	<b>481,500</b>	<b>1,123,500</b>
Granted during the year	-	454,500 <sup>(1)</sup>	4,500	-
Exercised during the year	-	-	(454,500) <sup>(1)</sup>	-
Forfeited during the year	(70,000)	-	(31,500)	(1,123,500) <sup>(2)</sup>
<b>Outstanding at 31 December 2020</b>	<b>1,880,000</b>	<b>454,500</b>	-	-
<b>Average fair value per unit (in PLN) at 31 December 2020</b>	<b>5.29</b>	<b>5.29</b>		

<sup>(1)</sup> As a result of meeting the criterion related to NPS additional phantom shares were granted.

<sup>(2)</sup> The criterion related to OPL's share price was not met.

(number)	Phantom shares		Options for additional phantom shares	
	- basic pool		NPS condition	Share price condition
<b>Outstanding at 1 January 2019</b>	<b>1,980,000</b>		<b>513,000</b>	<b>1,197,000</b>
Forfeited during the year	(30,000)		(31,500)	(73,500)
<b>Outstanding at 31 December 2019</b>	<b>1,950,000</b>		<b>481,500</b>	<b>1,123,500</b>
<b>Average fair value per unit (in PLN) at 31 December 2019</b>	<b>5.19</b>		<b>5.19</b>	<b>1.55</b>

The following tables illustrate the key assumptions used in calculation of the fair value of phantom shares and options for phantom shares granted by OPL S.A. as at 31 December 2020 and 2019:

At 31 December 2020	Phantom shares	
	Basic pool	Additional pool
Exercise price (in PLN)	1.00	1.00
Barrier (in PLN)	5.46	5.46
Expected volatility	25 %	25 %
Risk-free interest rate	0.11 %	0.11 %
Dividend yield <sup>(1)</sup>	0.00 %	0.00 %
Expiry date	1st quarter 2021	1st quarter 2021
Model used	Black-Scholes	Black-Scholes
	30 September	1 October
Date of vesting period end	2019	2020

<sup>(1)</sup> Dividend yield assumes no dividend payment in the 1st quarter of 2021 which reflects mean expectation of market consensus and does not constitute any guidance or commitment from the Company regarding future dividend payments.

At 31 December 2019	Options for additional phantom shares		
	Phantom shares	NPS	Share price
	- basic pool	condition	condition
Exercise price (in PLN)	1.00	1.00	1.00
Barrier (in PLN)	5.46	5.46	7.50 - 13.00
Expected volatility	34 %	34 %	34 %
Risk-free interest rate	1.69 %	1.69 %	1.69 %
Dividend yield <sup>(1)</sup>	0.00 %	0.00 %	0.00 %
Expiry date	1st quarter 2021	4th quarter 2020	4th quarter 2020
Model used	Black-Scholes	Black-Scholes	Black-Scholes
Date of vesting period end	30 September 2019	1 October 2020	1 October 2020

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

As a result of the programme, PLN 1 million was recognised as a decrease in labour expense in the 12 months ended 31 December 2020 (PLN 10 million was recognised as an increase in labour expense in the 12 months ended 31 December 2019). The carrying amount of liabilities recognised as employee benefits as at 31 December 2020 and 2019 amounted to PLN 12 million and PLN 13 million, respectively.

## 17. Finance income and expense

(in PLN millions)

(in PLN millions)	12 months ended 31 December 2020								
	Financial assets					Derivatives			
	Investments in subsidiaries	At amortised cost	At fair value through other comprehensive income <sup>(1)</sup>	Lease liabilities	Financial liabilities at amortised cost	Hedging	Held for trading <sup>(2)</sup>	Non-financial items <sup>(3)</sup>	Total
Dividend income	14	-	-	-	-	-	-	-	14
Interest income	-	31	4	-	-	-	-	-	35
Interest expense on lease liabilities	-	-	-	(61)	-	-	-	-	(61)
Other interest expense and financial charges, including:	-	-	-	-	(114)	(94)	(8)	-	(216)
- interest expense	-	-	-	-	(114) <sup>(4)</sup>	(92)	(8)	-	(214)
- ineffectiveness on derivatives hedging interest rate risk	-	-	-	-	-	(2)	-	-	(2)
Discounting expense	-	-	-	-	(29)	-	-	(14)	(43)
Foreign exchange gains/(losses)	-	2	-	(53)	(86)	66	17	-	(54)
<b>Total finance costs, net</b>	<b>14</b>	<b>33</b>	<b>4</b>	<b>(114)</b>	<b>(229)</b>	<b>(28)</b>	<b>9</b>	<b>(14)</b>	<b>(325)</b>
Interest income	-	8 <sup>(5)</sup>	-	-	-	-	-	-	8
Impairment losses	-	(137)	(9)	-	-	-	-	-	(146)
Foreign exchange gains/(losses)	-	7	-	-	(20)	(1)	24	-	10
Labour expense	-	-	-	-	-	(2)	(2)	-	(4)
<b>Items recognised under operating income</b>	<b>-</b>	<b>(122)</b>	<b>(9)</b>	<b>-</b>	<b>(20)</b>	<b>(3)</b>	<b>22</b>	<b>-</b>	<b>(132)</b>

<sup>(1)</sup> Selected trade receivables arising from sales of mobile handsets in instalments (see Note 13.1).

<sup>(2)</sup> Derivatives economically hedging commercial or financial transactions.

<sup>(3)</sup> Includes mainly provisions and employee benefits.

<sup>(4)</sup> Includes mainly interest expense on loans from related party.

<sup>(5)</sup> Late payment interest on trade receivables.



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Translation of the financial statements originally issued in Polish

(in PLN millions)	12 months ended 31 December 2019 (restated, see Notes 2.2, 32.5)								
	Financial assets					Derivatives			
	Investments in subsidiaries	At amortised cost	At fair value through other comprehensive income <sup>(1)</sup>	Lease liabilities	Financial liabilities at amortised cost	Hedging	Held for trading <sup>(2)</sup>	Non- financial items <sup>(3)</sup>	Total
Dividend income	21	-	-	-	-	-	-	-	21
Interest income	-	39	3	-	-	-	-	-	42
Interest expense on lease liabilities	-	-	-	(66)	-	-	-	-	(66)
Other interest expense and financial charges, including:	-	-	-	-	(162)	(67)	(7)	-	(236)
- interest expense	-	-	-	-	(162) <sup>(4)</sup>	(76)	(7)	-	(245)
- ineffectiveness on derivatives hedging interest rate risk <sup>(5)</sup>	-	-	-	-	-	9	-	-	9
Discounting expense	-	-	-	-	(33)	-	1	(15)	(47)
Foreign exchange gains/(losses)	-	(1)	-	7	4	(4)	(4)	-	2
<b>Total finance costs, net</b>	<b>21</b>	<b>38</b>	<b>3</b>	<b>(59)</b>	<b>(191)</b>	<b>(71)</b>	<b>(10)</b>	<b>(15)</b>	<b>(284)</b>
Interest income/(expense)	-	9 <sup>(6)</sup>	-	-	(1)	-	-	-	8
Impairment losses	-	(125)	(7)	-	-	-	-	-	(132)
Foreign exchange losses	-	(2)	-	-	-	-	(1)	-	(3)
Labour expense	-	-	-	-	-	3	2	-	5
<b>Items recognised under operating income</b>	<b>-</b>	<b>(118)</b>	<b>(7)</b>	<b>-</b>	<b>(1)</b>	<b>3</b>	<b>1</b>	<b>-</b>	<b>(122)</b>

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

## 18. Loans from related parties

(in millions of currency)		Amount outstanding at <sup>(1)</sup>			
		31 December 2020		31 December 2019	
Creditor	Repayment date	Currency	PLN	Currency	PLN
<b>Floating rate</b>					
Atlas Services Belgium S.A. (EUR)	20 May 2021	190	876	190	809
Atlas Services Belgium S.A. (PLN)	20 June 2021	2,700	2,700	2,700	2,700
Atlas Services Belgium S.A. (PLN) <sup>(2)</sup>	25 March 2022	159	159	678	678
Atlas Services Belgium S.A. (PLN)	20 May 2024	1,499	1,499	1,499	1,499
Cash pool deposits from subsidiaries (PLN)	4 January 2021	97	97	54	54
<b>Fixed rate</b>					
Atlas Services Belgium S.A. (PLN)	27 March 2023	756	756	756	756
Integrated Solutions Sp. z o.o. (EUR)	7 June 2021	-	1	1	2
<b>Total loans from related parties</b>			<b>6,088</b>	<b>6,498</b>	
Current			3,682		66
Non-current			2,406		6,432

<sup>(1)</sup> Includes accrued interest and arrangement fees.<sup>(2)</sup> Revolving credit line.

The weighted average effective interest rate on loans from related parties, before and after swaps, amounted respectively to 1.28% and 3.03% as at 31 December 2020 (2.45% and 3.10% as at 31 December 2019).

## 19. Liabilities arising from financing activities

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

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

(in PLN millions)

	Lease liabilities	Loans from related parties Note 18	Other financial liabilities at amortised cost	Derivatives hedging liabilities from financing activities <sup>(1)</sup> Note 22	Total liabilities from financing activities
<b>Amount outstanding as at 1 January 2020 (restated, see Note 2.2)</b>	<b>2,538</b>	<b>6,498</b>	<b>60</b>	<b>18</b>	<b>9,114</b>
Net cash flows provided by:	(473)	(591)	(57)	(79)	(1,200)
– financing activities	(406)	(479)	(56)	-	(941)
– operating activities <sup>(2)</sup>	(67)	(112)	(1)	(79)	(259)
Non-cash changes:	598	181	1	83	863
– foreign exchange (gains)/losses	53	68	-	(77)	44
– fair value change, excluding foreign exchange gains	-	-	-	160	160
– other changes	545 <sup>(3)</sup>	113 <sup>(4)</sup>	1 <sup>(4)</sup>	-	659
<b>Amount outstanding as at 31 December 2020</b>	<b>2,663</b>	<b>6,088</b>	<b>4</b>	<b>22</b>	<b>8,777</b>

<sup>(1)</sup> Includes derivatives economically hedging liabilities from financing activities.

<sup>(2)</sup> Includes interest paid.

<sup>(3)</sup> Includes mainly recognition of new contracts and modification of existing contracts.

<sup>(4)</sup> Includes accrued interest and arrangement fees.

(in PLN millions)

	Lease liabilities	Loans from related parties Note 18	Other financial liabilities at amortised cost	Derivatives hedging liabilities from financing activities <sup>(1)</sup> Note 22	Total liabilities from financing activities
<b>Amount outstanding as at 1 January 2019 (restated, see Note 2.2)</b>	<b>2,111</b>	<b>7,447</b>	<b>18</b>	<b>(50)</b>	<b>9,526</b>
Net cash flows provided by:	(394)	(1,105)	41	(16)	(1,474)
– financing activities	(348)	(945)	42	58	(1,193)
– operating activities <sup>(2)</sup>	(46)	(160)	(1)	(74)	(281)
Non-cash changes:	821	156	1	84	1,062
– foreign exchange (gains)/losses	(7)	(4)	-	4	(7)
– fair value change, excluding foreign exchange losses	-	-	-	80	80
– other changes	828 <sup>(3)</sup>	160 <sup>(4)</sup>	1 <sup>(4)</sup>	-	989
<b>Amount outstanding as at 31 December 2019 (restated)</b>	<b>2,538</b>	<b>6,498</b>	<b>60</b>	<b>18</b>	<b>9,114</b>

<sup>(1)</sup> Includes derivatives economically hedging liabilities from financing activities.

<sup>(2)</sup> Includes interest paid.

<sup>(3)</sup> Includes mainly recognition of new contracts and modification of existing contracts.

<sup>(4)</sup> Includes accrued interest and arrangement fees.

## 20. Investments in subsidiaries

(in PLN millions)	At 31 December 2020			At 31 December 2019		
	Cost	Impairment	Net	Cost	Impairment	Net
BlueSoft Sp. z o.o.	168	-	168	168	-	168
Integrated Solutions Sp. z o.o.	20	-	20	20	-	20
TP TelTech Sp. z o.o.	41	-	41	41	-	41
Orange Energia Sp. z o.o.	44	-	44	44	-	44
Orange Szkolenia Sp. z o.o.	15	-	15	15	-	15
Telefony Podlaskie S.A.	20	-	20	20	-	20
Orange Retail S.A.	25	-	25	25	-	25
Other subsidiaries	1	-	1	1	-	1
<b>Total investments in subsidiaries</b>	<b>334</b>	<b>-</b>	<b>334</b>	<b>334</b>	<b>-</b>	<b>334</b>

As at 31 December 2020 and 2019 the Company owned directly the following shares in its subsidiaries:

Entity	Location	Scope of activities	Share capital owned by OPL S.A. directly		Share capital owned by OPL S.A. directly and indirectly	
			31 December 2020	31 December 2019	31 December 2020	31 December 2019
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100 %	100 %	100 %	100 %
TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications networks, monitoring of alarm signals.	100 %	100 %	100 %	100 %
BlueSoft Sp. z o.o.	Warsaw, Poland	Provision of IT services and solutions.	100 %	100 %	100 %	100 %
Orange Energia Sp. z o.o.	Warsaw, Poland	Sale of electrical energy.	100 %	100 %	100 %	100 %
Orange Szkolenia Sp. z o.o.	Warsaw, Poland	Training and hotel services, insurance agent.	100 %	100 %	100 %	100 %
Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.3 %	89.3 %	89.3 %	89.3 %
Orange Retail S.A.	Modlnica, Poland	Points of sale rental.	100 %	100 %	100 %	100 %
Pracownicze Emerytalne Orange Polska S.A.	Warsaw, Poland	Management of employee pension fund.	95.6 %	95.6 %	100 %	100 %
Fundacja Orange	Warsaw, Poland	Charity foundation.	100 %	100 %	100 %	100 %
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100 %	100 %	100 %	100 %
Światłowod Inwestycje Sp. z o.o. <sup>(1)</sup>	Warsaw, Poland	No operational activity.	100 %	-	100 %	-

<sup>(1)</sup> The subsidiary was acquired in October 2020.

As at 31 December 2020 and 2019, the voting power held by the Company was equal to the Company's interest in the share capital of its subsidiaries.

Additionally, OPL S.A. 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 OPL S.A. 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.

On 12 June 2019, the Company purchased 100% of shares in BlueSoft Sp. z o.o. ("BlueSoft"). BlueSoft provides a variety of IT services in the areas of application development and integration, system customization, analytics and cloud services. Total transaction value amounted to PLN 183 million and included acquisition price of PLN 168 million and remuneration for post-transaction services estimated at PLN 15 million. Out of the acquisition price, PLN 133 million was paid upon signing of the agreement and PLN 5 million was paid in 2020. The remaining part, estimated at PLN 30 million, is a contingent consideration that will be settled before the end of 2022 and will be based on achieving certain financial targets of BlueSoft in 2019 and 2020 as well as on meeting certain other legal conditions. Remuneration for post-transaction services is accounted for as a cost related to integration of new subsidiary and is recognised in the income statement in years 2019-2021.

## 21. Cash and cash equivalents

(in PLN millions)	At 31 December 2020	At 31 December 2019
Current bank accounts, overnight deposits and cash on hand	60	85
Bank accounts dedicated for investment grants (see Note 15.2)	184	228
Deposits with Orange S.A.	55	29
Bank deposits up to 3 months	-	1
<b>Total cash and cash equivalents</b>	<b>299</b>	<b>343</b>

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

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

## 22. Derivatives

As at 31 December 2020 and 2019, the Company's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives), mainly interest rate swaps, currency swaps, non-deliverable forwards and stock options. To price these instruments the Company applies standard valuation techniques. The fair value of swap/forward transaction represents discounted future cash flows, where the applicable market interest rate curves constitute the base for calculation of discounting factors and amounts in foreign currencies are converted into PLN at the National Bank of Poland period-end average exchange rate. The fair value of stock options is calculated on the basis of Black-Scholes model. Valuation of derivatives is also adjusted by counterparty (credit valuation adjustment - "CVA") or own (debit valuation adjustment - "DVA") credit risk. CVA and DVA estimates were not material compared to the total fair value of the related derivatives.

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

(in PLN millions)

					Fair value	
Type of instrument <sup>(1)</sup>	Hedged item	Nominal amount (in millions)	Maturity	Weighted average price or rate	Financial asset	Financial liability
At 31 December 2020						
Derivative instruments - cash flow hedge						
Currency and interest rate risk						
CCIRS	Loan from related party	187 EUR	2021	4.05 EURIB 6M + 0.28 %-> WIBOR 6M + 0.54 %	104	-
Interest rate risk						
IRS	Loans from related party	5,450 PLN	2021-2024	WIBOR 1/3/6M -> 2.13 %	-	(132)
Currency risk						
NDF	Purchase of inventories	141 EUR	2021	4.44	26	-
NDF	Purchase of inventories	12 USD	2021	3.74	-	-
Share price risk						
Stock option	Share-based payment plan (see Note 16.2)	2 shares	2021	5.22	3	-
Total cash flow hedges					133	(132)
Derivative instruments - held for trading <sup>(2)</sup>						
Currency and interest rate risk						
CCIRS	Loan from related party	3 EUR	2021	4.05 EURIB 6M + 0.28 %-> WIBOR 6M + 0.53 %	2	-
Currency risk						
NDF	2100 MHz licence payable	14 EUR	2021	4.52	1	-
NDF	Commercial transactions	27 EUR	2021	4.44	5	-
NDF	Lease liabilities	22 EUR	2021	4.42	4	-
FX Swap	Cash	3 EUR	2021	4.61	-	-
NDF	Commercial transactions	11 USD	2021	3.71	1	-
Share price risk						
Stock option	Share-based payment plan (see Note 16.2)	1 shares	2021	5.02	1	-
Total derivatives held for trading					14	-
Total derivative instruments					147	(132)
Current					147	(32)
Non-current					-	(100)

<sup>(1)</sup> CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward.

<sup>(2)</sup> Derivatives economically hedging commercial or financial transactions.

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(in PLN millions)

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

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

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

The change in cash flow hedge reserve is presented below:

(in PLN millions)	12 months ended 31 December 2020			12 months ended 31 December 2019		
	Before tax	Tax	After tax	Before tax	Tax	After tax
<b>Total cash flow hedge reserve – beginning of period</b>	<b>(50)</b>	<b>9</b>	<b>(41)</b>	<b>(20)</b>	<b>4</b>	<b>(16)</b>
- interest rate risk	(43)	8	(35)	(20)	4	(16)
- currency risk	(7)	1	(6)	1	-	1
- share price risk	-	-	-	(1)	-	(1)
Effective part of gains/(losses) on hedging instrument: <sup>(1)</sup>	(33)	6	(27)	(94)	18	(76)
- interest rate risk	(157)	30	(127)	(89)	17	(72)
- currency risk	126	(24)	102	(9)	2	(7)
- share price risk	(2)	-	(2)	4	(1)	3
Reclassification to the income statement, adjusting: <sup>(1)</sup>	20	(4)	16	67	(13)	54
- interest expense presented in finance costs, net	83	(16)	67	66	(13)	53
- foreign exchange (gains)/losses presented in finance costs, net	(65)	12	(53)	4	(1)	3
- labour expenses	2	-	2	(3)	1	(2)
Foreign exchange gains transferred to inventories	(26)	5	(21)	(3)	-	(3)
<b>Total cash flow hedge reserve – end of period</b>	<b>(89)</b>	<b>16</b>	<b>(73)</b>	<b>(50)</b>	<b>9</b>	<b>(41)</b>
- interest rate risk	(117)	22	(95)	(43)	8	(35)
- currency risk	28	(6)	22	(7)	1	(6)
- share price risk	-	-	-	-	-	-

<sup>(1)</sup> Recognised under gains/losses on cash flow hedges in the statement of comprehensive income.

Gains/losses on cash flow hedges cumulated in cash flow hedge reserve as at 31 December 2020 are expected to mature and affect the income statement in years 2021 – 2024.

## 23. Fair value of financial instruments

### 23.1. Fair value measurements

For the financial instruments measured subsequent to their initial recognition at fair value, the Company 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 Company's financial assets and liabilities that are measured subsequent to their initial recognition at fair value comprise derivative instruments presented in Note 22 and selected trade receivables arising from sales of mobile handsets in instalments described in Note 13.1. The Company classifies these financial assets and liabilities to Level 2 fair value measurements.

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

As at 31 December 2020 and 2019, the carrying amount of the Company's financial instruments excluding lease liabilities, except for telecommunications licence payables and a loan from related party based on fixed interest rate, approximated their fair value, due to relatively short term maturity of those instruments, cash nature, variable interest rates or immaterial difference between the original effective interest rates and current market rates.

A comparison of carrying amounts and fair value of telecommunications licence payables and a loan from related party based on fixed interest rate, for which the estimated fair value differs from the book value due to significant change between the original effective interest rates and current market rates, is presented below:

(in PLN millions)

	Note	At 31 December 2020		At 31 December 2019	
		Carrying	Estimated	Carrying	Estimated
		amount	fair value Level 2	amount	fair value Level 2
Telecommunications licence payables	15.1	390	437	498	563
Loan from related party	18	756	801	756	791

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

## 24. Objectives and policies of financial risk management

### 24.1. Principles of financial risk management

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

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

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

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

### 24.2. Hedge accounting

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

Certain derivative instruments are classified as cash flow hedges and the Company applies hedge accounting principles as stated in IFRS 9 (see Note 32.18). The cash flow hedges are used to hedge the variability of future cash flows that is attributable to a particular risk and could affect the income statement. The terms of the hedging instruments match the terms of the hedged items. The Company has established hedge ratios at the level of 1:1 as the underlying risks of the hedging instruments are identical to the hedged risks. Hedge effectiveness is determined at the inception of the hedge relationship and through periodic prospective effectiveness assessment to ensure that an economic relationship exists between the hedged item and the hedging instrument.



Derivatives are used for hedging activities and it is the Company's policy that derivative financial instruments are not used for trading (speculative) purposes. However, certain derivatives held by the Company are not designated as hedging instruments as set out in IFRS 9 and hedge accounting principles are not applied to those instruments. The Company considers those derivatives as economic hedges because they, in substance, protect the Company against currency risk, interest rate risk and OPL S.A. share price risk.

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

### 24.3. Currency risk

The Company is exposed to foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies, mainly loans from related parties (see Note 18), lease liabilities, bank borrowing and 2100 MHz licence payable.

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

Within the scope of the hedging policy, the Company hedges its currency exposure entering mainly into cross currency interest rate swaps, cross currency swaps and forward currency contracts, under which the Company 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 income statement.

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

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

Currency exposure	Hedge rate	
	At 31 December 2020	At 31 December 2019
Loans from related parties and bank borrowing	99.6 %	99.7 %
2100 MHz licence payable	25.6 %	44.6 %
Lease liabilities (restated, see Note 2.2)	14.2 %	13.3 %

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

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

The Company's major exposures to foreign exchange risk (net of hedging activities) and potential foreign exchange gains/losses on these exposures resulting from a hypothetical 1% appreciation/depreciation of the PLN against other currencies are presented in the following table:

	(in millions of currency)				Sensitivity to a change of the PLN against other currencies impacting income statement			
	Effective exposure after hedging							
	At 31 December 2020		At 31 December 2019		At 31 December 2020		At 31 December 2019	
	Currency	PLN	Currency	PLN	+1% PLN	-1% PLN	+1% PLN	-1% PLN
Currency exposure								
2100 MHz licence payable (EUR)	41	188	43	185	2	(2)	2	(2)
Lease liabilities (EUR) (restated, see Note 2.2)	123	569	138	588	6	(6)	6	(6)
Lease liabilities (USD) (restated)	7	25	6	22	-	-	-	-
<b>Total</b>		<b>782</b>		<b>795</b>	<b>8</b>	<b>(8)</b>	<b>8</b>	<b>(8)</b>

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

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

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect other reserves. The sensitivity analysis prepared by the Company indicated that the potential gains/(losses) impacting cash flow hedge reserve resulting from a hypothetical 1% depreciation/appreciation of the PLN against other currencies would amount to PLN 7/(7) million as at 31 December 2020 and 2019.

#### 24.4. Interest rate risk

The interest rate risk is a risk that the fair value or future cash flows of the financial instrument will change due to interest rates changes. The Company has interest bearing financial liabilities and assets consisting mainly of loans from and to related parties and bank borrowings (see Notes 18 and 30.2).

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

According to the hedging strategy, the Company 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 2020 and 2019, the Company's proportion between fixed/floating rate debt (after hedging activities) was 98/2% and 95/5% respectively.

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

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

The table below provides the Company'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 2020				At 31 December 2019			
	WIBOR +1 p.p.	WIBOR -1 p.p.	EURIBOR +1 p.p.	EURIBOR -1 p.p.	WIBOR +1 p.p.	WIBOR -1 p.p.	EURIBOR +1 p.p.	EURIBOR -1 p.p.
Finance costs, net	2	(2)	(3)	3	1	(1)	(4)	4
Other reserves	63	(65)	(3)	3	113	(117)	(4)	4

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

- finance costs, net include the following items exposed to interest rate risk: a) interest cost on financial debt based on floating rate (after hedging), b) the change in the fair value of derivatives not designated as hedging instruments and classified as held for trading (see Note 22),
- other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 22),
- as at 31 December 2020, the gross financial debt based on floating rate (after hedging) amounted to PLN 117 million (as at 31 December 2019, PLN 304 million).

Following the recommendations of the Financial Stability Board to reform some major interest rate benchmarks, the European Union issued Benchmarks Regulation setting out certain criteria and conditions for benchmark rates to ensure that they are reliable and robust. The Company's financial instruments based on IBORs consist mainly of loans to and from related parties, interest rate swaps and cross currency interest rate swaps, which are based on EURIBOR and WIBOR. As both benchmarks are considered compliant with the Benchmark Regulation, the interest rate benchmark reform will not impact the Company's financial statements.

#### 24.5. Share price risk

The Company is exposed to share price risk arising from cash-settled share-based payment plan (see Note 16.2). The Company hedges its exposure entering into stock options, under which the Company has right to receive cash if OPL S.A. share price exceeds certain level. As a result, the gains/losses generated by derivative instruments compensate the losses/gains on the hedged item. As at 31 December 2020 and 2019, 100% of cash-settled share-based payment plan was hedged.

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

The sensitivity analysis prepared by the Company indicated that the potential gains/losses resulting from a reasonably possible change of OPL S.A. share price would have an insignificant impact on the income statement and other reserves as at 31 December 2020 and 2019.

#### 24.6. Liquidity risk

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

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

The Company also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. The above-mentioned Cash Management Treasury Agreement with Orange S.A. gives the Company access to back-up liquidity funding with headroom of up to PLN 500 million. No drawdown was made on this facility as at 31 December 2020. The Company also has a revolving credit line from the Orange Group for up to PLN 1,500 million and other credit lines for up to PLN 115 million, of which PLN 160 million was used as at 31 December 2020. Therefore, as at 31 December 2020, the Company had unused credit facilities amounting to PLN 1,955 million (as at 31 December 2019, PLN 1,480 million).

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

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

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

(in PLN millions)

	Liquidity ratios	
	At 31 December 2020	At 31 December 2019
Liquidity ratio (incl. derivatives) - next 12 months <sup>(1)</sup>	59 %	496 %
Unused credit facilities (excluding short term)	1,840	1,320
Cash and cash equivalents	299	343
Debt repayments <sup>(2)</sup>	3,733	264
Derivatives repayments <sup>(3)</sup>	(79)	71
Liquidity ratio (incl. derivatives) - next 18 months <sup>(1)</sup>	56 %	43 %
Unused credit facilities (excluding short term)	1,840	1,320
Cash and cash equivalents	299	343
Debt repayments <sup>(2)</sup>	3,914	3,850
Derivatives repayments <sup>(3)</sup>	(60)	52
Current liquidity ratio (incl. unused credit facilities)	65 %	110 %
Unused credit facilities (excluding short term)	1,840	1,320
Total current assets	2,991	3,103
Total current liabilities	7,399	4,015
Current liquidity ratio (incl. unused credit facilities and new loan agreement) <sup>(4)</sup>	103 %	Not applicable
Unused credit facilities (excluding short term)	1,840	Not applicable
Total current assets	2,991	Not applicable
Total current liabilities <sup>(4)</sup>	4,699	Not applicable

<sup>(1)</sup> The ratio does not include future cash flows from operating or investing activities, nor debt refinancing.

<sup>(2)</sup> Undiscounted contractual cash flows on loans from related party, cash pool deposits from subsidiaries and bank borrowings.

<sup>(3)</sup> Undiscounted contractual cash flows on derivatives.

<sup>(4)</sup> As a result of the new loan agreement concluded on 29 January 2021 (see Note 31), the amount of current liabilities would decrease to PLN 4,699 million and current liquidity ratio would increase to 103%.

The maturity analysis for the contractual undiscounted cash flows resulting from the Company's financial liabilities as at 31 December 2020 and 2019 is presented below.

As at 31 December 2020 and 2019, amounts in foreign currency were translated at the National Bank of Poland period-end average exchange rates. The variable interest payments arising from the financial instruments were calculated using the interest rates applicable as at 31 December 2020 and 2019, respectively.

(in PLN millions)

		At 31 December 2020								
		Undiscounted contractual cash flows <sup>(1)</sup>								
		Non-current							Total non-current	Total
		Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years		
Note										
Loans from related parties	18	6,088	3,731	203	784	1,510	-	-	2,497	6,228
Other financial liabilities at amortised cost		4	4	-	-	-	-	-	-	4
Derivative assets	22	(147)	(143)	-	-	-	-	-	-	(143)
Derivative liabilities	22	132	64	31	25	8	-	-	64	128
<b>Gross financial debt after derivatives</b>		<b>6,077</b>	<b>3,656</b>	<b>234</b>	<b>809</b>	<b>1,518</b>	<b>-</b>	<b>-</b>	<b>2,561</b>	<b>6,217</b>
Trade payables	15.1	2,256	2,020	166	24	24	24	49	287	2,307
Lease liabilities	19	2,663	482	425	333	289	234	1,718	2,999	3,481
Financial guarantees	28.2	-	68	-	-	-	-	-	-	68
<b>Total financial liabilities (including derivative assets)</b>		<b>10,996</b>	<b>6,226</b>	<b>825</b>	<b>1,166</b>	<b>1,831</b>	<b>258</b>	<b>1,767</b>	<b>5,847</b>	<b>12,073</b>

<sup>(1)</sup> Includes both nominal and interest payments.

(in PLN millions)

		At 31 December 2019 (restated, see Note 2.2)								
		Undiscounted contractual cash flows <sup>(1)</sup>								
		Non-current							Total non-current	Total
		Carrying amount	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years		
Note										
Loans from related parties	18	6,498	210	3,623	748	802	1,518	-	6,691	6,901
Other financial liabilities at amortised cost		60	57	4	(1)	-	-	-	3	60
Derivative assets	22	(45)	18	(32)	-	-	-	-	(32)	(14)
Derivative liabilities	22	75	53	18	7	5	2	-	32	85
<b>Gross financial debt after derivatives</b>		<b>6,588</b>	<b>338</b>	<b>3,613</b>	<b>754</b>	<b>807</b>	<b>1,520</b>	<b>-</b>	<b>6,694</b>	<b>7,032</b>
Trade payables	15.1	2,569	2,227	144	156	24	24	72	420	2,647
Lease liabilities	19	2,538	442	410	363	283	235	1,663	2,954	3,396
Financial guarantees	28.2	-	64	-	-	-	-	-	-	64
<b>Total financial liabilities (including derivative assets)</b>		<b>11,695</b>	<b>3,071</b>	<b>4,167</b>	<b>1,273</b>	<b>1,114</b>	<b>1,779</b>	<b>1,735</b>	<b>10,068</b>	<b>13,139</b>

<sup>(1)</sup> Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2020 was 1.4 years (2.4 years as at 31 December 2019).

## 24.7. Credit risk

The Company'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 Company.

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 OPL 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 Company. Further information on credit risk is discussed in Notes 13.1, 13.2, 21 and 22.

## 25. Income tax

### 25.1. Income tax

(in PLN millions)

	12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Note 2.2)
Current income tax	5	1
Deferred tax	(15)	(17)
<b>Total income tax</b>	<b>(10)</b>	<b>(16)</b>

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

(in PLN millions)

	12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Note 2.2)
<b>Net income before tax</b>	<b>57</b>	<b>95</b>
Less: Dividend income	(14)	(21)
Net income before tax, adjusted	43	74
Statutory tax rate	19 %	19 %
<b>Theoretical tax</b>	<b>(8)</b>	<b>(14)</b>
Tax relief on research and development	5	9
Unrecognised deferred tax asset on tax capital losses	(1)	(5)
Expenses not deductible for tax purposes	(6)	(6)
<b>Total income tax</b>	<b>(10)</b>	<b>(16)</b>

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

## 25.2. Deferred tax

(in PLN millions)

	Statement of financial position		Income statement	
	At 31 December 2020	At 31 December 2019 Restated (see Note 2.2)	12 months ended 31 December 2020	12 months ended 31 December 2019 Restated (see Note 2.2)
Property, plant and equipment, intangible assets and right-of-use assets, net	383	387	7	(16)
Unused tax losses	28	37	(9)	(42)
Receivables and payables	138	119	14	39
Contract assets and contract costs	(117)	(115)	(2)	(16)
Contract liabilities	111	113	(2)	(19)
Employee benefits	34	53	(19)	(1)
Provisions	153	153	-	39
Net financial debt	20	16	(4)	(2)
Other	(3)	(3)	-	1
<b>Deferred tax asset, net <sup>(1)</sup></b>	<b>747</b>	<b>760</b>		
<b>Total deferred tax</b>			<b>(15)</b>	<b>(17)</b>

<sup>(1)</sup> During the 12 months ended 31 December 2020 and 2019, PLN 3 million and PLN 7 million of change in deferred tax asset was recognised in the statement of comprehensive income, respectively. During the 12 months ended 31 December 2020, PLN (1) million of change in deferred tax asset was recognised directly in equity.

Deferred tax asset is recognised in the amount which is expected to be utilised using future taxable profits estimated on the basis of the business plan approved by the Management Board of Orange Polska and used to determine the value in use of the telecom operator CGU (key assumptions are described in Note 8), which are considered as a positive evidence supporting the recognition of deferred tax assets.

As at 31 December 2020, PLN 28 million of deferred tax asset is recognised on tax losses incurred in 2016 and 2017. In years 2018 - 2020 OPL S.A. had tax profits on operating activities and utilised PLN 722 million of its tax losses from previous years, which is an additional positive evidence supporting the Company's assessment of its ability to generate future taxable profits to utilise the recognised deferred tax asset, including deferred tax asset on tax losses from prior years before they expire in 2021 and 2022.

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

Unrecognised deferred tax assets relate to temporary differences, which based on the Company's Management assessment could not be utilised for tax purposes. As at 31 December 2020 and 2019, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 58 million and PLN 56 million gross, of which PLN 56 million and PLN 51 million, respectively, are related to incurred tax losses on financial activities, which are expected to expire rather than to be realised.

## 26. Equity

### 26.1. Share capital

As at 31 December 2020 and 2019, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as at 31 December 2020 and 2019 was as follows:

(in PLN millions)	At 31 December 2020			At 31 December 2019		
	% 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
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>3,937</b>	<b>100.00</b>	<b>100.00</b>	<b>3,937</b>

## 26.2. Dividend

In accordance with the recommendation of the Management Board of the Company there was no dividend paid in 2020.

Retained earnings available for dividend payments amounted to PLN 4.1 billion as at 31 December 2020. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law.

## 26.3. Equity-settled share-based payment plan

Orange S.A. operates a long term incentive plan ("LTIP"), under which key managers of Orange Polska were awarded a defined number of free shares of Orange S.A., subject to performance conditions and continuous service in the Orange Group. The fair value of services rendered by managers for granting equity instruments of Orange S.A. recognised in labour expense in 2020 and 2019 amounted to PLN 3 million. More information on LTIP can be found in the Remuneration Report contained in Section 9.3 of the Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. for the year ended 31 December 2020.

## 26.4. Other movements in retained earnings

Corrections resulting from immaterial errors in prior periods were recognised by the Company directly in retained earnings and presented as other movements in the statement of changes in equity. The corrections of PLN 27 million, net (after PLN (6) million of tax impact) relate to capitalization of some indirect employee benefits as property, plant and equipment and other intangible assets (PLN 48 million) and write-off of other non-current assets (PLN (21) million).

## 27. Management of capital

Capital management strategy is developed at the Group level. Capital management policy is described in Note 28 to Orange Polska Group IFRS Consolidated Financial Statements for the year ended 31 December 2020.



## 28. Unrecognised contractual obligations

### 28.1. 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 2020	At 31 December 2019
Property, plant and equipment	827	1,125
Intangibles	88	69
<b>Total investment commitments</b>	<b>915</b>	<b>1,194</b>
Amounts contracted to be payable within 12 months after the end of the reporting period	828	697

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

As at 31 December 2020 and 2019, the Company's commitments for the purchase of property, plant and equipment and intangible assets under the Operational Programme "Digital Poland" (see Note 15.2), contracted for at the end of the reporting period but not recognised in the financial statements amounted to PLN 440 million and PLN 651 million, respectively.

### 28.2. Guarantees

As at 31 December 2020 and 2019, OPL S.A. granted to its subsidiaries guarantees in the amount of PLN 113 million and PLN 104 million, respectively, of which PLN 68 million and PLN 64 million constituted financial guarantee contracts.

## 29. Litigation, claims and contingent liabilities

As at 31 December 2020, the Company recognised provisions for known and quantifiable risks related to various current or potential claims and proceedings, which represent the Company's best estimate of the amounts, which are more likely than not to be paid. As a rule, provisions are not disclosed on a case-by-case basis, as, in the opinion of the Management Board, such disclosure could prejudice the outcome of the pending cases.

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

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

#### Proceedings by UOKiK related to retail prices of calls to Play

In 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. UOKiK alleged that they abused collective dominant position and the abuse consisted in the fact that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 Sp. z o.o. ("P4"), operator Play, were relatively higher than the prices for such calls to the networks of the three operators.

On 2 January 2018, UOKiK discontinued the competition proceedings. UOKiK stated that there was no basis to determine that Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. acted in breach of the competition law.

In September 2015, Orange Polska received a lawsuit filed by P4 with the Court under which P4 claims for damages, in the amount of PLN 316 million (PLN 231 million and PLN 85 million of interest) relating to the retail mobile prices for a period between July 2009 and March 2012. P4 originally claimed jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. but subsequently the proceedings against T-Mobile was discontinued due to a settlement concluded by the latter with P4.

On 2 July 2018, P4 extended its claim by the amount of PLN 314 million (PLN 258 million and PLN 56 million of capitalised interest). The factual basis for both claims is the same (retail price difference) but as regards the claim extension the period for which damages are calculated is different i.e. from April 2012 to December 2014.

On 29 November 2018 the court excluded P4's claim for PLN 314 million to separate court proceedings.

On 27 December 2018 the court of first instance dismissed P4's claim for PLN 316 million in its entirety as time barred. P4 appealed that verdict to the Appeal Court and, on 28 December 2020, the Appeal Court repealed the verdict and remanded the case back to the court of first instance on the basis that the court did not sufficiently explain the reasons for the claim being time barred. No other arguments were assessed by the Court of Appeal.

#### Proceedings by UOKiK related to pre-paid offers

In September 2016, UOKiK commenced proceedings against Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. claiming that rules on the Polish market applied to pre-paid offers, according to which top-ups are annulled in so-called "passive period", may violate consumers rights. On 15 December 2020, UOKiK issued a decision concluding the proceedings. The decision does not impose a fine but obliges Orange Polska to change the practice and report on those actions after a period specified by the decision.

#### Other proceedings by UOKiK and UKE

As at 31 December 2020, the Company recognised provisions for known and quantifiable risks related to proceedings against OPL S.A. initiated by UOKiK and UKE, which represent the Company'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 future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date.

#### **b. Tax settlements**

Tax settlements are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax, real estate tax, other taxes and the general anti-avoidance rules or social security regulations are subject to frequent changes. These changes contribute to the lack of system stability and tax disputes. Frequent contradictions and inconsistencies in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. These uncertainties result in higher risk in the area of tax settlements, which may require recognition of liabilities for uncertain tax positions and provisions resulting from differences of interpretation of the tax law.

Tax authorities may examine accounting records up to five years following the end of the year in which the tax becomes due. Consequently, the Company may be subject to additional tax liabilities, which may arise as a result of additional tax audits.

In 2018, the Tax Office finalised a tax audit relating to OPL S.A.'s corporate income tax settlements for the fiscal year ended 31 December 2016. Based on the findings of the audit, tax proceedings were launched against the Company in 2019. The Company does not agree with the findings and believes that the issues raised in the tax

audit protocol are without merit and the possibility of ultimate outflow of resources in the ongoing proceedings is low.

The Company is also involved in other proceedings and litigations in respect to various taxes, including PIT, CIT, VAT, real estate tax and other taxes. Some of these proceedings and litigations may result in future cash outflows. The possible outcomes of these proceedings and litigations are assessed by OPL on a regular basis and quantifiable risks related to them that are probable to result in future cash outflows are adequately reflected as income tax liabilities or provisions in the statement of financial position.

c. Issues related to the incorporation of Orange Polska

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

d. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Company are subject to legal, social and administrative regulations a breach of which, even unintentional, may result in sanctions imposed on the Company. In addition to fines which may be imposed by UOKiK and UKE described in Note 29.a also the President of Energy Regulatory Office may impose a penalty of up to a maximum amount of 15% of the revenues gained in the previous tax year among others for an infringement of certain provisions of Energy Law, a failure in fulfilment of obligations determined by the concession, a refusal to provide information.

The Company 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 Company and court verdicts within appeal proceedings against such decisions can have negative consequences for the Company. Also, there are claims including claims for damages or contractual penalties raised by counterparties to commercial contracts, or claims for other payments resulting from breach of law which may result in cash outflows.

Furthermore, the Company uses fixed assets of other parties in order to provide telecommunications services. Terms of use of these assets are not always formalised and as such, the Company is subject to claims and might be subject to future claims in this respect, which could result in a cash outflow in the future. The amount of the potential obligations or future commitments cannot be measured with sufficient reliability due to legal complexities involved.

The Company monitors the risks on a regular basis and the Management Board believes that adequate provisions have been recorded for known and quantifiable risks.

## 30. Related party transactions

### 30.1. Management Board and Supervisory Board compensation

Compensation (remuneration, bonuses, post-employment and other long-term benefits, termination indemnities and share-based payment plans - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members is presented below. Additionally, the President of OPL S.A.'s Management Board is employed by Orange Global International Mobility S.A., a subsidiary of Orange S.A., and delegated to Orange

Polska. The amounts incurred by Orange Polska S.A. for the reimbursement of key management personnel costs from the Orange Group are presented separately in the table below.

(in PLN thousands)	12 months ended 31 December 2020	12 months ended 31 December 2019
Short-term benefits excluding employer social security payments	17,005	17,440
Post-employment benefits	5,378	1,788
Share-based payment plans	57	2,574
<b>Total compensation</b>	<b>22,440</b>	<b>21,802</b>
Key management personnel costs	1,339	-
<b>Total</b>	<b>23,779</b>	<b>21,802</b>

Additionally, Section 9.3 of the Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. for the year ended 31 December 2020 includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found.

### 30.2. Related party transactions

As at 31 December 2020, Orange S.A. owned 50.67% of shares of the Company. Orange S.A. has majority of the total number of votes at the General Meeting of OPL S.A. which appoints OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board. According to the Company's Articles of Association, at least 4 Members of the Supervisory Board must be independent. The majority of Members of the Audit Committee of the Supervisory Board are independent.

OPL S.A.'s income earned from its subsidiaries comprises mainly telecommunications equipment sales and IT services. The purchases from the subsidiaries comprise mainly network development and maintenance. Costs incurred by the Company in transactions with its subsidiaries also comprise donations to Fundacja Orange.

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

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

OPL S.A.'s financial income earned from its subsidiaries comprises dividends and interest on the loans granted to the subsidiaries. Financial costs incurred by OPL S.A. in transactions with the subsidiaries comprise mainly interest on bonds issued to the subsidiaries. Financial receivables from the subsidiaries relate to the loans granted to the subsidiaries. Financial payables to the subsidiaries comprise mainly cash pool deposits from subsidiaries.

Until 31 December 2020, the Company and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 190 million, PLN 4,950 million and Revolving Credit Facility Agreement for up to PLN 1,500 million (see Note 18). Additionally, the Company concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2020 was EUR 190 million and PLN 5,450 million, respectively, with a total negative fair value of PLN 26 million (as at 31 December 2019, nominal amount of EUR 190 million and PLN 5,450 million with a total negative fair value of PLN 17 million).

Financial receivables, payables, financial expense and other comprehensive loss concerning transactions with the Orange Group relate to the above-mentioned 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 24.6).

(in PLN millions)	12 months ended 31 December 2020	12 months ended 31 December 2019
<b>Sales of goods and services and other income:</b>	<b>324</b>	<b>321</b>
Orange Polska Group (subsidiaries)	109	94
Orange Group	215	227
- Orange S.A. (parent)	138	146
- Orange Group (excluding parent)	77	81
<b>Purchases of goods (including inventories, tangible and intangible assets) and services:</b>	<b>(510)</b>	<b>(654)</b>
Orange Polska Group (subsidiaries)	(292)	(418)
Orange Group	(218)	(236)
- Orange S.A. (parent)	(58)	(62)
- Orange Group (excluding parent)	(160)	(174)
- including Orange Brand Services Limited (brand licence agreement)	(116)	(112)
<b>Financial income:</b>	<b>16</b>	<b>24</b>
Orange Polska Group (subsidiaries)	16	23
Orange S.A. (parent)	-	1
<b>Financial expense, net:</b>	<b>(198)</b>	<b>(218)</b>
Orange Polska Group (subsidiaries)	-	(1)
Orange Group	(198)	(217)
- Orange S.A. (parent)	(17)	(62)
- Orange Group (excluding parent)	(181)	(155)
<b>Other comprehensive loss:</b>	<b>(74)</b>	<b>(23)</b>
Orange S.A. (parent)	(74)	(23)

(in PLN millions)	At 31 December 2020	At 31 December 2019
<b>Receivables and contract costs:</b>	<b>118</b>	<b>136</b>
Orange Polska Group (subsidiaries)	33	39
Orange Group	85	97
- Orange S.A. (parent)	51	64
- Orange Group (excluding parent)	34	33
<b>Liabilities:</b>	<b>182</b>	<b>219</b>
Orange Polska Group (subsidiaries)	98	119
Orange Group	84	100
- Orange S.A. (parent)	31	49
- Orange Group (excluding parent)	53	51
<b>Financial receivables:</b>	<b>281</b>	<b>124</b>
Orange Polska Group (subsidiaries)	175	86
Orange S.A. (parent)	106	38
<b>Cash and cash equivalents deposited with:</b>	<b>55</b>	<b>29</b>
Orange S.A. (parent)	55	29
<b>Financial liabilities:</b>	<b>6,220</b>	<b>6,553</b>
Orange Polska Group (subsidiaries)	98	56
Orange Group	6,122	6,497
- Orange S.A. (parent)	132	55
- Orange Group (excluding parent)	5,990	6,442
<b>Guarantees granted:</b>	<b>113</b>	<b>104</b>
Orange Polska Group (subsidiaries)	113	104

### 31. Subsequent events

On the basis of an annual review of estimated useful lives of fixed assets, the Company decided to extend useful lives for certain items of software from 2021. As a result, amortisation expense in 2021 relating to these assets is expected to be lower by approximately PLN 117 million.

On 29 January 2021, the Company and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 2,700 million with repayment date in June 2026, which will refinance the Loan Agreement for PLN 2,700 million expiring in June 2021.

## 32. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Separate Financial Statements for the year ended 31 December 2020.

### 32.1. Use of estimates and judgement

In preparing the Company's accounts, the Company's Management Board is required to make estimates, because many elements included in the financial statements cannot be measured with precision. Management Board reviews these estimates if the circumstances on which they were based evolve or in the light of new information or experience. Consequently, estimates made as at 31 December 2020 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		Estimates and judgements
5, 32.9	Revenue	Allocation of transaction price to each performance obligation based on stand-alone selling price. Estimating stand-alone selling prices of performance obligations. Straight-line recognition of revenue relating to service connection fees. Reporting revenue on a net versus gross basis (analysis of Company's involvement acting as principal versus agent). Estimation of early termination fees charged to customers.
8, 32.17	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.
12, 32.15	Leases	Key assumptions used to measure the lease liability and the right of use assets: lease term, discount rate and usage of options. Application of portfolio approach to certain leases.
10, 11, 32.13, 32.14	Useful lives of tangible and intangible assets (excluding goodwill)	The useful lives and the method of depreciation and amortisation.
11, 15.2, 32.14	Property, plant and equipment - investment grants	The assumptions underlying the measurement and recognition of investment grants obtained.
13.1, 13.2, 32.18	Impairment of financial assets	Key assumptions used to determine impairment of financial assets: expected credit loss rate (including incorporation of forward looking information), grouping of financial assets.
14, 29, 32.21	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates, number of employees, employment duration, individual salary and other assumptions.
14	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
16, 32.22, 32.23	Employee benefits	Discount rates, salary increases, retirement age, staff turnover rates and other. Model and assumptions underlying the measurement of fair values of share-based payment plan.
22, 23, 32.18	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
25, 32.20	Income tax	Assumptions used for recognition of deferred tax assets. Assumptions used to determine taxable results and tax bases for uncertain tax treatments.
32.19	Allowance for slow moving and obsolete inventories	Methodology used to determine net realisable value of inventories.

The Company considers that the most significant adjustments to the carrying amounts of assets and liabilities could result from changes in estimates and judgements relating to impairment (see Note 8), provisions for claims, litigation and risks (see Notes 14 and 29), leases (see Note 12) and useful lives of tangible and intangible assets (see Notes 10, 11, 32.13 and 32.14).



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

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

### 32.2. Standards and interpretations issued but not yet adopted

- IFRS 17 “Insurance Contracts”. This standard was issued on 18 May 2017 and will be effective for annual periods beginning on or after 1 January 2023. This standard has not yet been endorsed by the European Union. IFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts. The Company does not act as a principal in case of insurance contracts and this standard will have no impact on financial statements.

### 32.3. Accounting positions adopted by the Company 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 Company has adopted accounting policies which it believes best reflect the substance of the transactions concerned.

#### Business Combination under Common Control

When accounting for merger of the parent with its subsidiary (i.e. business combination under common control) the Company has adopted in 2013 the provisions of the Generally Accepted Accounting Principles in the United States, Accounting Standards Codifications 805-50 “Business Combinations – Related Issues” (see Note 32.7 “Legal merger of the parent with its subsidiary”).

### 32.4. Options available under IFRSs and used by the Company

Certain IFRSs offer alternative methods of measuring and recognising assets and liabilities. In this respect, the Company 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 27	Separate financial statements	Investments in subsidiaries and associates are accounted at cost.
IFRS 9	Financial Instruments	Recognition of the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets that contain a significant financing component.
IFRS 16	Leases	Right of use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability. Right of use assets are presented separately from other assets in the statement of financial position.  The Company elected to apply the short term exemption and the exemption for low value leases, as described in IFRS 16.  The Company does not apply IFRS 16 to leases of intangible assets.



### 32.5. 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 income statement.

#### Earnings/loss per share

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

#### Changes in presentation of the income statement and the statement of cash flows

Starting from 2020, the Company changed its accounting policy relating to presentation of foreign exchange gains/losses arising on revaluation and settlement of lease liabilities and related hedging instruments as follows:

Lease liabilities denominated in foreign currencies and related hedging instruments are re-measured at the end of the reporting period and the resulting translation differences are recorded in the income statement in finance costs, net (previously in other operating income/expense).

As a result, the comparative amounts for the 12 months ended 31 December 2019 were adjusted to conform to the new accounting policy and PLN 6 million of foreign exchange gains were reclassified from other operating income/expense to finance costs, net. Additionally, foreign exchange gains/losses for the 12 months ended 31 December 2019 amounting to PLN (4) million presented within finance costs, net, were separated from other interest expense and financial charges to new line item.

The Company believes that the new presentation better reflects the economic nature of lease contracts which are long-term financial liabilities used for financing purpose and their impact should be presented in the income statement in finance costs, net.

Other changes are described in Note 2.2.

### 32.6. Investments in joint arrangements

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

### 32.7. Legal merger of the parent with its subsidiary

The legal merger of the parent with its subsidiary is accounted for using the subsidiary’s values from the consolidated financial statements of the parent entity (‘predecessor value method’); these amounts include any goodwill recognised in the consolidated financial statements of the parent on acquisition of the subsidiary.

The subsidiary’s results and statement of financial position are incorporated prospectively from the date on which the legal merger occurred.

### 32.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish zloty.

#### Transactions in foreign currencies

Transactions in foreign currencies are converted into Polish zloty 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 and lease contracts.

### 32.9. Revenue

#### Separable components of bundled offers

For the sale of multiple products or services (e.g. offers including a handset and a telecommunications service contract), the Company evaluates all promises in the arrangement to determine whether they represent distinct performance obligations i.e. obligations not dependent on each other. Sale of mobile handsets and sale of services in bundled offers are distinct performance obligations.

The consideration for the bundled package (i.e. transaction price) is allocated to the distinct performance obligations (e.g. sale of a handset and sale of a service) and recognised as revenue when the performance obligation is satisfied (i.e. when the control over good or service is transferred to a customer).

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

The allocation of the transaction price between various performance obligations is made to estimate the amount to which the Company is expected to be entitled in exchange for transferring a promised good or service to the customer.

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

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

While defining the stand-alone selling price of any performance obligation, firstly, the Company's observable price should be identified i.e. the price of good or service when the Company sells that good or service separately

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

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

#### Equipment sales

Revenue from an equipment sales is recognised when the control over the equipment is transferred to the buyer (see also paragraph "Separable components of bundled offers"). When an equipment is sold by a third-party retailer who purchases it from the Company, the related revenue is recognised when the equipment is sold to the end-customer because the Company acts as a principal in this process.

#### Equipment leases

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

#### Revenues from the sale or supply of content

Depending on the substance of a transaction and the Company's role in the transaction, the Company can act as a principal and recognise revenue at the gross amount, separately from costs, or as an agent and recognise revenue in the amount net of costs. The assessment of the role of the Company is based on the notion of the control and the indicators of the control. The Company is treated as a principal if it controls a good or a service before the good or service is transferred to a customer.

The Company is considered as an agent if the Company's performance obligation is to arrange for the provision of a good or a service to the client by another party, i.e. when it does not control the specified good or service provided by another party before that good or service is transferred to the customer.

#### Service revenue

Telephone service and Internet access subscription fees are recognised in revenue on a straight-line basis over the service period because of the continuous transfer of control over the service to the customer. Charges for incoming and outgoing telephone calls are recognised in revenue when the service is rendered. Revenue from the sale of phone cards in mobile telephony systems is recognised when they are used or expire.

### Promotional offers

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

### Material rights

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

## **32.10. Subscriber acquisition costs, costs to fulfil a contract, advertising and related costs**

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

## **32.11. Borrowing costs**

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

## **32.12. Goodwill**

Goodwill equals to the difference between the cost of acquisition of the non-controlling interest in the mobile business in 2005 and the non-controlling interest in the net book value of the underlying net assets.

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

## **32.13. Intangible assets (excluding goodwill)**

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

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

### Telecommunications licences

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

### Research and development costs

Development costs are recognised as an intangible asset if and only if the following can be demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use,
- the intention to complete the intangible asset and use or sell it and the availability of adequate technical, financial and other resources for this purpose,
- the ability to use or sell the intangible asset,
- how the intangible asset will generate probable future economic benefits for the Company,
- the Company'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 Company's research and development projects mainly concern:

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

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

### Software

Software is amortised on a straight-line basis over the expected useful life, where standard useful life is up to five years unless revised.

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

## **32.14. Property, plant and equipment**

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

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

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 Company may receive grants from the government or the European Union for funding of capital projects. These grants are deducted from the cost of the related assets and recognised in the income statement, as a reduction of depreciation, based on the pattern in which the related asset's expected future economic benefits are consumed. Grants are not recognised until there is a reasonable assurance that the Company will comply with the conditions attached to them and that the grant will be received.

Derecognition

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

Depreciation

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

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

Land is not depreciated.

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

**32.15. Leases**

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

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

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

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

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

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

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

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

### Company as a lessee

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

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

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

The lease duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the Company is reasonably certain to exercise and termination options that the Company is reasonably certain not to exercise. In case of indefinite period leases the Company estimates the reasonably certain lease term to determine the lease term. The Company assessed the reasonably certain lease terms of cancellable lease contracts to be equal to 5 years for all lease contracts, except for 18 years for road occupancy leases where fixed network infrastructure is placed. For easements in buildings, where the Company located its telecommunication infrastructure, a lease duration is assessed as an average useful life of buildings in the Company. Subsurface contracts and land easements are measured basing on the portfolio approach due to significant number of homogenous contracts.

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

The right-of-use asset is measured at cost which comprises:

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

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

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

The lease liability comprises the following payments:

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

After the commencement date, the lease liability is increased to reflect interest on the lease liability and reduced to reflect the lease payments made, as well remeasured to reflect any reassessment or lease modification. Only the lease component is taken into account in the measurement of the right-of-use asset and of the lease liability.



Other non-lease components, like payments for utilities, are accounted for separately in accordance with other applicable accounting standards.

#### Company as a lessor

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

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

Examples of situations that individually or in combination would lead to a lease being classified as a finance lease are as follows:

- the lease transfers ownership of the underlying asset to the lessee by the end of the lease term;
- the lessee has the option to purchase the underlying asset at a price significantly lower than the fair value;
- the lease term is for the major part of the economic life of the underlying asset;
- at the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the underlying asset; and
- the underlying asset is of such a specialised nature that only the lessee can use it without major modifications.

#### **32.16. 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.

#### **32.17. Impairment tests and Cash Generating Units**

Given the nature of Company's assets and operations, most of its individual assets do not generate cash inflows independently from other assets. The Company identifies a single major CGU (see Note 8). For the purpose of impairment testing the Company allocates the whole goodwill to this CGU.

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

#### Recoverable amount

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

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



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

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

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

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

### **32.18. Financial assets and liabilities**

Financial assets are classified in the following measurement categories – depending on the business model in which assets are managed and their cash flow characteristics:

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

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

#### Recognition and measurement of financial assets

When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. Trade receivables that do not have a significant financial component are initially measured at their transaction price.

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

- Assets subsequently measured at amortised cost

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

Cash and cash equivalents consist of cash in bank, 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.

- Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include derivative assets not designated as hedging instruments as set out in IFRS 9.

- Financial assets at fair value through other comprehensive income

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

- Impairment

The Company measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, lease receivables, other financial receivables, cash and cash equivalents and contract assets.

Trade receivables that are homogenous and share similar credit risk characteristics are tested for impairment collectively. When estimating the lifetime expected credit loss the Company uses historical data as a measure for expected credit losses.

In calculating the recoverable amount of receivables that are individually material and not homogenous, the Company assess expected credit losses on individual basis taking into account significant financial difficulties of the debtor or probability that the debtor will enter bankruptcy or financial reorganisation.

The Company considers a financial asset to be credit-impaired when events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred, for example significant financial difficulty of the debtor or a breach of contract, such as a default or past due event.

The Company considers a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full.

A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

#### Recognition and measurement of financial liabilities

- Financial liabilities at amortised cost

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

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

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

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

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include derivative liabilities not designated as hedging instruments as set out in IFRS 9.

#### Recognition and measurement of derivative instruments

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

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

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

- Hedging derivatives

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

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

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the statement of financial position. The gain or loss from the changes in fair value of the hedged item and loss or gain from re-measuring the hedging instrument at fair value are recognised in profit or loss. The adjustment to the hedged item is amortised fully by maturity of the hedged item starting from the date when a hedged item ceases to be adjusted by a change in fair value of the hedged portion of liability attributable to the risk hedged,
- for cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. Amounts recognised in cash flow hedge reserve are subsequently recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses accumulated in equity are removed from the cash flow hedge reserve and included in the initial measurement of the cost of the asset or liability. This is not a reclassification adjustment and is not recognised in other comprehensive income.

### **32.19. Inventories**

Inventories are stated at the lower of cost and net realisable value. The Company provides allowance for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans. Change in allowance is presented in the income statement in “External purchases”.

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

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

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

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

### **32.21. Provisions**

A provision is recognised when the Company 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 Company's actions.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Company 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 Company'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 Separate Financial Statements.

### Provisions for dismantling and restoring sites

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

### **32.22. Pensions and other employee benefits**

Certain employees of the Company 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 Company's remuneration policies. Both items vary according to the employee's average remuneration and length of service. Jubilee awards and retirement bonuses are not funded.

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

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

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

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

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

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

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

### **32.23. Share-based payments**

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

In years 2017-2020 Orange S.A. launched equity-settled share-based payment plans under which employees render services to the Company in exchange for equity instruments of Orange S.A. The fair value of the services rendered by employees for granting equity instruments of Orange S.A. is recognised as an expense with a corresponding increase in equity over the vesting period.

# ORANGE POLSKA GROUP AND ORANGE POLSKA S.A.



## MANAGEMENT BOARD'S REPORT ON THE ACTIVITY

**FOR THE YEAR ENDED 31 DECEMBER 2020**

This Report on the Activity of the Orange Polska Group ("the Group" or "Orange Polska"), including Orange Polska S.A. ("the Company" or "OPL"), in 2020 has been drawn up in compliance with Articles 70 and 71 of the Decree of the Minister of Finance of 29 March 2018 on current and periodic information disclosed by issuers of securities and conditions for recognising as equivalent information required by the laws of a non-member state (Journal of Laws of 2018, item 757).

Disclosures on performance measures, including information on data restatements for the year 2020 in connection with changes in accounting policies, are presented in the Notes 2 and 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for the 12 months ended 31 December 2020.

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

From 2020 our definitions of Capex and EBITDAaL alternative performance measures have been revised. Capex for 2020 is presented net of the accrued proceeds from asset disposals and is named economic Capex (eCapex). Consequently, EBITDAaL excludes gains on asset disposals. This change better reflects transformation of Orange Polska's fixed asset base, which has been rapidly evolving over the past few years and will do so in the future. Orange Polska invests in assets essential for its future value creation (fibre and mobile network) and disposes assets no longer necessary for its core operations. Economic benefits of this transformation have been shifted from EBITDAaL to Capex. Data for 2019 have been revised for comparative purposes.

**February 17, 2021**

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## **CHAPTER I** **HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS**

as of December 31, 2020 and for the twelve-month period ended thereon

## 1 SUMMARISED FINANCIAL STATEMENTS

### SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

	For 12 months ended 31 December				
	2020 in PLN mn	2020 in EUR <sup>1</sup> mn	2019 in PLN mn	2019 in EUR <sup>2</sup> mn	Change (%)
<b>Consolidated Income Statement</b>					
Revenue	11,508	2,572	11,406	2,651	0.9 %
EBITDAaL*	2,797	625	2,718	632	2.9 %
EBITDAaL margin	24.3 %		23.8 %		n/a
Operating income*	404	90	415	96	(2.7)%
Operating margin	3.5 %		3.6 %		n/a
Net income*	46	10	82	19	(43.9)%
Net income attributable to owners of Orange Polska S.A.*	46	10	82	19	(43.9)%
Weighted average number of shares (in millions)**	1,312	1,312	1,312	1,312	
Earnings per share (in PLN/EUR)	0.04	0.01	0.06	0.01	n/a
<b>Consolidated Statement of Cash Flows</b>					
Net cash provided by operating activities	3,005	672	2,858	664	5.1 %
Net cash used in investing activities	(2,064)	(461)	(1,919)	(446)	7.6 %
Net cash used in financing activities	(989)	(221)	(1,146)	(266)	(13.7)%
Net change in cash and cash equivalents	(48)	(11)	(207)	(48)	(76.8)%
Capex*	1,801	403	1,701	395	5.9 %
Organic cash flow*	642	143	737	171	(12.9)%
	As of 31 December				
	2020 in PLN mn	2020 in EUR <sup>3</sup> mn	2019 in PLN mn	2019 in EUR <sup>4</sup> mn	Change (%)
<b>Consolidated Statement of Financial Position</b>					
Cash and cash equivalents	358	78	404	95	(11.4)%
Other intangible assets	4,184	907	4,545	1,067	(7.9)%
Property, plant and equipment	10,301	2,232	10,402	2,443	(1.0)%
Total assets	24,300	5,266	24,922	5,852	(2.5)%
Financial liabilities at amortised cost***, of which:	8,715	1,889	9,083	2,133	(4.1)%
Current	4,091	887	519	122	688.2 %
Non-current	4,624	1,002	8,564	2,011	(46.0)%
Other liabilities, current and non-current	4,986	1,080	5,282	1,240	(5.6)%
Total equity	10,599	2,297	10,557	2,479	0.4 %
Notes on data conversion: 1 – PLN/EUR fx rate of 4.4742 applied      3 – PLN/EUR fx rate of 4.6148 applied 2 – PLN/EUR fx rate of 4.3018 applied      4 – PLN/EUR fx rate of 4.2585 applied *For adjustments of basic financial data please see Note 2 and 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2020. ** Weighted average number of shares in 12 months ended December 31, 2020 and December 31, 2019, respectively. *** Excluding trade payables.					

## SUMMARISED STANDALONE FINANCIAL STATEMENTS

	For 12 months ended 31 December				
	2020 in PLN mn	2020 in EUR <sup>1</sup> mn	2019 in PLN mn	2019 in EUR <sup>2</sup> mn	Change (%)
<b>Income Statement</b>					
Revenue	10,479	2,342	10,646	2,475	(1.6)%
Operating income*	382	85	379	88	0.8 %
Operating margin	3.6%		3.6 %		n/a
Net income*	47	11	79	18	(40.5)%
Weighted average number of shares (in millions)**	1,312	1,312	1,312	1,312	
Earnings per share (in PLN/EUR)	0.04	0.01	0.06	0.01	(33.3)%
<b>Statement of Cash Flows</b>					
Net cash provided by operating activities	2,977	665	2,917	678	2.1 %
Net cash used in investing activities	(2,082)	(465)	(1,919)	(446)	8.5 %
Net cash used in financing activities	(941)	(210)	(1,193)	(277)	(21.1)%
Net change in cash and cash equivalents	(46)	(10)	(195)	(45)	(76.4)%
	As of 31 December				
	2020 in PLN mn	2020 in EUR <sup>3</sup> mn	2019 in PLN mn	2019 in EUR <sup>4</sup> mn	Change (%)
<b>Statement of Financial Position</b>					
Cash and cash equivalents	299	65	343	81	(12.8)%
Other intangible assets	4,079	884	4,473	1,050	(8.8)%
Property, plant and equipment	10,397	2,253	10,506	2,467	(1.0)%
Total assets	23,904	5,180	24,595	5,776	(2.8)%
Financial liabilities at amortised cost***, of which:	8,755	1,898	9,096	2,136	(3.7)%
Current	4,161	902	557	131	647.0 %
Non-current	4,594	996	8,539	2,005	(46.2)%
Other liabilities, current and non-current	4,616	1,000	5,009	1,177	(7.8)%
Total equity	10,533	2,282	10,490	2,463	0.4 %
<p>Notes on data conversion:</p> <p>1 – PLN/EUR fx rate of 4.4742 applied      3 – PLN/EUR fx rate of 4.6148 applied</p> <p>2 – PLN/EUR fx rate of 4.3018 applied      4 – PLN/EUR fx rate of 4.2585 applied</p> <p>*For adjustments of basic financial data please see Note 2 and 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2020.</p> <p>** Weighted average number of shares in 12 months ended December 31, 2020 and December 31, 2019, respectively.</p> <p>*** Excluding trade payables.</p>					

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

### Comments on the Consolidated Income Statement of the Group

Consolidated revenue amounted to PLN 11,508 million in 2020 and was higher by PLN 102 million compared to 2019. Firstly, combined revenues of convergence, mobile-only and fixed broadband-only (which we consider our core telecom services) were up 2.9% year-on-year. This growth rate was twice as high as in 2019, when it amounted to 1.4%, despite that in 2020 it was affected by much lower roaming revenues (down 40% year-on-year). This much better performance was a consequence of a successful combination of strong growth of customer volumes and improving trends of average revenue that they generate (ARPO). Improving ARPO is a consequence of our value pricing strategy and growing share of fibre. Secondly, despite pandemic-related market slowdown (especially in 3Q2020), IT and integration services recorded another strong year with revenues growing 24% year-on-year, partially owing to the contribution of BlueSoft acquired in mid-2019. Thirdly, mobile wholesale revenues were up 12% year-on-year, reflecting much higher voice traffic as a result of the pandemic. Fourthly, on the negative side, revenues from equipment sales were down 13% year-on-year, mainly reflecting the negative impact of the pandemic (disturbance in the distribution network in 2Q and reduced demand). Finally, top line continued to be affected by structural decline in legacy fixed-voice revenues, which were down 13% year-on-year.

EBITDAaL (definition of our measure of operating performance was changed in 2020, please see Note 3 to the IFRS Consolidated Financial Statements for 2020) amounted to PLN 2,797 million and was higher by PLN 79 million year-on-year. EBITDAaL benefitted from strong performance of core telecom services and continued cost optimisation pushing indirect costs down 4% year-on-year. Cost savings in 2020 were significantly supported by exceptional measures taken by the Management Board, which included mainly curtailment of jubilee awards scheme (resulting in PLN 64 million reversal of provisions for employee benefits) and renegotiation of certain terms of the Social Agreement with trade unions. These measures helped to offset the negative impact of the pandemic, coming mainly from a significant drop in roaming revenues as well as additional risk provisions.

Operating income (EBIT) amounted to PLN 404 million and was slightly lower year-on-year.

Net finance costs amounted to PLN 342 million in 2020 and increased by PLN 34 million compared to 2019, mainly due to unfavourable movements in foreign exchange rates.

As a result, consolidated net income amounted to PLN 46 million in 2020 compared to PLN 82 million in 2019.

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

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

Net income of Orange Polska S.A. amounted to PLN 47 million in 2020 and was at a comparable level to that of the Group.

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

### Comments on the Consolidated Statement of Cash Flows of the Group

Net cash from operating activities amounted to PLN 3,005 million in 2020 and was PLN 147 million higher year-on-year, mainly as a result of working capital improvement.

Net cash used in investing activities amounted to PLN 2,064 million in 2020 compared to PLN 1,919 million in 2019. This change resulted mainly from lower proceeds from real estate disposal, which was partially offset by lower payments for purchases of property, plant and equipment and intangible assets.

Net cash outflows from financing activities amounted to PLN 989 million compared to PLN 1,146 million in 2019. This change was mainly attributable to cash flows from related party loans and bank overdrafts.

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

Net cash outflow in Orange Polska S.A. in 2020 amounted to PLN 46 million and was at a comparable level to that of the Group.

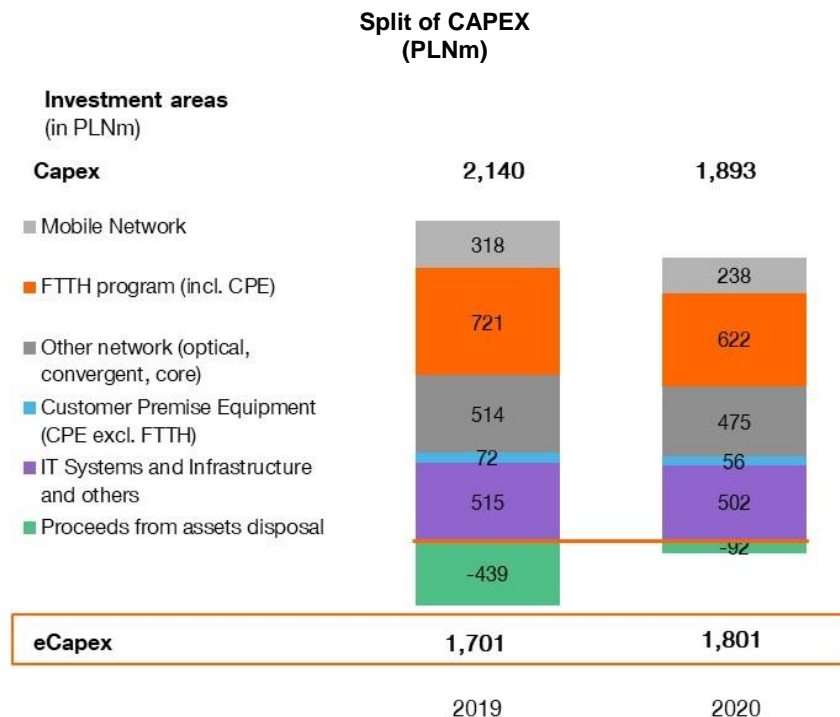
## 1.3 Economic Capital Expenditures (eCAPEX)

Group's economic capital expenditures (starting from 2020, this measure includes accrued proceeds from asset disposals) in 2020 amounted to PLN 1,801 million and were higher by PLN 100 million year-on-year.

These included mainly the following:

- Roll-out of our fibre access network in the announced investment programme, which covered 0.8 million households in 2020. Including the lines developed in 2014 to 2019, there are now 5 million households connectable with our fibre network, available in a total of 154 cities (compared to 142 cities at the end of 2019);

- Investments to enhance the range of LTE services and the mobile network connectivity, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements, particularly in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- Expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;
- Implementation of transformation programmes;
- Investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure; and
- Proceeds from sale of assets lower by PLN 347 million year-on-year.



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

##### Comments on the Consolidated Statement of Financial Position

Total assets were lower by PLN 622 million than at December 31, 2019. This change resulted mainly from a decrease in fixed assets, as depreciation and amortisation expense exceeded capital expenditures by PLN 618 million, and a decrease in trade receivables.

Total liabilities were lower by PLN 664 million than at December 31, 2019. This change resulted mainly from a decrease in debt and a decrease in trade payables.

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

Total assets of Orange Polska S.A. amounted to PLN 23,904 million as at December 31, 2020 and were lower by PLN 396 million than total assets of the Group. This difference is attributed mainly to lower goodwill and trade receivables, which was partially offset by the value of investments in subsidiaries included in the statement of financial position of Orange Polska S.A. and eliminated on consolidation.

Total liabilities of Orange Polska S.A. as at December 31, 2019 amounted to PLN 13,371 million and were lower by PLN 330 million than total liabilities of the Group, mainly owing to lower trade payables.

#### 1.5 Related Parties Transactions

Please see Note 31 to the Consolidated Full-Year Financial Statements about Group's transactions with related entities.

## **1.6 Description of Significant Agreements**

Please see section 1.11.2 and 4.6 below for information on significant agreements concluded by the Group in 2020.

## **1.7 Unrecognised Contractual Obligations**

Please see Note 29 to the Consolidated Full-Year Financial Statements for information about unrecognised contractual obligations.

## **1.8 Subsequent Events**

Please see Note 32 to the Consolidated Full-Year Financial Statements for information on subsequent events.

## **1.9 Scope of Consolidation within the Group**

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

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

In the twelve months ended December 31, 2020, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or a subsidiary with a total value representing the equivalent of at least 10% of Orange Polska S.A.'s shareholders equity. Please see section 1.11.5 below for additional information.

## **1.11 Management of Financial Resources and Liquidity of the Group**

In the reported period, the Group financed its activities by cash from operating activities, loans provided by the Orange S.A. Group, current account overdraft facilities, and sale of receivables in a newly launched securitisation programme.

In 2020, the Group repaid long-term bank loans of PLN 6 million and a revolving loan of PLN 920 million provided by the Orange S.A. Group.

In the reported period, the Group used PLN 400 million out of a revolving loan provided by the Orange S.A. Group.

As of December 31, 2020, Group's interest-bearing liabilities (before derivatives) totalled PLN 6,011 million, which is a decrease of PLN 500 million compared to December 31, 2019. Debt to the Orange S.A. Group accounted for 99.7% of this amount.

On September 11, 2020, the Group concluded agreements with BNP Paribas SA as the buyer and Eurotitrisation as the settlement agent to amend the programme of sale of receivables related to handsets instalment sales, which was set up in 2019. As a result, the amount of the programme was increased. The Group raised approximately PLN 67 million from the sale of receivables under the programme in 2020.

In 2020, under a cash-pooling agreement concluded a year earlier by the parent company with selected subsidiaries from the Group and Bank Handlowy w Warszawie S.A., acting as the pool leader, the process of the Group's liquidity management was continued with subsidiaries investing their surplus cash in the parent company's account.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 358 million at December 31, 2020, and available credit facilities totalling the equivalent of PLN 1,978 million.

Based on available cash, back-up and revolving credit facilities, as well as external sources of financing, the Group has sufficient funds to carry out its investment projects, including capital investments, scheduled for implementation in 2021.

At December 31, 2020, Group's liquidity ratios decreased as compared to the end of 2019. The Group's lower financial liquidity stemmed from the maturing of a loan of EUR 190 million in May 2021 and a loan of PLN 2,700 million in June 2021, which resulted in an increase of PLN 3,429 million in current liabilities (less provisions and contract liabilities). In January 2021, the Group refinanced both loans with the repayment date in June 2026. Consequently, its liquidity ratios will increase in subsequent periods.

The liquidity ratios for the Group at December 31, 2020 and December 31, 2019, respectively, are presented in the table below.

	December 31, 2020	December 31, 2019
Current ratio		
Current assets / current liabilities*	0.49	1.00
Quick ratio		
Total current assets – inventories / current liabilities*	0.45	0.94
Super-quick ratio		
Total current assets – inventories – receivables / current liabilities*	0.19	0.33

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

Group's net financial debt (after valuation of derivatives) decreased to PLN 5,549 million at December 31, 2020 (from PLN 6,087 million at the end of 2019).

### 1.11.1 Bonds

As part of the Group's liquidity management, in 2020 the parent company did not issue or redeem short-term bonds acquired by its subsidiaries.

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

### 1.11.2 Loan and Borrowings Agreements

On January 5, 2021, Orange Polska S.A. concluded an investment financing agreement with Alior Bank S.A., which provided a broadband loan of PLN 45 million with a maturity term of 10 years for financing a part of costs of connecting end users under the Measure 1.1 of the Operational Programme Digital Poland: Eliminating territorial differences in terms of access to high-speed broadband Internet. The loan is financed in 80% (i.e. PLN 36 million) from the funds of the Operational Programme Digital Poland for 2014–2020 and in 20% (i.e. PLN 9 million) from Alior Bank S.A.'s own funds.

On January 29, 2021, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a loan agreement for PLN 2,700 million with repayment date in June 20, 2026. Its purpose is to refinance the Group's debt under a term loan of PLN 2,700 million maturing in June 2021.

In the reported period, the Group concluded annexes to current account overdraft agreements with the following banks:

- with the Polish Branch of Societe Generale S.A., for an amount PLN 95 million, extending the maturity to May 29, 2021, and
- with Bank Handlowy w Warszawie S.A., for an amount PLN 20 million, extending the maturity to August 6, 2021.

On June 12, 2020, the Group and Orange S.A. concluded a new cash-pooling agreement, which replaced the agreement of 2013 and maintained the backup liquidity financing limit of PLN 500 million.

Furthermore, on December 4, 2020, the parent company and its subsidiary BlueSoft sp. z o.o. concluded a loan agreement for PLN 90 million maturing on December 4, 2025. The loan will be used for financing the development of BlueSoft, including acquisition of other companies. In December 2020 the subsidiary repaid part of the loan and at the end of 2020 the debt outstanding under the loan was PLN 60 million.

### 1.11.3 Unused Credit Facilities

As of December 31, 2020, the Group had outstanding general-purpose credit facilities amounting to the equivalent of PLN 1,478 million.

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

### 1.11.4 Loan Covenants

Agreements to which the Group is a party do not impose any obligations on the Group to meet any financial ratios. For informational purposes, the ratio of net debt to EBITDAaL was 2.0 on December 31, 2020.

### 1.11.5 Guarantees and Collaterals

In 2020, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of its subsidiary TP Teltech sp. z o.o. towards its business partners, while promising to cover any claims related to payments under the guarantee. As of December 31, 2020, these guarantees totalled PLN 5.3 million.

As of the reporting date, collaterals granted by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure proper performance bonds issued by the latter in favour of TP Teltech sp. z o.o., Orange Polska's wholly-



owned subsidiary, with respect to its obligations towards Nokia Solutions And Networks sp. z o.o., related to the implementation of the Operational Programme Digital Poland 2, was still valid and totalled PLN 28.1 million.

As of the reporting date, a collateral of PLN 2.4 million granted by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure a proper performance bond issued by the bank in favour of TP Teltech sp. z o.o., Orange Polska's wholly-owned subsidiary, was still valid.

As of December 31, 2020, a collateral of PLN 20 million granted by Orange Polska S.A. to Santander Factoring sp z o.o. to secure a facility provided by the latter to its subsidiary TP Teltech sp. z o.o. under a confirming agreement for payment management was still valid.

In 2020, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of its subsidiary Orange Retail S.A. on the account of lease of premises for Orange sales outlets, while promising to cover any claims related to payments under the guarantees. As of December 31, 2020, these guarantees totalled PLN 1.2 million.

In 2020, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of its subsidiary Orange Energia sp. z o.o. towards its business partners, while promising to cover any claims related to payments under the guarantees. As of December 31, 2020, these guarantees totalled PLN 15 million.

As of December 31, 2020, a collateral of PLN 22.0 million granted by Orange Polska S.A. to Bank Handlowy w Warszawie S.A. to secure liabilities of its subsidiary Orange Energia sp. z o.o. on the account of a current account overdraft facility provided by the bank was still valid.

As of December 31, 2020, a bank guarantee of PLN 3.8 million issued by BNP Paribas Bank Polska S.A. upon request of Orange Polska S.A. with respect to liabilities of its subsidiary Fundacja Orange [Orange Foundation] on the account of an agreement concluded by the latter with the Digital Poland Project Centre was still valid.

In 2020, Orange Polska S.A. granted a collateral of PLN 5 million to PKO Bank Polski S.A. to secure liabilities of its subsidiary Essembli sp z o.o. with respect to multi-purpose credit facility dedicated to bank guarantees.

In 2020, Orange Polska S.A. granted collaterals totalling PLN 15 million to BNP Paribas Bank Polska S.A. and PKO Bank Polski S.A. to secure liabilities of its subsidiary BlueSoft sp z o.o. on the account of a current account overdraft facility and a multi-purpose credit facility dedicated to bank guarantees. As of December 31, 2020, these collaterals totalled PLN 10 million.

#### 1.11.6 Hedging Transactions

In 2020, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, currency option, cross currency interest rate swap and non-deliverable forward contracts, which at December 31, 2020 covered:

- 99.6% of debt denominated in foreign currencies; and
- 25.6% of licence payable for the 2100 MHz spectrum (UMTS licence).

As a result of hedging, Group's effective currency exposure at December 31, 2020 was as follows:

- EUR 41 million of licence payable for the 2100 MHz spectrum (UMTS licence).

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

The Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of December 31, 2020, the Group's proportion between fixed/floating rate debt (after hedging) was 99/1% as compared to 96/4% on December 31, 2019.

In addition, the Group hedged the risk of Orange Polska share price increase with options. As of December 31, 2020, 100% of phantom shares for the incentive programme for managers were hedged (please see section 3.3.1 below for more information).

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

in 2020

## 2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

The Group reports a single operating segment as decisions about resources to be allocated and assessment of performance are made on a consolidated basis. Group performance is currently evaluated by the Management Board based on revenue, EBITDAaL, net income, organic cash flows, eCapex (economic capital expenditures), net financial debt and net financial debt to EBITDAaL ratio based on cumulative EBITDAaL for the last four quarters. Starting from 2020, in order to better capture economic transformation of asset base, proceeds accrued on disposal of assets offset capital expenditures, while gains on their disposal are excluded from EBITDAaL. As a result, eCapex (economic capital expenditures) replaced Capex (capital expenditures) as the key measure of resources allocation used by the Group. Additionally, the amount of EBITDAaL in a comparative period was restated to conform to the new definition used in 2020.

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

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

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

eCapex (economic capital expenditures) is the key measure of resources allocation used by the Management Board and represents acquisitions of property, plant and equipment and intangible assets excluding telecommunications licences, offset by the proceeds accrued on disposal of these assets ('proceeds accrued on disposal of assets'). eCapex does not include acquisitions of right-of-use assets.

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

### Reconciliation of operating performance measure to financial statements

<i>in PLN mn</i>	2020	2019
<b>Operating income</b>	<b>404</b>	<b>415</b>
Less gains on disposal of assets <sup>(1)</sup>	(61)	(270)
Add-back of depreciation, amortisation and impairment of property, plant and equipment and intangible assets	2,511	2,448
Interest expense on lease liabilities	(62)	(66)
Adjustment for the impact of employment termination programs	(22)	181
Adjustment for the costs related to acquisition, disposal and integration of subsidiaries	27	10
<b>EBITDAaL (EBITDA after Leases)</b>	<b>2,797</b>	<b>2,718</b>

<sup>(1)</sup> Gains on disposal of assets in 2019 include PLN 1 million of loss on disposed subsidiary that was already excluded from EBITDAaL calculation under the previous definition and presented separately in the table above in 2019 as an adjustment for the impact of deconsolidation of subsidiaries.

Key figures (PLN million)	2020**	2019** comparable data	Change comparable data
Revenue	11,508	11,406	0.9%
EBITDAaL*	2,797	2,718	2.9%
EBITDAaL margin	24.3%	23.8%	0.5pp
Operating income*	404	415	(2.7)%
Net income*	46	82	(43.9)%
eCapex*	1,801	1,701	5.9%
Organic cash flow*	642	737	(12.9)%

\* From 2020 our definitions of Capex and EBITDAaL alternative performance measures have been revised. Capex for 2020 is presented net of the accrued proceeds from asset disposals and is named economic Capex (eCapex). Consequently, EBITDAaL excludes gains on asset disposals. This change better reflects transformation of Orange Polska's fixed asset base, which has been rapidly evolving over the past few years and will do so in the future. Orange Polska invests in assets essential for its future value creation (fibre and mobile network) and disposes assets no longer necessary for its core operations. Economic benefits of this transformation have been shifted from EBITDAaL to Capex. Data for 2019 have been revised for comparative purposes.

\*\* In 2Q 2020, data for 2019 and 1Q 2020 were retrospectively restated for the additional impact of IFRS16, as described in the Financial Statements in Note 2 and 3.

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

Revenues totalled PLN 11,508 million in 2020, up PLN 102 million or 0.9% year-on-year.

Convergence remains a strategic drive for revenue growth, but there was also a major trend improvement in mobile-only and fixed broadband-only revenues. Mobile-only revenues decreased by only 1.6% year-on-year compared to a 4.7% decline in 2019. This significant improvement was achieved despite a slump by about 40% in international roaming revenues due to the COVID-19 pandemic and resulted from growing customer base and improvement in ARPO trend, mainly as a result of price increases in 2019. Fixed broadband-only revenues were almost flat compared to a 7% decline in 2019. The improvement was driven by an increase in ARPO, following its earlier decline, mainly an outcome of price increases, as well as a significantly growing share of fibre customers, who generate the highest ARPO. As a result, combined revenues of these two categories and convergence (comprising the set of core telecommunication services) were up 2.9%, that is more than double the growth rate in 2019 (1.4%).

Revenues from IT and integration services maintained their high growth rate (24% year-on-year), owing to a combination of robust organic growth as well as the consolidation of BlueSoft acquired in 2019 and, to a minor extent, Craftware acquired in December 2020. A major factor supporting organic growth was the execution in the first half of 2020 of a contract with the Polish Post for the delivery of tablets for postmen and provision of accompanying services.

Revenue evolution in 2020 was also influenced by the following factors:

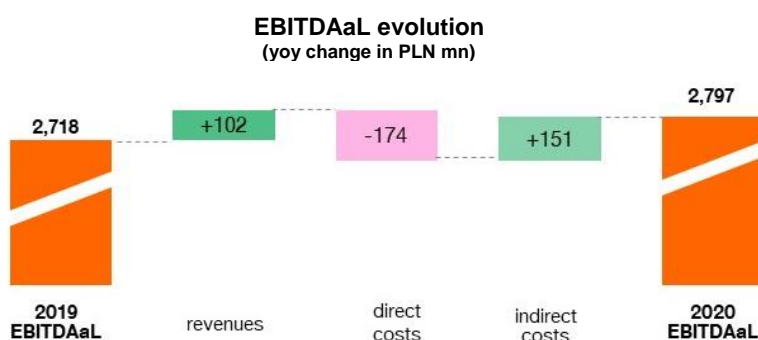
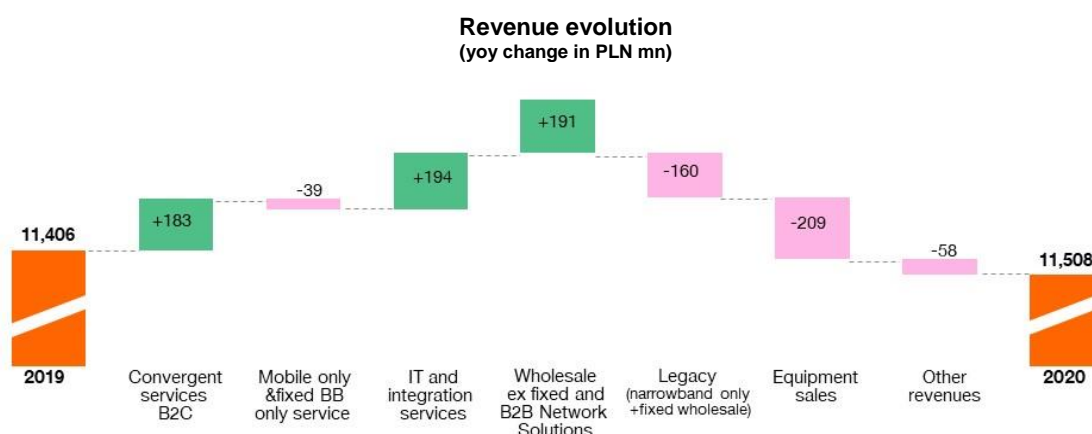
- A further structural decline in fixed voice telephony legacy revenues (by 13% year-on-year);
- A 13% decrease in equipment sales reflecting temporary closure of a considerable part of distribution network and a drop in customer purchases due to the COVID-19 pandemic;
- A 6% increase in wholesale revenues, resulting mainly from much higher mobile traffic owing to the impact of the pandemic;
- A 14% decrease in other revenues due to a change in business terms of energy resale versus 2019.

In 2020, total operating costs (defined as EBITDAaL less revenues) increased, yet less than revenues. As a result, EBITDAaL was up 2.9% (or PLN 79 million) year-on-year. Operating margin (ratio of EBITDAaL to revenues) increased by 0.5 pp to 24.3%. Profitability was positively influenced by improvements in key telecommunication services and last year's price increases. EBITDAaL was significantly affected by developments related to the COVID-19 pandemic. Taking measures to mitigate its negative impact, Orange Polska introduced changes regarding jubilee awards for long service. This enabled us to reverse PLN 64 million of balance-sheet provisions for employee benefits, which was directly reflected in our financial result. On the other hand, we recorded additional provisions, estimating the risk related to bad debts and non-performance of other contractual obligations.

Cost evolution can be attributed mainly to the following factors:

- A decrease of 5% in commercial expenses, resulting from a decline in handset sales as well as savings in advertising and marketing costs;

- A decrease of 9% year-on-year in labour costs, owing to release of provisions for jubilee awards and workforce optimisation related to the implementation of the new Social Agreement;
- An increase of 10% in network and IT costs due to a significant increase in the electricity unit price and the unit distribution fee; and
- An increase of 9% in interconnect expenses due to an exceptional increase in traffic during the peak of the pandemic.



## 2.1 Convergent Services

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

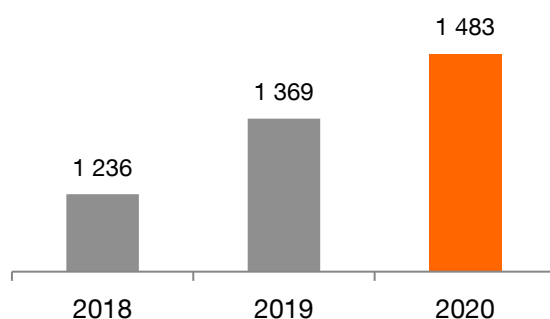
Our flagship convergent offer, Orange Love, remained unchanged in 2020. The pandemic increased the demand for high-speed fixed broadband access, which was largely reflected in sales of our convergent offer. This could be seen particularly in the second half of the year. Our B2C convergent customer base increased by 114 thousand (or 8%), exceeding 1.48 million. It needs to be noted that saturation of our broadband customer base with convergent services has already reached a significant level (65%). The majority of new mobile and fixed broadband acquisitions are still effected in the convergent bundle formula. Our convergent offer is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. The total number of services provided in the convergence scheme among B2C customers reached 6 million, which means that, on average, each convergent residential customer uses more than four Orange services.

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

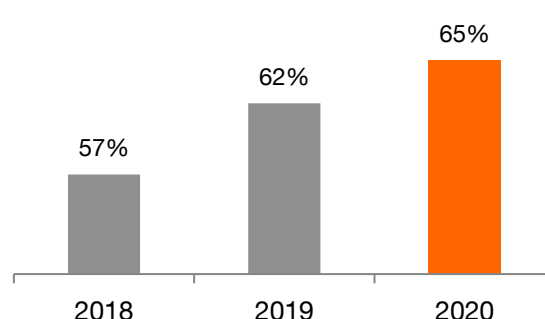
	For 12 months ended		Change Comparable data
	31 Dec 2020	31 Dec 2019 Comparable data	
Convergence revenues (PLN mn)	1,741	1,558	11.7%
Convergence ARPO (PLN)	105.7	102.4	3.2%

In 2020, revenues from convergent services totalled PLN 1,741 million and were up almost 12% year-on-year. The increase was driven mainly by customer base growth, but also, notably, an increase in average revenue per customer, which grew by over 3% year-on-year, mainly as a result of price increases introduced in 2019 and upsell of services.

Convergent customer base (in '000)



Convergence penetration in B2C fixed broadband customer base



## 2.2 Mobile-only Services

Revenues (PLN million)	For 12 months ended		Change Comparable data
	31 Dec 2020	31 Dec 2019 Comparable data	
Mobile-only services	2,557	2,598	(1.6)%

Key performance indicators (number of services) ('000)	31 Dec 2020	31 Dec 2019	31 Dec 2018	Change 31 Dec 2020/ 31 Dec 2019	Change 31 Dec 2019/ 31 Dec 2018
Post-paid mobile services	10,892	10,237	9,922	6.4%	3.2%
convergent	2,787	2,589	2,369	7.6%	9.3%
mobile-only	8,105	7,648	7,553	6.0%	1.3%
Pre-paid mobile services	4,860	5,047	4,883	(3.7)%	3.4%
Total mobile services	15,752	15,284	14,805	3.1%	3.2%

Key performance indicators (PLN)	2020	2019	2018	Change 2020/2019	Change 2019/2018
Monthly blended retail ARPO from mobile-only services	19.6	20.1	21.6	(2.5)%	(6.9)%
post-paid (excluding M2M)	25.8	26.9	28.5	(4.1)%	(5.6)%
pre-paid	12.2	11.8	12.3	3.4%	(4.1)%

As at the end of 2020, Orange Polska had a mobile services base of almost 15.8 million, which is an increase of over 3% vs. the end of 2019. Growth in the post-paid segment offset a decrease in pre-paid services.

In the post-paid segment, SIM card trends were similar to those in 2019:

- Customer base of handset offers was up 4.5%, which was the highest growth in three years, as a result of the consistent implementation of a value-based commercial strategy, concentration on the Orange Love

convergent offer in customer acquisition, growing take-up of the Orange Flex offer and strong additions in all segments of the business market;

- The number of mobile broadband services continued to fall due to increased popularity of mobile broadband for fixed use offers as well as growing data packages for smartphones in mobile voice tariff plans; however, the rate of decline was lower;
- Rapid growth in the number of SIM cards related to M2M services (up 23% in 2020), partly owing to the execution of a contract with Tauron for the delivery of SIM cards for electricity meters.

In order to better reflect our commercial strategy, since the beginning of 2018 we have been presenting separately convergent mobile customers and those who use mobile services only. The number of the former grows rapidly, driven by convergent customer base expansion and upsales of additional SIM cards to Orange Love customers. The number of non-convergent services (excluding M2M) also increased in 2020, after its earlier decline resulting mainly from migration to convergence, churn and lower migration from pre-paid services (as a result of their higher price attractiveness). This rebound was driven mainly by growing business customer base and rapid take-up of the Orange Flex service, which was introduced in 2019.

The number of pre-paid services shrunk by almost 4% in 2020, mainly due to lower activations of new pre-paid cards. This was a consequence of pandemic-related factors, including a decrease in the activity of small businesses, much lower sales to foreign residents and reduced tourism during the summer season.

Blended ARPO (from mobile-only services) amounted to PLN 19.6 in 2020 and was down 2.5% year-on-year. The decrease resulted from a combination of a 4% decline in post-paid ARPO and a 3% increase in pre-paid ARPO.

The post-paid ARPO decline continued to slow down. In 2020 it was 4% versus almost 6% in 2019. The trend improved despite a major negative impact of the drop in international roaming revenues. Excluding roaming, the post-paid ARPO decline was only 0.6%. The improvement resulted from the following factors:

- Focus on value and related price increases (in line with our 'more for more' strategy) in both the consumer market (introduced in May 2019) and the business market (introduced to SOHO customers in November 2018 and February 2020);
- Lower penetration of mobile broadband in the mobile customer base; as a result, post-paid ARPO is less affected by substantial declines in mobile broadband ARPO (reflecting much lower take-up of this service).

### 2.2.1 Market and Competition<sup>1</sup>

The estimated number of SIM cards (55.7 million) increased by 2.2% compared to the end of December 2019, driving the mobile penetration rate (among population) to 145% at the end of 2020. The largest segment of the market is still mobile voice, which maintained a positive annual growth rate. In post-paid services, sales of M2M cards also increased year-on-year, whereas sales of mobile broadband SIM cards decreased (largely due to migration to fixed broadband services and usage of data pools embedded in voice tariffs).

In 2020, Poland's mobile market, like other sectors of the economy, was greatly impacted by the outbreak of the COVID-19 pandemic. The pandemic regulations and restrictions were reflected in changes in telecommunication services consumption patterns among both residential and business customers. A marked increase in mobile data consumption coupled with a slump in roaming and varying intensity of equipment and pre-paid sales in the individual quarters of 2020 were the key elements of the COVID-19 impact on the mobile market.

The mature mobile market in Poland is characterised by low prices compared to other EU countries. However, favourable macroeconomic environment in Poland and upcoming capital investments related to 5G frequency allocation urged a number of operators to adopt 'more-for-more' strategy for their telecommunication services in 2019. This strategy led to offers with value-added services and larger data packages (GB) embedded in the subscription to address current customer expectations resulting from increased data consumption within mobile plans, in return for higher price. A powerful driver for data consumption growth was the outbreak of the COVID-19 pandemic and the resulting need for remote working and learning, higher consumption of digital services (e.g. content streaming and gaming) and a shift in daily activities from offline to online. The trend of enlarging data packages within mobile plans is expected to continue, as mobile service bundles will be expanded to include value-added services. Our strategy of selling convergent packages (bundling mobile and fixed services), followed by Orange Polska for years, has been imitated by market followers. All MNOs have decided to expand their product portfolio to include fixed line services (through acquisitions, wholesale agreements or partnerships). Operators also modify their offers, particularly by changing the way customers can manage services (from a smartphone application), which in the monthly subscription model enables customers to terminate contracts at any point.

Despite continued migration of some customers to post-paid services, the pre-paid segment is still important for MNOs and is highly competitive against the MVNO market. However, due to differences among operators in reporting pre-paid SIM cards, their comparative analysis remains difficult.

<sup>1</sup> Analysis of the mobile market, excluding wireless for fixed offers.



Unquestionably, the most important development in the mobile market in 2020 was to be the auction for 3.4–3.8 GHz frequencies. However, as the auction has not been completed, operators have launched 5G offers using the frequencies they already have.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at 98% as of the end of December 2020, with Orange Polska's estimated market share of 28.4%.

## 2.2.2 Mobile Voice and Data Services

In connection with the market launch of the Orange Love offer in February 2017, we focused on our convergent offer in customer acquisitions, as it enables upsales of additional services and contributes to higher loyalty of customers. Despite significant saturation of our customer base with convergent services, the majority of new mobile voice acquisitions are still effected in the convergent bundle formula. Our strategy is still focused on value and monetisation of the price increases introduced last year.

The implementation of our commercial plans in 2020 was affected by the COVID-19 pandemic. The key development related to our mobile portfolio was a revision of our mobile plans for business customers, which we introduced in February, shortly before the outbreak of the pandemic. The revision reflected our 'more for more' strategy, but it was not a simple price increase. In three out of four new tariff plans, in addition to unlimited calls and SMSs and a data pool, customers can choose from among seven different value-added services within the subscription fee. These include handset maintenance (Orange Smart Care Premium), CyberShield, a package for international calls, an additional data pool in roaming and others. These additional services can be switched throughout the term of the contract.

In the consumer market, we modified our pre-paid portfolio by increasing prices of SMSs and MMSs in some tariff plans and increasing prices of calls from PLN 0.30 to PLN 0.32 for all customers charged per price lists.

A major development was the launch of our 5G service in the 2.1 GHz band in the beginning of July. It is available exclusively in high-end tariff plans for both residential and business customers. At present, our customers are offered over twenty different smartphones which support 5G technology in these frequencies. About 6 million people in almost 400 cities and towns are within the reach of this service.

There were no fundamental changes in Poland's mobile market in 2020. Two out of four operators (Play and T-Mobile) introduced changes in their tariffs to encourage customers to choose more expensive tariff plans. In August, Play increased prices of its pre-paid tariffs based on price lists. At the end of 2020, Plus network operator simplified the structure of its voice tariffs reducing their number from 4 to 3.

## 2.3 Fixed-only Services

Revenues (PLN million)	For 12 months ended		Change Comparable data
	31 Dec 2020	31 Dec 2019 Comparable data	
Fixed-only services	2,081	2,192	(5.1)%
narrowband	798	917	(13.0)%
broadband	856	854	0.2%
enterprise solutions and networks	427	421	1.4%

Key performance indicators (number of services) ('000)	31 Dec 2020	31 Dec 2019	31 Dec 2018	Change 31 Dec 2020/ 31 Dec 2019	Change 31 Dec 2019/ 31 Dec 2018
Fixed voice services (retail: PSTN and VoIP)	2,899	3,109	3,407	(6.8)%	(8.7)%
convergent	855	825	755	3.6%	9.3%
fixed-only	2,044	2,284	2,652	(10.5)%	(13.9)%
Fixed broadband accesses (retail)	2,702	2,607	2,560	3.6%	1.8%
convergent	1,483	1,369	1,236	8.3%	10.8%
fixed broadband-only	1,219	1,238	1,324	(1.5)%	(6.5)%



Key performance indicators (PLN)	2020	2019	2018	Change 2020/2019	Change 2019/2018
ARPO from fixed narrowband-only (PSTN) services	37.0	36.3	36.4	1.9%	(0.3)%
ARPO from fixed broadband-only services	58.0	55.4	56.4	4.7%	(1.8)%

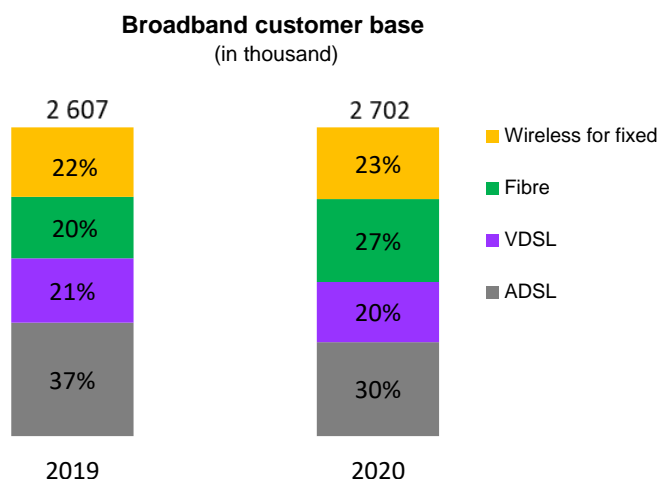
Total fixed broadband customer base increased by 95 thousand (or 3.6%) in 2020, which was markedly higher growth compared to 47 thousand in 2019. The growth acceleration was driven by our fibre service. Our fibre customer base increased by over 200,000 in 2020 or by almost 40% year-on-year. These record-breaking additions can be attributed to three main factors. Firstly, the pandemic and the resulting remote work and learning made high-speed Internet access a basic necessity for a great number of households. Secondly, we are constantly expanding the range of our network, turning increasingly to less competitive areas outside big cities. Finally, as we have improved our sales processes, we are able to increase the service penetration rate in the developed areas more rapidly every year.

The strong growth in fibre is driving the technological transformation of our broadband customer base. The share of fibre in the total broadband customer base increased to 27% at the end of 2020 from 20% a year earlier, while the share of mostly non-competitive ADSL technology fell from 37% to 30%.

In line with the revenue reporting layout introduced in 2018, we separate convergent broadband customers (their number equals to that of convergent customers) from non-convergent broadband customers. Our non-convergent broadband customer base continued to shrink as a result of migration to convergence but also due to churn, but a significantly slower pace: in 2020 the decline was only 19 thousand compared to 86 thousand in 2019. This resulted mainly from the roll-out of our fibre network and higher demand for fixed broadband during the COVID-19 pandemic.

Despite a slight decline in customer base, revenues from fixed broadband-only services remained almost flat year-on-year, which is a major improvement versus a decrease of almost 7% in 2019. It is a consequence of higher broadband ARPO, which rebounded after years of decline. This can be attributed to the following factors:

- Price increases introduced in 2019; and
- Growing share of fibre customers, who generate much higher average revenue per user owing to higher penetration of a TV service, growing share of customers from single-family houses (where the service price is higher), and growing share of customers using high-speed options (600 Mbps and 1 Gbps), which are more expensive.



Erosion of the fixed voice customer base (excluding VoIP) totalled 284 thousand in 2020 and was slightly lower than in previous periods. Reduced churn was a consequence of increased demand for voice communications during the pandemic. The decline in these services can be attributed mainly to structural demographic factors and the popularity of mobile services with unlimited calls to all networks. It is also a result of our convergence strategy, which stimulates partial migration of customers to VoIP. After earlier steady decline, average revenue per user was up 2%. A major factor contributing to this improvement was higher traffic on our fixed line network during the peak of the pandemic.

### 2.3.1 Market and Competition

#### *Fixed Voice Market*

The Group estimates that the fixed line penetration rate was at 16% of Poland's population at the end of December 2020, as compared to 17% at the end of 2019. The decline is still attributable mainly to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed wholesale products based on traditional infrastructure (WLR and LLU).

#### *Fixed Broadband Market*

According to Group's estimates, the total number of fixed broadband access lines, including wireless for fixed technology, increased in 2020 by 0.3 million versus the end of December 2019. This can be attributed to two factors: intensive roll-out of fibre infrastructure and growing popularity of wireless for fixed broadband. After the breakdown of the COVID-19 pandemic, access to high-speed broadband became even more necessary for both businesses, owing to the need to quickly shift a significant portion of operations from offline to online, and households, as for many people their homes became a working or learning place (as a result of remote work or education).

Our LTE offer successfully complements or sometimes (when quality of fixed connection is weak) substitutes for traditional cable lines. In 2020, Orange Polska's LTE for fixed customer base increased by 42 thousand, exceeding 628 thousand lines at the end of December 2020.

Simultaneously, the high-speed fixed broadband market has been constantly expanding and growing in Poland, especially in urban areas, with Orange Polska contributing greatly to the growth. Orange Polska's high-speed broadband customer base increased by 0.2 million year-on-year. The key success factors were rapidly growing range of our fibre network, modernisation of our VDSL network, as well as our convergent offer competitive to cable television (CATV) operators.

Orange Polska's increased activity in the high-speed broadband segment has stimulated the already highly competitive market environment and forced CATV operators to upgrade and enhance their offer even more quickly. In addition, local markets saw a number of dedicated marketing campaigns by CATV operators offering additional discounts for discontinuation of services provided by other operators. As a result of such efforts, the position of CATV operators remains strong. According to Orange Polska's estimates, CATV operators' aggregate share in Poland's fixed broadband market stood at 32% by volume or 22% by value at the end of 2020.

Another factor increasing the competitiveness of cable fixed broadband is the expansion of service portfolio by mobile operators (Play, T-Mobile and Plus) pursuant to wholesale agreements with infrastructure-based operators. This commercial co-operation extends to both networks developed with EU funding and the own networks of fixed-line operators, such as Inea, Vectra or Nexera (which offers wholesale services only).

The rapid growth of the high-speed fixed broadband and wireless for fixed customer base was reflected in an increase in the aggregate number of Orange Polska's fixed broadband users by 95 thousand in 2020.

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

#### **Fixed broadband market – key performance indicators**

	31 December 2020 (estimate)	31 December 2019
Market penetration rate – broadband lines (in total population)	24.9%	24.0%
Total number of broadband lines in Poland ('000)	9,534	9,209
Orange Polska's market share by volume	28.3%	28.3%

#### **Orange Polska's fixed voice market share**

	31 December 2020 (estimate)	31 December 2019
Retail local access*	47.4%	47.9%

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

### 2.3.2 Fixed Line Data Services

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

In big and medium cities we focus on the development of fibre coverage and recovery of market share in fixed broadband by capitalising on our excellent position in the mobile market; whereas in rural areas, mobile technologies, supplemented by fixed ones, are the primary broadband access solution. Our main challenge is to increase the fixed broadband customer base, particularly by cross-sales of mobile services.

As at the end of 2020, more than 5 million households were connectable with our fibre network, which is an increase of almost 800,000 compared to the end of 2019. Our fibre services are available in 154 cities compared to 142 cities at the end of 2019. In 89 cities, our fibre network reaches over 50% of all households. In 2020, we focused more on developing our network in smaller towns, where some districts are dominated by single-family houses. These accounted for over one third of the total network roll-out. On one hand, it involves much higher investments, but on the other hand, we expect much higher demand for our services in single-family residential districts, despite the fact that fibre broadband is more expensive for such customers. It is also favored by lower competition from other fixed-line operators than in large cities.

Our retail fibre customer base reached 725 thousand, growing by 39% (or 204 thousand) year-on-year. It was the highest annual growth in the number of customers in history. Remarkably, net additions in either of the last two quarters of 2020 were record high (54 thousand and 63 thousand, respectively). The service adoption rate (including both our own retail customers and those of other operators selling their services on our fibre network) continued to grow, reaching 15% at the end of 2020 (vs. 12.5% at the end of 2019). Notably, over 70% of fibre activations are new broadband customers for Orange, which means that our market share is increasing. It is specific to the Polish market that customers sign two-year loyalty agreements, which is a factor slowing down customer migration from cable networks to our fibre network. The basic speed of our fibre service is 300 Mbps. Our portfolio includes also higher speeds of 600 Mbps or 1 Gbps for an extra fee. Their share in new acquisitions has been steadily growing, which contributes to an increase in average revenue per user.

As for portfolio developments, we have been greatly promoting convergence, using our strong position in the mobile market. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. The Orange Love offer launched in 2017 greatly contributes to the achievement of these goals. At the end of December 2020, penetration of convergence in our fibre customers was 61%.

A major factor in competing for fixed broadband customers is the quality of the TV offer. Notably, the Polish market is characterised by very little exclusive content. Even expensive TV content (such as rights to broadcast sports events), which in Poland is acquired mainly by satellite platforms, is broadly distributed to cable televisions. Orange Polska continues to follow its strategy as a content distributor, co-operating with all the major content providers. In 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities, which has been regularly upgraded since then in order to meet customer needs.

In rural areas, mobile technologies are the primary broadband access solution and constitute the basis for our wireless for fixed offers. Owing to convenience (no complicated installation) and high quality of our mobile network, such offers are very popular among customers.

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

### 3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

#### 3.1 Market Outlook

Following the anticipated slight decline in the telecommunications market in 2020 due to the impact of the COVID-19 pandemic, particularly affecting equipment sales and roaming revenues, Orange Polska expects the telecommunications market to grow in the coming years. In a short-term perspective, the market in Poland will be driven especially by the following two factors: rapid expansion of very high-speed broadband access (above 30 Mbps), owing to fibre infrastructure investments (including those in the Operational Programme Digital Poland), and growing post-paid customer base in the mobile segment. This is also seen on the demand side as the increased need for connectivity, which the pandemic has highlighted. At the same time, the telco services market will be under pressure due to continuing fixed-to-mobile substitution, both in fixed telephony and traditional broadband (DSL, below 30 Mbps).

In the long run, the market growth will be stimulated by the development of 5G services owing to its higher speed, low latency and internet of things (IoT). We expect also growing penetration of fixed broadband in the coming years, driven by the on-going digitisation of the society and economy, including development of remote working and learning, e-commerce, Internet of Things, e-administration, e-health, etc. Growing demand will be satisfied by increased supply of fixed broadband owing to EU co-financed investment projects carried out by Orange Polska (aiming to reach over 2 million households), fixed line investments by other telecom operators, and constant improvements in mobile connectivity. The activity of operators as well as agreements between them, such as the one between Orange Polska and T-Mobile, on using the constructed infrastructure to provide access to households in multi-family houses in deregulated areas will bring Poland closer to meeting the European Digital Agenda objectives.

As for the mobile services market, we predict positive effects of the changes introduced by the key players, which involved offering larger data packages in return for a slightly higher price, as well as a further shift in the competitive struggle towards quality-based competition. Market growth will still be driven by bundled and convergent offers, combining mobile services with fixed broadband access, as demonstrated by the launch of fixed broadband sales by Play on Vectra's network, conclusion by the Cyfrowy Polsat Group and UPC of agreements to use the Nexera network, or an agreement providing for T-Mobile's access to the Inea network. Furthermore, Play's portfolio transformation towards fixed-mobile convergence has been announced by Iliad, the new owner of this operator.

On the B2B market we expect volume growth to continue as a result of an increase in the number of companies and their employees, as well as the development of the knowledge-based economy. We expect growing popularity of telco offers combined with ICT and machine-to-machine (M2M) services. Telecom operators are expanding their operations into the area of ICT through acquisitions, as illustrated by the acquisition of BlueSoft and Craftware by Orange Polska.

In 2020, mobile operators launched 5G technology in a number of locations in Poland using the spectrum they already had, as the auction for the 3.4–3.8 GHz frequencies had been annulled. In the medium term, the implementation of 5G technology, especially on the 3.4–3.8 GHz band will be also supported by the roll-out of fibre infrastructure, which is currently being developed mainly for fixed broadband purposes. In the long run, the 5G market development will be driven by provision of services on the 700 MHz band, which is to be contributed in kind to the company Polskie 5G [Polish 5G]. In October 2019, the Polish Development Fund (PFR), Exatel and representatives of commercial telecom operators signed a memorandum on the analysis of a business model for Polskie 5G.

The development of Poland's telecommunications market is also driven by subsequent acquisitions. In January 2020, Vectra announced the acquisition of a 100% share in Multimedia Polska, while accepting the conditions set by the Office for Competition and Consumer Protection (UOKiK), that is to dispose infrastructure in 8 cities and enable customers to freely change an operator in a further 13 cities. In August, Play finalised the acquisition of Virgin Mobile Polska (MVNO), for whom it had been the hosting operator.

#### 3.2 Success of the Orange.one Strategy

The implementation of Orange Polska's strategy announced in 2017 ended with the end of 2020. It was based on two main pillars. The first one was massive investments in the fibre network roll-out, which provided the basis for the Group's commercial expansion based on fixed-mobile convergence in the mass market and on convergence and partnership in digital transformation in the business market. The second pillar was business transformation towards higher efficiency across all areas through simplification of business processes and, wherever possible, their automation and digitisation. According to the Company's strategic vision, Orange Polska aimed to become Poland's telecommunications operator of first choice for consumers and businesses, while creating a corporate business model that would generate sustainable sales and profit growth. In addition, our strategic ambition was to achieve the leadership position in the NPS (Net Promoter Score) ranking, that is to become the most recommended operator on the Polish market. Proper implementation of the *Orange.one* strategy was to lead to the development of a business model enabling us to return to a sustainable and stable growth path. In financial terms, this was to result in a gradual improvement in trends, generating sustainable revenue and EBITDA growth.

We believe that this strategy has been a success. In our opinion, Orange Polska has considerably improved its market position in all key segments of the market, and has become a much more efficient operator. The crucial element was our investments in the fibre network, which supports our convergent strategy and provides our long-term competitive advantage. At the end of 2020, almost 5 million households were connectable with our fibre network, which had been our strategic ambition formulated in 2017. A share of fibre customers has tripled over the last three years, reaching 27%. We have achieved a major customer base increase in all key service categories: convergence, fixed broadband and mobile. Simultaneously, our value strategy and fibre expansion have driven a very significant improvement in ARPO trends.

We have met all the financial goals set in our strategy, reversing prolonged negative trends and returning to sustainable growth. Our key measure of operating profitability, EBITDAaL (or EBITDA earlier), has been growing for the last three years, while our revenues have been growing for the last two years. It has been a result of the implementation of our convergence strategy, monetisation of fibre network investments, steady focus on value generation in our commercial activities, 'more for more' pricing strategy and very high cost savings. Operating profitability is improving despite continued structural pressure on high-margin traditional fixed line services, the erosion of which almost fully filters through to profits. The growing operating profitability has led to an increase in cash generation and a decrease in net debt and leverage ratio.

At the end of 2020, we were ranked the #1 operator in terms of customer satisfaction, which had also been our strategic ambition. The highest ever absolute level of NPS is a consequence of our prolonged and consistent efforts to improve all the elements of the 'customer journey', from network connectivity to portfolio structure, sales and customer care.

We also believe that there is room for improvement in certain areas, and we will address it in the next strategic period. We intend to announce our updated strategy in the second quarter of 2021.

	2018		2019		2020	
	promise	result	promise	result	promise	result
Revenue			stabilisation	+2.9% ✓	growth	+0.9% ✓
Adj. EBITDA(aL)	stabilisation	+3.1% ✓	growth	+4.5% ✓	growth	+2.9% ✓
CAPEX (PLNm)	2.0-2.2	2.2 ✓	2.0-2.2	2.1 ✓	~2.0	1.9 ✓
Net debt		ND/EBITDA 2.5x	decreasing	- PLN 0.6bn ND/EBITDAaL 2.2x ✓	decreasing	- PLN 0.5bn ND/EBITDAaL 2.0x ✓

#### We reversed multi-year negative trends and delivered financial turnaround



\*For 2018 the growth refers to adjusted EBITDA. Both adjusted EBITDA (until 2018) and EBITDAaL (from 2019) are key measures of operating profitability used by the Management Board

\*\*2016, 2017, 2018 yoy presents adjusted EBITDA evolution

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

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

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

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

In 2020, Orange Polska S.A. was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the WIG ESG Index announced by the Warsaw Stock Exchange comprises 60 companies. Orange Polska S.A. has been present in the index portfolio since its first edition. The WIG ESG Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.



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

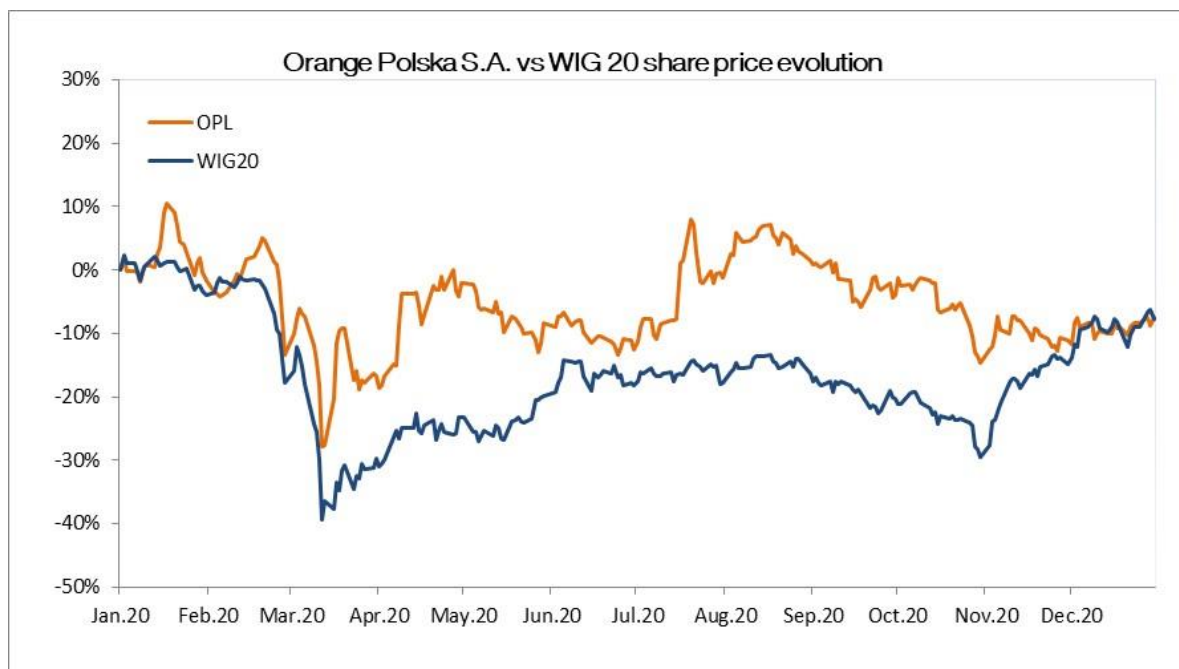
2020 brought losses in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 7%, that is similarly to the large-cap index, WIG20, which lost almost 8% in the period.

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

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

\* For an updated list of brokers with the related institution data please visit the Company's website at [www.orange-ir.pl](http://www.orange-ir.pl)

ORANGE POLSKA S.A. SHARE PRICE in the period from January 1, 2020 to December 31, 2020



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

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

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

The terms of the Programme are as follows:

1. Participation in the programme shall be voluntary.
2. By October 31, 2017, the Programme Participants could purchase a total of up to 2,315,000 phantom shares from the basic pool for a price of PLN 1 per phantom share.
3. In case of meeting certain criteria described in the detailed Regulations of the Programme regarding the average price of Orange Polska shares and NPS (Net Promoter Score), the Participants shall purchase additional packages of up to 1,438,500 and 616,500 phantom shares, respectively.
4. Phantom shares shall be bought back from the Participants by the Company, at Orange Polska's average share price in the first quarter of 2021, only in the case it is not lower than the arithmetic mean of Orange Polska's closing share prices in the third quarter of 2017 (which was PLN 5.46). Otherwise, phantom shares shall not be bought back, resulting in the loss of invested funds by the Participants.

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

### 3.3.2 Orange Polska's Investor Relations

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

Orange Polska Group's financial results are quarterly presented during conferences, which are available also via a live webcast. In 2020, the Company held four results presentations, one conference on the impact of the COVID-19 pandemic on Orange Polska's performance and 146 meetings with investors and analysts from Poland and a number of other countries (due to the pandemic situation the conferences were held online).

Orange Polska's activity and performance are monitored by analysts representing both Polish and international financial institutions on a current basis. In 2020, a dozen or so financial institutions published their reports and recommendations concerning the Company.

On March 2, 2020, CFO of Orange Polska answered retail investors' questions during an investor chat held by the Association of Individual Investors. Several dozen individual investors asked their questions during the chat.

On November 27, 2020, Orange Polska took part in the WallStreet 24 online conference, an annual event organised by the Association of Individual Investors for investors from Poland and other countries of Central and Eastern Europe. The Company's input included an online discussion with individual investors and an interview with Jacek Kunicki, CFO published on Association's website and distributed among the conference participants.

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

In 2020, Orange Polska published its fourth integrated annual report. It covers both financial and non-financial aspects of the Company's business. The report presents the Company's business model, value creation story, the economic and social context of its operations, strategy implementation, governance model, corporate governance, risk management and environmental impact. The content and layout of the report are based on the International Integrated Reporting Council (IIRC) guidelines, Global Reporting Initiative (GRI) Standards, ISO 26000 and Global Compact principles.

Orange Polska received an honourable mention in the 14th edition of the Social Reports Competition in the integrated report category for its 2019 report. The award was given for "consistently high quality of non-financial reporting, transparent data presentation and development of a report which may provide an inspiration for other organisations." The Social Reports Competition is organised by the Responsible Business Forum and Deloitte. Its partners include the Ministry of Finance, the Ministry of Economic Development, the Polish Association of Listed Companies, the Polish Consumer Federation and the Warsaw Stock Exchange.

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

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

### 4.1 Impact of the COVID-19 Pandemic on Orange Polska's Operations

As an organisation, we promptly reacted to this unprecedented emergency situation by swiftly organising remote work for about 10,000 employees within a few days, thus ensuring the continuity of all our business processes and all our services provided to customers under the new sanitary regime without compromising the quality thereof. Our business operations proved to be relatively immune to the negative impact of the pandemic. We derive majority of revenues and profits from subscription-based services, which generate predictable revenue streams. Data and voice connectivity has become more essential than ever to the needs of consumers and businesses. As the pandemic has particularly validated the investments in network quality, the demand for fixed broadband connectivity, particularly fibre services, has remained strong.

Naturally, the pandemic has had and is still having a negative impact on the Group's performance. Lower customer demand combined with the lockdown and the resulting closure of a significant part of physical points of sale (between mid-March and beginning of May) contributed to lower-than-previously-expected sale of new services and significantly impacted sale of equipment (revenues from equipment sales were down 13% year-on-year in 2020). This affected the pace of monetisation of our 'more for more' strategy, which we implemented last year. Closure of borders and restrictions regarding people's mobility affected international roaming revenues, which were down 40% year-on-year in 2020. This negatively influenced mainly revenues from mobile-only services. There was a slowdown in the IT/IS market and a slump in the real estate market, on which we are trying to actively sell some of our properties as part of our asset base transformation.

The pandemic has a significant negative impact on the Polish economy. In 2020, Poland's GDP is estimated to have fallen by 2.8%. There is uncertainty regarding the evolution of the pandemic in 2021 and recovery thereafter. The economic downturn has a negative impact on the operations of some of our customers, mainly on the business market. This had no significant impact on the Group's performance in 2020, but there is a risk that it will influence our results in 2021. To account for that risk, Orange Polska increased the value of the provision for receivables by PLN 25 million due to the higher risk of collection.

The Management Board launched additional measures to partially mitigate the negative impact of the pandemic on the Company's business goals. In particular, on June 4, 2020 we announced the conclusion of an amendment to the Collective Labour Agreement regarding jubilee awards for long service. As a result of this amendment, we reversed provisions for employee benefits in the amount of PLN 64 million. This increased our profits in 2020 and will allow for lower cash-out in the years to come. Also in June, we signed with trade unions an amendment to the Social Agreement. In particular, this provided for a reduction in the rate of basic salary increases in 2020 from 3.5% to 1.0%. We also initiated other cost efficiency measures beyond those planned within the framework of our on-going transformation. To keep economic Capex (eCapex) within the expected range (PLN 1.7–1.9 bn), we are optimising investment outlays to offset lower-than-previously-expected proceeds from asset disposal.

Owing to relative resilience of our core business and additional compensating measures, we reported 2.9% year-on-year growth of EBITDAaL in 2020, which was in line with our guidance provided at the beginning of the year.

### 4.2 End of Implementation of Orange Polska's *Orange.one* Strategy and Announcement of a New Strategy

The implementation of Orange Polska's strategy announced in 2017 ended with the end of 2020. It could be simplified to two pillars. The first one was massive investments in the fibre network roll-out, which provided the basis for the Group's commercial expansion based on fixed-mobile convergence in the mass market and on convergence and partnership in digital transformation in the business market. The second pillar was business transformation towards higher efficiency across all areas through simplification of business processes and, wherever possible, their automation and digitisation. According to the Company's strategic vision, Orange Polska aimed to become Poland's telecommunications operator of first choice for consumers and businesses, while creating a corporate business model that would generate sustainable sales and profit growth. The *Orange.one* strategy led to the reversal of prolonged negative financial trends.

We intend to announce our new strategy in the second quarter of 2021. We expect it to be the continuation of *Orange.one* in its main pillars, while adding some new elements. Certainly, its major element will be the 5G network development, which opens up new perspectives in both business and consumer market. We also want to become a more innovative company, focusing to a greater extent on artificial intelligence and virtual reality. Furthermore, there are growing volumes of data globally which need to be stored and analysed, and we want to be involved in this process. We see development opportunities for our Company in the area of digitisation of e.g. sales and customer relations processes. Importantly, we strive to consider the impact of our operations on both the economy and the environment, so sustainable development will be another major element. We intend to diversify our energy mix, so that a portion of it will come from renewable sources. We will assist our customers



in making more eco-friendly choices, e.g. by enabling recycling of broken handsets and buy-back of those no longer used. Finally, we want the improvement in our financial results to stem more from revenue growth than cost savings.

### 4.3 FiberCo Project: Potential Partnership in Further Fibre Network Roll-out

Considering the market potential for further development of fibre network in Poland, strong demand for high-speed Internet among customers and significant value-creation potential for the Company, we have launched a project temporarily called FiberCo, whose key objective will be the roll-out of FTTH access network to about 1.7 million households in Poland, predominantly in the areas without high-speed broadband infrastructure. According to the plan, Orange Polska would contribute about 0.7 million of its existing FTTH footprint to FiberCo. FiberCo would operate as an open network granting access on wholesale terms to Orange Polska and other retail operators. We would like to implement this project with an external partner. We believe that the market potential and our parameters will be attractive to funds investing in infrastructure assets with a very long investment horizon. The project provides for the sale by Orange Polska of a co-controlling stake in FiberCo to the investor. It should be noted that these are preliminary project parameters which may evolve during the process. The project is currently at an early stage. We expect its signing by the end of the first half of 2021.

### 4.4 Implementation of the 'More For More' Strategy in the Consumer Market

From the end of 2018 we successively changed our price lists of most services on the consumer and business markets. This was effected in the 'more for more' formula, that is higher prices were always accompanied by additional benefits for customers. The higher prices are a consequence of, inter alia, the following developments:

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

In particular, in 2019, in our mobile voice tariffs, we raised all four subscription fees by PLN 5, while offering in return increased data packages for use in Poland and across the European Union. In our flagship convergent offer Orange Love, we raised the price of the standard package by PLN 10, while offering in return faster fibre broadband speed (300 Mbps instead of 100 Mbps) and a larger data package on the SIM card. In our fixed broadband portfolio, the effective prices were increased by PLN 5 in return for faster fibre broadband speeds. Over the last two years we also modified a large portion of our pre-paid service elements and tariffs. In February 2020, just before the outbreak of the pandemic, we presented a modified and highly innovative service portfolio to our business customers. Rather than introducing a simple price increase, we encouraged customers to choose high-end packages by embedding numerous additional services in the subscription fee.

Higher service prices are in line with our strategy focused on value and growth of revenue and profits. Higher prices apply exclusively to newly signed contracts with customers in the acquisition and retention process; the terms of existing contracts do not change. Consequently, such pricing gradually contributed to improvements in the ARPO, revenue and EBITDAaL trends. The effects were clearly seen in the results of 2020. In particular, there was a significant improvement in ARPO evolution in both convergent and fixed broadband-only services. As a result, the trend of revenues from core telecommunication services improved. Combined revenues from convergent, mobile-only and fixed broadband-only services were up 2.9% in 2020 compared to 1.4% growth in 2019.

### 4.5 Preparations for the 5G Launch in Poland

#### *Auction Procedure for Frequencies in the 3480–3800 MHz Band*

On March 6, 2020, following two rounds of public consultation, the President of UKE announced the launch of an auction procedure to allocate four nationwide frequency blocks in the 3480–3800 MHz range, the primary pioneer band for 5G. Four licences of 80 MHz each, valid for 15 years, were to be allocated in the process. Only one entity from each group of companies was eligible to participate in the auction. Each participant (or its group) had to demonstrate a record of investments of at least PLN 1 billion in telecommunications infrastructure between 2016 and 2018 and to hold a frequency licence in the 800, 900, 1800, 2100 or 2600 MHz band (it is of paramount importance, as the 5G network will be initially deployed in a Non-Standalone (NSA) architecture). The starting price for each block was set at PLN 450 million. The auction winners were to launch 5G over at least 700 base stations using the allocated frequencies by the end of 2025. The closing date for submitting initial bids was set at April 23, 2020.

On April 16, 2020, due to the pandemic situation, the President of UKE suspended the auction procedure, effective from March 31, 2020. The Act of May 14, 2020 amending certain acts regarding protection measures in connection with the spread of the SARS-CoV-2 virus ("Anti-Crisis Shield 3.0") obligated the President of UKE to annul the on-going auction procedure without delay (as the draft reservation decisions did not include the requirements for the safety and integrity of telecommunication infrastructure and services introduced by the aforementioned Act).

Orange Polska submitted an initial bid in the action in April 2020. Such bids were also submitted by the other three infrastructure-based operators (T-Mobile, Play and Polkomtel). On June 12, 2020 Orange Polska received a decision on the auction annulment.

In September, the Polish parliament appointed the new President of UKE. In November, a draft regulation on the deadline for allotment of the 3600–3800 MHz band was released for public consultation. It provides that the spectrum will be allocated to operators by August 27, 2021. Hence, the auction process may be expected to be relaunched in the beginning of 2021. Most likely, its terms would be similar to those of March 2020, though expanded to include cybersecurity requirements. If the frequencies are finally allocated to operators by the end of August 2021, the latter will presumably launch their initial 5G services on the 3480–3800 MHz spectrum band late in the third quarter or early in the fourth quarter of 2021.

#### *Commercial Launch of 5G Services in the 2100 MHz Band*

Orange Polska maintains its position that only quick allocation of frequencies in the 3400–3800 GHz spectrum band will enable the launch of full-fledged 5G services of adequate parameters for customers in Poland. Due to the auction annulment, the Company has decided to implement Dynamic Spectrum Sharing (DSS) in the 2100 MHz band, which allows dynamic allocation of spectrum resources to 4G or 5G as required. Consequently, as from July 1, 2020 Orange Polska is offering commercial 5G services via a network of 1,600 base stations located in 370 cities and towns in Poland, to the largest extent in Warsaw, Łódź, Cracow and the Upper Silesian conurbation.

#### *Preparations for the 5G Network Implementation in Poland*

It is Orange Polska's ambition to actively participate in implementation of the 5G network in Poland in order to provide our customers with access to this network and modern services based on it. The on-going roll-out of our fibre network is a precondition for the efficient operation of the future 5G mobile network. Following a series of tests in the Orange Cities project, which started in 2019 in Warsaw and Lublin on the 3.6 GHz band and involved both journalists and our employees and customers, in December 2020 the Company signed an agreement with the Łódź Special Economic Zone for the development of an internal 5G network on the 3.6 GHz band. The network will be completed at the beginning of 2021 and will provide range inside their headquarters. Furthermore, Orange Polska has been actively involved in discussions about future bandwidth distribution plans, coming up with initiatives aimed to ensure quick and effective 5G spectrum allocation.

## **4.6 Acquisitions of BlueSoft and Craftware to Strengthen Operations to Business Customers**

One of the key elements of our strategy for the business market is to become the long-term strategic partner for our customers in digital transformation. It means that on top of connectivity, telecommunication services and IT infrastructure, we also need to provide them with comprehensive solutions, particularly in the area of software engineering, cloud and cybersecurity. In the *Orange.one* strategy we declared our intention to expand the ICT business, which offers high growth potential and considerable synergies with our core operations. These synergies have recently become higher than ever owing to on-going digitalisation processes in enterprises. For several years, we have successfully developed ICT technologies in Orange Polska through our subsidiary Integrated Solutions, which is among the top three IT integrators in Poland. Over the last three years, we have increased our ICT revenues by 120%. We focus mainly on organic development, which is supplemented by acquisitions. We carefully select acquisition targets to add specific competencies. The acquisitions of BlueSoft and Craftware perfectly complement our competencies and significantly increases our competitive edge against both alternative telecom operators and pure ICT companies. We expect significant revenue synergies from both acquisitions to be realised in subsequent years.

BlueSoft, which was acquired by Orange Polska in 2019, provides multiple IT services in areas with high-growth potential: application development and integration, system customisation, analytics and cloud services. A great majority of BlueSoft's revenues comes from development and integration of customised applications, which include customer-facing portals (particularly for e-commerce) and back office platforms and systems. BlueSoft sells its products to a diversified portfolio of blue-chip customers from multiple industries, including banking & insurance, utilities, pharma, telecommunications and logistics.

Craftware, which was acquired by the Group in December 2020, offers the analysis, design and implementation of customer relationship management (CRM) systems. It has extensive experience in the implementation and integration of connected CRM systems, specialising in Salesforce, which is world's #1 CRM platform used by more than 150,000 companies worldwide. Craftware's customer base includes blue-chip companies from the pharmaceutical, FMCG, retail and finance industries. With the acquisition of Craftware, we have gained exposure to this fast growing market segment and further opportunities to use our existing competencies, particularly in the areas of cybersecurity, IT infrastructure hybridization, application integration and migration to cloud.

## 4.7 Infrastructure Development

### *Fixed Line Network*

Since 2015, in line with the adopted strategy, we have focused on massive development of FTTH lines. At the end of 2020, 5 million households in 154 Polish cities were connectable with our fibre network. The network roll-out has been maintained at a high rate of approximately 0.8 million households and businesses annually.

The number of households connectable to Orange Polska's VDSL network stood at over 5.3 million at the end of 2020. VDSL range has not increased over the recent years, mainly because of the prioritisation of fibre network investments.

Our strategy of development of services based on FTTH lines assumes not only construction of the Group's own infrastructure but also wholesale agreements with other fibre network operators and efficient use of the existing fibre infrastructure in the relevant locations, wherever it is technically possible and economically viable. We have been signing agreements with fibre infrastructure providers since 2015. The main benefit is quicker access to the FTTH network. This is in line with the aims of the Cost Directive of the European Commission, which recommends avoiding duplication of the existing facilities. At present, Orange Polska uses the infrastructure of 42 operators for approximately 950,000 households.

Orange Polska is Poland's largest wholesale service provider. There has been growing demand for transmission bandwidth, particularly lines of capacity of 1 Gbps or 10 Gbps. In order to meet customers' needs, Orange Polska has been systematically expanding nationwide OTN (Optical Transport Network) trunk lines. In 2020, we increased the number of OTN transport nodes, thus expanding the aggregate network capacity from 4.6 Tbps at the end of 2019 to 7.0 Tbps at the end of 2020.

Orange Polska is Poland's sole operator of a network to which all the Emergency Communication Centres (ECCs), answering calls to the emergency numbers 112, 997, 999 and eCall, are connected. Furthermore, about 90% of all emergency numbers in Poland (over 800 locations) are connected to Orange Polska's network. This provides the Company with revenue from alternative operators for emergency call termination on the Orange network, as well as subscription revenue.

The Call Setup Success Rate on the fixed network stood at 99.09% at the end of December 2020, which confirms very high quality of Orange Polska's fixed-line services.

### *Mobile Network*

Orange Polska has been steadily increasing the number of its base stations and enhancing their capacity. In 2020, our customers got access to a further 271 base stations. 4G coverage for all bands was 99.88% of the population on 98.43% of Poland's territory at the end of 2020. Orange Polska provided LTE services via 11,611 base stations. In response to rapid growth in data traffic volume, we have steadily increased the number of sites that enable spectrum aggregation; their number reached 9,831 at the end of December 2020 compared to 8,928 at the end of 2019.

In 2019, the Company completed a project in Warsaw to increase the 4G capacity by upgrading base stations to 4x4 MIMO (Multiple Input Multiple Output). In 2020, this project was expanded to include Łódź, Cracow, the Upper Silesian conurbation and the city centres of Poznań, Wrocław, Opole, Częstochowa, Rzeszów, Kielce, Bielsko-Biała and Tychy. As at the end of December, the number of 4x4 MIMO base stations reached 1,502. The hardware upgrade required to launch 4x4 MIMO enabled also the 5G activation in the Dynamic Spectrum Sharing (DSS) mode on the same base stations, that is sharing of a 10 MHz channel within the 2100 MHz band between 4G and 5G. DSS on these sites was launched commercially on July 1, 2020. The number of our 5G-enabled base stations with DSS stood at 1,638 at the end of 2020.

Orange Polska conducted intensive 5G tests on the 3.5 GHz band in Warsaw, Lublin and Chorzów.

Our spectrum refarming project, which spanned over three years (2018 to 2020), was completed in June 2020. This involved modernisation of base stations to increase the frequency spectrum allocated to LTE, which enabled aggregation of additional bandwidth. Consequently, LTE was activated on the 2100 MHz band on 9,256 base stations.

We are gradually implementing the LTE-M technology on the 800 MHz band for Internet of Things. LTE-M is currently available nationwide on 8,831 base stations, which corresponds to 98.18% of all LTE-800 sectors.

## 4.8 Competition in the Telecommunications Market

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

This integrated approach to provision of telecommunications services was pioneered by Orange Polska. It was followed by the Cyfrowy Polsat Group, which introduced convergent services upon acquisition of Netia. In June 2019, T-Mobile launched its convergent offer, providing fixed broadband services pursuant to wholesale agreements with Orange Polska, Nexera and Inea.

In the second quarter of 2020, Play also expanded its mobile portfolio to include fixed broadband service, pursuant to co-operation with Vectra, a cable TV operator, through wholesale access to broadband services based on the DOCSIS technology.

In 2020, the most important development in the market was definitely the takeover of Play by French operator Iliad, which may have a significant impact on the market dynamics in the future. According to official announcements, Iliad is planning Play's expansion to the fixed market, which confirms the underlying market trend. It is not yet clear how Play intends to build the reach of its fixed-line services.

The market is preparing for new technical solutions enabled by 5G technology. Soon, a major issue to be decided will be 5G offer positioning in the market in terms of available handsets, mobile tariff plans and related value-added services.

The market of Internet providers in Poland is still very fragmented, so further market consolidation as well as CATV operators' geographical expansion in smaller towns should be expected. Acquisition of Multimedia Polska by Vectra in the first half of 2020 confirms the consolidation trend and that the market is highly competitive.

In 2020, investments in the fibre infrastructure based on EU funds have continued to play a major role in the market. Owing to EU co-financing, such projects are possible even in non-urban areas, where investments in fibre have not been economically viable hitherto.

From Orange Polska's perspective, development of fibre infrastructure in semi-urban areas poses a major challenge to defend our market position, but at the same time a major opportunity to attract new customers to our retail offer by using the newly constructed networks on wholesale terms. There are over 2 million households in the areas covered by the investment projects carried out in the Operational Programme Digital Poland. These are largely areas out of reach of fixed-line telecom networks or areas where provision of high-speed broadband services is not technically possible.

#### **4.9 Evolution of the Group's Distribution Network**

In 2020, the COVID-19 pandemic weighed heavily on Orange Polska's distribution and sales network, as it generally affected numerous aspects of life. Restrictions regarding people's mobility or closure of shopping galleries that were imposed in March forced customers to change their purchase behaviours. In line with government guidelines, all our outlets located in shopping centres were also temporarily closed for a period of six weeks (between March 13 and May 4, 2020). During the second wave of the pandemic, shopping centres were partially closed from November 7, 2020 and even though selected service outlets, including ours, remained open, this reduced customer traffic in our points of sale.

While access to physical points of sale was hindered or impossible, customers were choosing online purchases much more frequently. High effectiveness of our Online channel is supported by marketing campaigns based on behavioural customer profiles, as well as online and offline events. Owing to marketing automation and artificial intelligence tools, customers are recommended offers which best suit their needs.

The second half of 2020 brought the intensive development of the version 5 of the 'My Orange' application and the resulting user migration from the previous release. The new application is highly intuitive and user-friendly, significantly facilitating the purchase of Orange Polska's products and services. In particular, it features incomplete purchase reminders and enables purchase of Orange Love (which was not possible directly from the application before).

The Telesales channel, which is operated by our external partners and our own call centre, also performed very well in the reported period. In this channel we concentrate on dedicated campaigns accounting for customer profiles and behaviour patterns to ensure best offer customisation. Owing to specialisation and development of competencies of our consultants, we are highly effective in our operations, while great focus on retention campaigns enables us to effectively secure our customer base and mitigate churn.

In addition to Telesales, there is also a service infoline, which combines customer care with account management. Furthermore, we are developing an innovative artificial intelligence solution for handling incoming calls: Max, a bot helping customers to settle matters related to Orange services.

After the restrictions were lifted, customers largely returned to their purchase preferences and physical points of sale (POS) became the most popular sales channel once again. Orange Polska has a chain of 687 POSs all over Poland (vs. 710 at the end of 2019). Our 'Best Retail Network' project is underway. Solutions previously only implemented in the large Smart Stores, such as intuitive and functional interiors, are also being implemented in smaller outlets to meet customers' needs. By the end of 2020, 317 (or 46%) of our outlets had been modernised in a new visualisation. The changes introduced are appreciated by our customers, as confirmed by a Kantar poll which indicates that another year in a row we are the #1 network in terms of transactional NPS for our outlets (i.e. customers visiting Orange outlets declare that they would recommend a visit there to others more frequently than customers of alternative operators do that with respect to their outlets).

Customers can also benefit from direct contact with representatives of our Active Sales channel. Orange Polska uses advanced geomarketing tools for efficient planning of sales territories. Typically, our sales representatives operate in urban areas of our fibre investments.



Our pre-paid top-ups are available in over 80,000 retail POSs (grocery stores, kiosks and petrol stations). Consumer behaviour with respect to topping-up has been evolving, and this process has accelerated at the time of the COVID-19 pandemic. Our customers increasingly recharge their pre-paid accounts in remote channels (through online banking portals, mobile apps and orange.pl website). In 2020, there was an increase of 35% year-on-year in top-up sales through online channels.

The period of the pandemic has demonstrated that Orange Polska's distribution network is prepared to face any eventuality. The availability of multiple sales channels enables us to meet the expectations of various groups of customers regardless of their preferences and needs, also in case of random conditions like the state of pandemic.

#### 4.10 Regulatory Environment

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

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

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

##### **Regulatory Obligations**

Pursuant to the President of UKE's decisions, Orange Polska S.A. is deemed to have a significant market power (SMP) on the following relevant wholesale markets:

- market for call termination on Orange Polska S.A.'s fixed line network (FTR);
- market for provision of wholesale (physical) access to network infrastructure (LLU), including shared or fully unbundled access, in a fixed location, excluding 51 municipalities where the market was recognised as competitive in October 2019;
- market for wholesale broadband access (BSA) services, excluding 151 municipalities where the market was recognised as competitive in October 2019;
- market for high quality access services in a fixed location up to 2 Mbps inclusively; and
- market for call termination on Orange Polska S.A.'s mobile network (MTR).

In the market for call origination on a fixed public telephone network, the relevant regulatory obligations remained in force only to October 1, 2020 (pursuant to a deregulation decision issued in 2018).

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

In 2020, the President of UKE requested Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. and Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością Consulting sp.k. conducted an annual regulatory audit of Orange Polska for 2019. The audit ended on August 24, 2020 by issuing a unqualified audit opinion.

##### *Access to Outdoor and Indoor Cable Ducts and In-house Wiring in Multi-family Houses*

The President of UKE has issued decisions determining the terms of access to outdoor and indoor cable ducts and in-house wiring in multi-family houses with respect to both Orange Polska and other six major infrastructure-based operators in Poland, namely UPC, Vectra, Inea, Netia, Toya, and Multimedia Polska. However, the operators have appealed against UKE's decisions and the relevant court proceedings are pending, though the decisions remain immediately enforceable.

##### *Access to Orange Polska's Fixed Network*

On December 24, 2019, the President of UKE issued a decision obliging Orange Polska S.A. to prepare an amendment to its reference offer to include points of interconnection of telecommunications networks in the IP/SIP technology. Orange Polska S.A. appealed against this decision to the Regional Administrative Court. On October 23, 2020, the Regional Administrative Court rejected the Company's appeal. As soon as Orange Polska S.A. receives the statement of reasons for the rejection, it will consider a cassation appeal to the Supreme Administrative Court. Simultaneously, due to the immediate enforceability of the decision, on March 30, 2020,

the Company submitted a draft amendment to its reference offer for the President of UKE's approval. The relevant administrative procedure is pending.

#### *Decisions Changing the Terms of Provision of the BSA Service*

The President of UKE, upon request of Orange Polska S.A., issued two decisions changing the terms of provision of the Bitstream Access service to adjust them to the current market situation:

- A decision of October 23, 2020, which differentiated BSA service fees depending on whether the service is provided in a single-family or multi-family house and updated the range of available service options by adjusting them to the current retail offer of Orange Polska; and
- Another decision of October 23, 2020, in which the President of UKE introduced an option to provide a 100G interface in Service Access Points and lifted quantitative restrictions for activated 10G interfaces.

#### **Potential Regulatory Changes**

Regulations affecting Orange Polska S.A. are subject to periodical reviews in order to adjust them to the current market situation. Currently, UKE is carrying out proceedings to determine the competitiveness of the market for high quality access services in a fixed location up to 2 Mbps inclusively and confirm the competitiveness of this market over 2 Mbps.

#### *Call Termination on Fixed and Mobile Networks*

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

The Delegated Regulation supplementing Directive (EU) 2018/1972 of the European Parliament and of the Council by setting a single maximum Union-wide mobile voice termination rate and a single maximum Union-wide fixed voice termination rate was promulgated on December 18, 2020. The Delegated Regulation set the following termination rates:

- The single maximum Union-wide mobile voice termination rate will be EUR 0.2 cent/min from January 1, 2024. The following glide path will apply:
  - EUR 0.7 cent/min – we estimate that this rate will apply from May 1, 2021;
  - EUR 0.55 cent/min – from January 1, 2022 to December 31, 2022;
  - EUR 0.4 cent/min – from January 1, 2023 to December 31, 2023.
- The single maximum Union-wide fixed voice termination rate will be EUR 0.07 cent/min from January 1, 2022. Until then, a transitional rate of EUR 0.111 cent/min (PLN 0.005/min) will apply in Poland. We estimate that this rate will apply from May 1, 2021.

#### *Amendment to the Telecommunication Law*

By December 21, 2020, all EU member states were to transpose into national legislation the European Electronic Communications Code (established by the Directive (EU) 2018/1972 of the European Parliament and of the Council of 11 December 2018). The implementation of legislation changes relevant to the telecommunications sector is supervised by the Chancellery of the Prime Minister, which is currently carrying out the legislative process for a new bill regulating the functioning of the telecommunication market: the Electronic Communication Law.

#### **Compensation for Universal Service Costs**

From 2006 to 2011, Orange Polska S.A. was the operator designated to provide the universal service, which included access to a fixed network, domestic and international calls (including dial-up and fax services), payphone service and directory inquiry service. Owing to unprofitability of the universal service, Orange Polska S.A. applied to UKE for compensation.

Between 2007 and 2012, the President of UKE granted compensation of PLN 137 million, which was lower than requested by Orange Polska S.A. Therefore, the Company exercised its right to appeal.

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

At the same time, procedures to determine the share of individual operators in the compensation of the universal service net cost deficit are pending.

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

Out of the initially granted compensation for 2006–2011, Orange Polska S.A. received PLN 4.8 million in 2020, while PLN 1.3 million is still due.

### **Major Changes in Legislation**

In 2020, there was a number of changes in legal environment with respect to both general law and provisions specific to the telecom sector. Some of them were introduced urgently due to the nationwide state of pandemic. Such modification of legal environment entails constant and diligent monitoring and may require allocation of resources to implement new regulations.

#### Domestic Law

- On January 1, 2020, the Regulation of the Minister of Health on the acceptable electromagnetic field levels in the environment came into force. It set limits consistent with the Council Recommendation 1999/519/EC, which is based on the International Commission on Non-Ionizing Radiation Protection (ICNIRP) guidelines;
- On February 19, 2020, the Regulation of the Minister of Climate of February 17, 2020 on the means of verifying compliance with the acceptable electromagnetic field levels in the environment came into force;
- On December 29, 2020, the Regulation of the Minister of Digital Affairs of June 22, 2020 on the minimum technical and organisational measures and methods to be used by telecommunication operators to ensure security or integrity of networks or services came into force;
- On August 28, 2020, the Regulation of the Council of Ministers of August 19, 2020 on the action plan of a telecommunication operator in the event of specific hazards came into force.

#### Changes in Legislation Related to the COVID-19 Pandemic

- On March 8, 2020, the Act of March 2, 2020 on specific solutions to prevent, counteract and combat COVID-19, other infectious diseases and crisis situations caused by them came into force.
- On March 31, 2020, the Act of March 31, 2020 amending the act on specific solutions to prevent, counteract and combat COVID-19, other infectious diseases and crisis situations caused by them and certain other acts came into force. It included mainly general economic solutions.
- On April 18, 2020, the Act of April 16, 2020 on special support instruments in connection with the spread of the SARS-CoV-2 virus came into force. It supplemented the previously adopted solutions and introduced changes directly relevant to telecommunication operators, including the obligation to provide certain positioning data upon request of the Minister of Digital Affairs and the obligation to provide unlimited access (without affecting data transmission limits) to the websites listed by the Minister of Digital Affairs.
- On May 16, 2020, the Act of May 14, 2020 amending certain acts regarding protection measures in connection with the spread of the SARS-CoV-2 virus came into force. It introduced regulations affecting the telecommunications sector, particularly with respect to the term of office of the President of UKE, selection procedures regarding radio frequencies, 5G network security and partial implementation of the European Electronic Communications Code provisions regarding certain rights of subscribers into the Telecommunication Law (effective on December 21, 2020).
- On June 24, 2020, the Act of June 19, 2020 on subsidies to interest rates of bank loans granted to entrepreneurs affected by COVID-19 and on simplified procedure for approval of a composition agreement in connection with COVID-19 came into force.
- In connection with the spread of the COVID-19 disease, the state of epidemic emergency was introduced in Poland between March 14 and March 20, 2020 (pursuant to the Regulation of the Minister of Health of March 13, 2020 on declaring the state of epidemic emergency in the territory of the Republic of Poland). Since March 20, 2020, there has been the state of epidemic in Poland (pursuant to the Regulation of the Minister of Health of March 20, 2020 on declaring the state of epidemic in the territory of the Republic of Poland). Since March 14, 2020, subsequent changes in legislation in the form of regulations have introduced various restrictions, orders and prohibitions related to the state of epidemic for both natural persons and enterprises.

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

- Draft Electronic Communication Law and draft Act introducing the Electronic Communication Law;
- Draft Regulation amending the Regulation of the Minister of Digital Affairs of July 8, 2019 on the time schedule of assignment of certain spectrum resources used for civilian or civilian-government purposes, which sets a new deadline for the 3.7 GHz bandwidth distribution.
- On January 21, 2021, the Chancellery of the Prime Minister published new versions of the draft Act on the national cybersecurity system and draft Telecommunications Law for further proceeding at the

government level. Both the initial draft and its modified version provide for a mechanism of hardware and software vendor evaluation and determine the consequences of recognising a particular entity as a high risk vendor. The draft also includes some new provisions concerning "strategic communication network operators" and spectrum allocation method, which were not covered by earlier public consultation.

#### EU Law

- The discussions in the EU Council regarding the Regulation on privacy and electronic communications (ePrivacy) have been going on since 2017 due to lack of consensus among the Member States;
- The legislative package on the new multiannual financial framework 2021-2027 has been adopted. In parallel, the Next Generation EU, a new solvency support instrument in response to the COVID-19 pandemic, is being finalised. It is to be finally adopted in 2021.
- In 2020, the European Commission launched a revision of Directive 2014/61/EU of the European Parliament and of the Council of 15 May 2014 on measures to reduce the cost of deploying high-speed electronic communications networks, which will continue in 2021.
- On December 15, 2020, the European Commission proposed a package to reform the European digital space: Digital Services Act (DSA) and Digital Market Act (DMA).

#### **4.11 Claims and Disputes, Fines and Proceedings**

Please see Note 30 to the Consolidated Full-Year Financial Statements for 2020 for detailed information about material proceedings and claims against Group companies and fines imposed thereon, as well as issues related to the incorporation of Orange Polska S.A.



## 5 MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

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

Orange Labs Poland is responsible for determining and managing the development of the architecture of fixed and mobile networks and selected IT systems, as well as defining network development plans and the relevant technological concepts. Another major element of its operations is a process of development, selection and implementation of innovations, which involves co-operation with external partners and performance of research and development tasks for both Orange Polska and the Orange Group.

### Major Achievements of Orange Labs Poland in 2020, Including Projects for Orange S.A.

- **AI for network management** – Development of the practical solution 'AI-driven Network Capacity Planning System', which uses artificial intelligence (AI) techniques to plan the roll-out and development of the Orange Polska network. The system predicts traffic growth on individual lines in the following 3, 6, 9 and 12 months and simulates the effects of potential failure of network elements.
- **End-to-end open source RAN network** – Launch of an Open Air Interface-based radio access network in accordance with the 3GPP EUTRAN (Release 8) standard, which included setting up a radio connection between this network and an LTE terminal. The line capacity was tested with [speedtest.net](https://www.speedtest.net). The solution is based entirely on open-source software.
- **Edge IoT** – Development of the Edge IoT architecture, which ensures compatibility with current IoT systems and platforms, which included testing and evaluation of available commercial and open source solutions to verify the possibility of using them in the Edge IoT model, as well as preparation of use cases in co-operation with vendors, business units and customers.
- **Security for Verticals in MEC** (within Trust & Security Research Domain) – Research project related to the support for Industry 4.0 by ensuring safe hosting of verticals in Multi-access Edge Computing, which included definition of main security challenges and cybersecurity threat assessment for 5G MEC as a major step towards properly addressing the identified security needs of verticals and their applications; preparation of initial security recommendations to ensure future deployment of MEC infrastructure as secured by design; and experimentation on ML/AI-based incident detection methods in MEC (in our own extended experimental environment) towards on-demand security services for verticals and their orchestration.
- **Practical implementation of the concept of Automatically Personalising Service** – A series of research studies have been conducted to investigate a new approach to service personalisation. Any electronic service, e.g. a smartphone application, will be able to adapt itself to the user's needs identified from his personality profile determined automatically from the data available on the phone. The solution is innovative in the fact that the appearance, communication and content can be adjusted from the very first use. This is of key importance especially in preventing product rejection upon initial poor impression from using the service.
- **Home'in – Sensitive Home** – Development and evolution of the Sensitive Home solution, a digital sensitive home which adapts to the personality and emotions of its inhabitants and responds interactively to their needs, while fully respecting the privacy and security requirements with respect to the data generated in the home environment. Work on the service prototype in stand-alone and virtualised versions.
- **NLPOL** – Development of machine learning models to identify Ekman's six basic emotions from text, namely joy, anger, sadness, fear, disgust and surprise. Separate models for Polish and French plus a bilingual model for both. Models deployed on the Home'in platform. Development of machine learning models to analyse sentiment in Polish text: positive, negative, neutral or mixed.

### **CHAPTER III**

## **ORGANISATION AND CORPORATE STRUCTURE**

## 6 ORGANISATIONAL CHANGES IN 2020

### 6.1 Group's Structure as of December 31, 2020

Please refer to Note 1.2 to the IFRS Full Year Consolidated Financial Statements for 2020 for the description of the Group's organisation.

### 6.2 Changes in the Corporate Structure of Orange Polska S.A.

In 2020, there were changes in the corporate structure of the following functions: Human Capital, Finance, Carriers Market and Real Estate Sales, Strategy and Corporate Affairs, Customer Experience, and IT. The changes aimed at improving the efficiency of these functions and addressing business needs.

#### 6.2.1 Management Board of Orange Polska S.A.

The composition of Orange Polska Management Board changed in 2020. As of December 31, 2020, the Management Board was composed of eight Members, who have been assigned the direct supervision over the following Company's matters:

- President of the Management Board;
- Vice President of the Management Board in charge of Business Market;
- Management Board Member in charge of Customer Experience;
- Management Board Member in charge of Wholesale Market and Real Estate Sales;
- Management Board Member in charge of Network and Technology;
- Management Board Member in charge of Strategy and Corporate Affairs; and
- Management Board Member in charge of Human Capital; and
- Management Board Member in charge of Finance.

On January 27, 2020, Maciej Nowohoński, took up the responsibility for the Carriers Market, which was subsequently renamed Wholesale Market on February 15, 2020.

On March 31, 2020, Maciej Nowohoński, previously in charge of Finance and Wholesale Market, became the Management Board Member in charge of Carriers Market and Real Estate Sales, while Jacek Kunicki, previously the Group's Chief Controller, became Orange Polska's Chief Financial Officer as the Executive Director in charge of Finance. On July 21, 2020, Jacek Kunicki was appointed by the Supervisory Board as the Management Board Member.

On November 1, 2020, Julien Ducarroz, President of the Management Board, simultaneously took up the responsibility for the Consumer Market.

#### 6.2.2 Business Units of Orange Polska S.A.

In 2020, the number of business units was reduced from 78 to 77, namely the number of business units decreased in the Human Resources and Strategy & Corporate Affairs functions, while it increased by one in the IT function.

As of December 31, 2020, Orange Polska had 77 business units, reporting directly to:

- 1) President of the Management Board: 8 business units (including 7 business units of the Consumer Market function reporting directly to the President of the Management Board);
- 2) Vice President of the Management Board in charge of Business Market: 7 business units;
- 3) Management Board Member in charge of Customer Experience: 8 business units;
- 4) Management Board Member in charge of Networks and Technology: 13 business units;
- 5) Management Board Member in charge of Strategy and Corporate Affairs: 5 business units;
- 6) Management Board Member in charge of Human Capital: 11 business units;
- 7) Management Board Member in charge of Wholesale Market and Real Estate Sales: 8 business units;
- 8) Management Board Member in charge of Finance: 7 business units;
- 9) Executive Director in charge of IT: 8 business units; and
- 10) Executive Director in charge of Transformation and Effectiveness: 2 business units.

The Finance function now reports to the Management Board Member in charge of Finance, while the Wholesale Market function reports to the Management Board Member in charge of Wholesale Market and Real Estate Sales. This change involved transfer of one business unit (Real Estate Sales) from Finance to Wholesale Market.

#### 6.2.3 Changes in the Structure of Subsidiaries of Orange Polska S.A.

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in 2020.

### 6.3 Ownership Changes in the Group in 2020

Except for entering into an agreement for the acquisition of Craftware sp. z o.o., which is described in section 4.6 above, the Group effected no significant ownership changes in 2020.

### 6.4 Orange Polska Shareholders

As of December 31, 2020, 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.

As of February 17, 2021, the ownership structure of the share capital was as follows:

Shareholder	Number of shares held	Number of votes at the General Assembly of Orange Polska S.A.	Percentage of the total voting power at the General Assembly of Orange Polska S.A.	Nominal value of shares held (in PLN)	Interest in the Share Capital
Orange S.A.	664,999,999	664,999,999	50.67%	1,994,999,997	50.67%
Other shareholders	647,357,480	647,357,480	49.33%	1,942,072,440	49.33%
<b>TOTAL</b>	<b>1,312,357,479</b>	<b>1,312,357,479</b>	<b>100.00%</b>	<b>3,937,072,437</b>	<b>100.00%</b>

As of February 17, 2021, Orange S.A. held a 50.67% stake in the Company.

Orange S.A. is one of the world's foremost telecommunications operators, with a turnover of EUR 42.2 billion at the end of 2019.

In the third quarter of 2020, Orange Group's revenues totalled EUR 10.6 billion, up 0.8% year-on-year on a comparable basis. The growth was driven by the momentum in services, particularly wholesale services (thanks to the co-financing of the fibre network in France) and convergent services, which rose 5.7% and 1.5%, respectively.

France and Africa & Middle East contributed positively with respective growth of 3.1% and 5.1% (compared to growth of 2.7% and 1.3% in the second quarter), while Europe (including Spain) continued to be under pressure, albeit with an improving trend. Over the first nine months of the year, revenue growth was 0.5%.

There were 10.9 million convergent customers across the Orange Group at September 30, 2020, up 2.1% year-on-year, supported by continued strong growth in Europe.

Mobile services had 211.9 million customers at September 30, 2020, up 2.5% year-on-year, including 76.2 million contract customers, an increase of 4.0%. Fixed services had 45.1 million customers on September 30, 2020, down 1.4% year-on-year, primarily due to the 12.8% decline in fixed narrowband accesses and despite the continued very strong growth (up 21.9%) in high-speed broadband accesses.

Orange S.A. is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. In cloud and cybersecurity services, Orange S.A. has become a European leader thanks to the acquisitions of SecureData and SecureLink. Orange S.A. is listed on the Euronext Paris (ORA) and the New York Stock Exchange (ORAN).

As of December 31, 2020, the Company had no information regarding valid agreements or other events that could result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2020.

### 6.5 Corporate Governance Bodies of the Parent Company

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

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

##### *Managing Persons*

As of February 17, 2021:

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

Other Members of the Management Board did not hold any shares of Orange Polska S.A. as of February 17, 2021.

#### Shares held in related entities:

Bożena Leśniewska	1,797 shares of Orange S.A. of par value of EUR 4 each
Witold Drożdż	1,717 shares of Orange S.A. of par value of EUR 4 each
Jolanta Dudek	1,797 shares of Orange S.A. of par value of EUR 4 each
Piotr Jaworski	1,967 shares of Orange S.A. of par value of EUR 4 each
Jacek Kowalski	2,067 shares of Orange S.A. of par value of EUR 4 each
Jacek Kunicki	859 shares of Orange S.A. of par value of EUR 4 each
Maciej Nowochoński	1,717 shares of Orange S.A. of par value of EUR 4 each

#### Supervising Persons

As of February 17, 2021, no persons supervising Orange Polska S.A. held any shares in the Company.

#### Shares held in related entities:

Ramon Fernandez	24,155 shares of Orange S.A. of par value of EUR 4 each
Marc Ricau	859 shares of Orange S.A. of par value of EUR 4 each
Thierry Bonhomme	15,830 shares of Orange S.A. of par value of EUR 4 each
Eric Debroeck	8,049 shares of Orange S.A. of par value of EUR 4 each
Marie-Noëlle Jégo-Laveissière	13,224 shares of Orange S.A. of par value of EUR 4 each

### 6.5.2 General Assembly

On June 17, 2020, the Annual General Meeting among others:

- approved the Management Board's Report on the activity of Orange Polska S.A. and the Orange Polska Group in the financial year 2019;
- approved Orange Polska S.A.'s financial statements for the financial year 2019;
- approved the consolidated financial statements for the financial year 2019;
- granted approval of the performance of their duties by members of Orange Polska S.A.'s governing bodies in the financial year 2019;
- adopted a resolution on distribution of Orange Polska S.A.'s profit for the financial year 2019, pursuant to which Orange Polska S.A.'s profit of PLN 88 282 929.11 disclosed in the Company's financial statements for the financial year 2019 was allocated to the reserve capital;
- did not adopt a resolution on paying a dividend in 2020, prioritising investment in long-term value creation.

### 6.6 Workforce

As of December 31, 2020, the Orange Polska Group employed 11,381 people (in full-time equivalents), which is a decrease of 8% compared to the end of December 2019.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2020–2021. Pursuant to the Social Agreement, 1,180 employees left the Company in 2020. Severance pay in Orange Polska S.A. averaged PLN 85.2 thousand per employee in 2020.

In 2020, external recruitment in Orange Polska totalled 240 positions. It was related mainly to sale positions and customer service staff.

#### 6.6.1 Social Agreement

On December 12, 2019, the Management Board of Orange Polska S.A. concluded a new Social Agreement with the Social Partners. The Social Agreement remains in force for two years, that is 2020–2021. In particular, it sets the number of voluntary departures over these two years at 2,100 people and determines a financial package for employees leaving Orange Polska S.A. under the voluntary departure scheme. It also provides for potential basic salary rises (3.5% in both 2020 and 2021) and additional compensation for employees reaching retirement age within the next four years, while specifying the position and role of internal mobility in supporting an allocation programme and offering participation in an outplacement programme to people whose employment contracts are to be terminated by the employer. In addition, the Social Agreement for 2020–2021 provides for the follow-up of the 'Friendly Work Environment' programme and continuation of medical coverage.

The negotiated Settlement set the number of employees to leave Orange Polska S.A. in 2020 at 1,250 and determined the terms of voluntary departures in 2020 as well as the amount of severance pay and additional compensation for employees departing in 2020. The Settlement also specified the principles and criteria to be applied by the employer in the process of selecting employees whose employment was to be terminated through no fault of the employee. The amount of compensation package per departing employee was to depend on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement for the Employees of Orange Polska S.A.

On June 4, 2020, the Management Board of Orange Polska and the Signatories to the Intragroup Collective Labour Agreement for Orange Polska's Employees of June 25, 1998 (ICLA) signed the Additional Protocol no.

9 to ICLA, which was registered by the minister competent for labour affairs on July 13, 2020. Pursuant to the Protocol, as from 2022 employees will not be eligible for jubilee awards for long service and the basic contribution to the Company Social Benefits Fund will be consistent with the Act on the company social benefits fund.

On June 23, 2020, the Management Board of Orange Polska S.A. signed a Settlement with its Social Partners on amending the Social Agreement for the years 2020–2021. The amendment to the Social Agreement is an element of Orange Polska's efforts to partially mitigate the negative impact of the COVID-19 pandemic on its business performance. Under the negotiated Settlement, the rate of basic salary increases in 2020 was reduced from 3.5% to 1.0% and the procedure of awarding them was changed (criteria: change of pay ranges; certification project in the sales area; retaining the key positions). The Settlement also provides for reallocating PLN 8 million from the Central Fund as additional financing of the 'Orange Vitality Academy', particularly the 'Friendly Work Environment' project. Furthermore, the employer undertook to minimise the number of dismissals in the process of collective redundancies until the end of 2020, which means that the quota of departures in 2020, which was set in the Social Agreement at 1,250 employees, was not to be fully utilized. The amounts of severance pay and additional compensation for departing employees specified in the Social Agreement, as well as the rate of potential basic salary increases in 2021 and the aggregate voluntary departures quota for 2020-2021 set in the Social Agreement were not changed.

On December 8, 2020, a Settlement was concluded with the Social Partners, which determines the detailed procedures for the implementation of the Social Agreement for 2020–2021 in 2021. The Settlement for 2021 sets the number of dismissals at 920 and determines the terms of voluntary departures. The limit for 2021 is a part of the aggregate two-year limit of dismissals set in the Social Agreement for 2020–2021. The amount of severance pay and additional compensation for employees departing in 2021 are to be consistent with the provisions of the Social Agreement for 2020–2021. Furthermore, the Settlement for 2021 specifies the principles and criteria to be applied by the employer in the process of selecting employees whose employment will be terminated through no fault of the employee. The amount of compensation package per departing employee will not change and will depend on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement for the Employees of Orange Polska S.A.

On February 5, 2021, Orange Polska S.A. entered into an arrangement with trade unions changing the rate of base salary increases in 2021. Pursuant to the Social Agreement for 2020–2021, the rate of base salary increases for the Company's employees covered by the Intragroup Collective Labour Agreement was to be 3.5% in 2021. Under the arrangement, it will be 3.8% and will become effective on August 1, 2021 (before, it was to become effective on July 1, 2021).

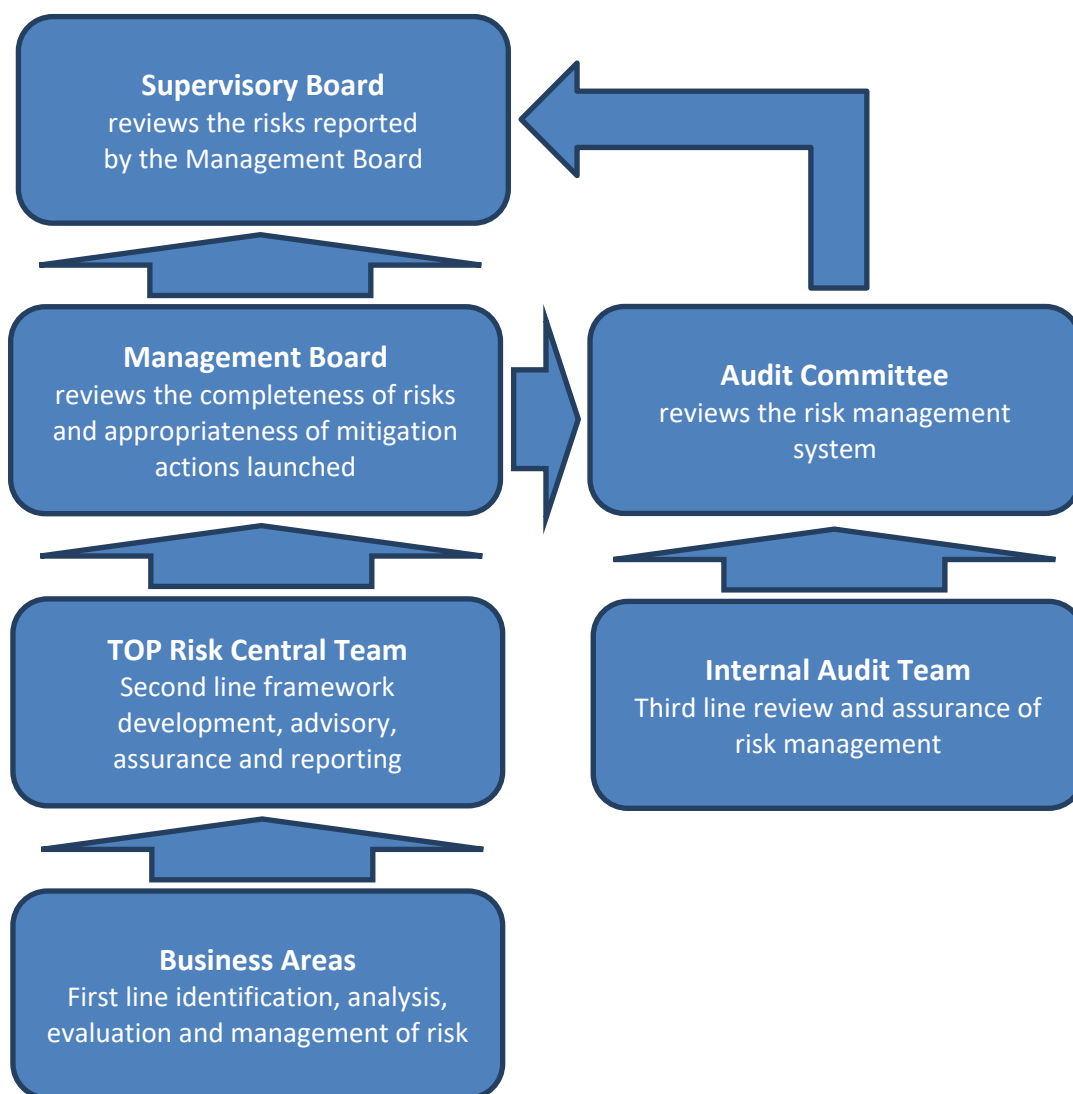
## **CHAPTER IV**

### **KEY RISK FACTORS**

## 7 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

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

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



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

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



The key risks, which have potentially the worst negative impact on the Group, are assigned mitigation measures in order to prevent or minimise losses. The effectiveness of such measures is verified on an on-going basis, and they are adjusted as required. The risks and the mitigation measures assigned to them constitute an input for the development of the Annual Internal Audit Plan. Indicative heat maps are used to report and evaluate risks. The results of assessment of top risks are reported to the Supervisory Board annually. In 2020, the Supervisory Board received such a report in July.

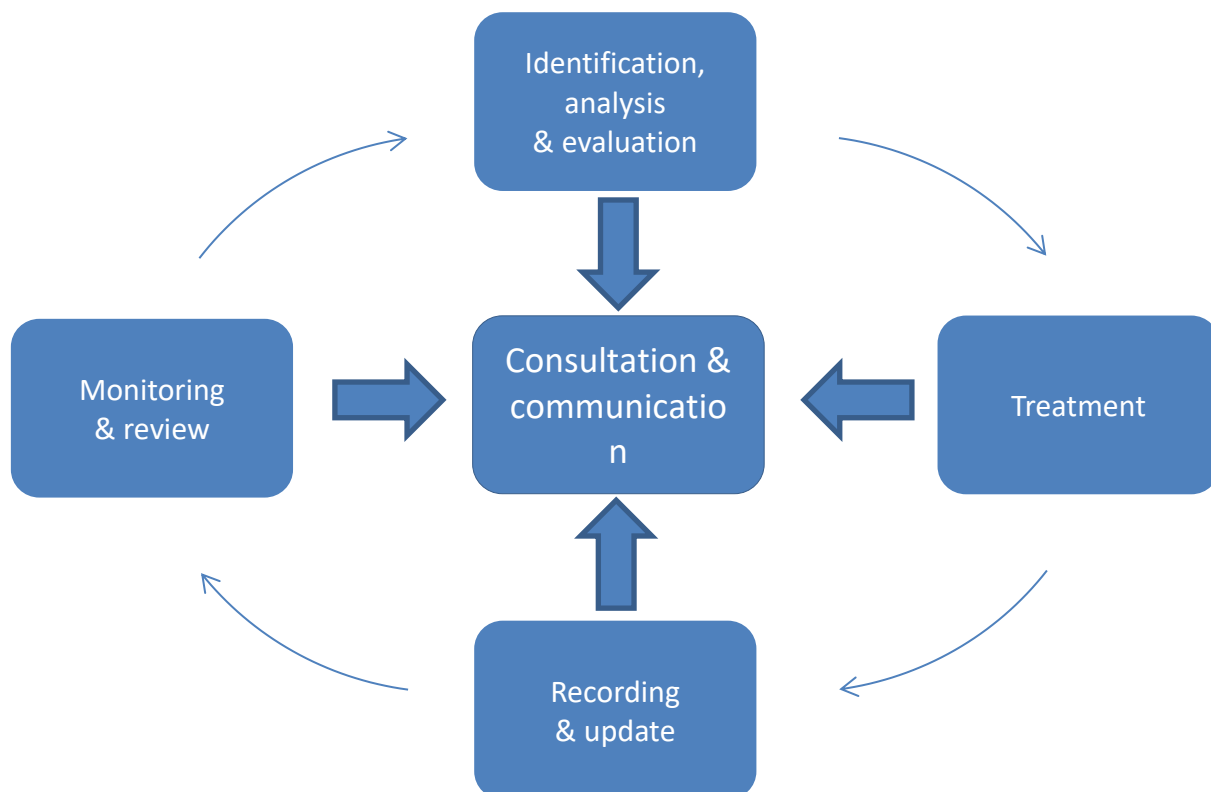
Sample heat map used as one of communication tools is presented below. The example presents a risk that has moderate reputational impact, but critical impact in terms of business continuity. Therefore, the overall assessment of the risk would be very high.

Likelihood	5					
	4					
	3			PR		BC
	2					
	1					
		1	2	3	4	5
		Impact				

FN - financial;  
HR - human resources;

PR - reputational;  
BC - business continuity;

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



## 7.1 RISK FACTORS AFFECTING THE OPERATING ACTIVITIES OF ORANGE POLSKA

### 7.1.1 Impact of the COVID-19 Pandemic on Orange Polska's Operations

The pandemic has had and is still having a negative impact on the Group's performance. Lower customer demand combined with the lockdown and the resulting closure of a significant part of physical points of sale (between mid-March and beginning of May) contributed to lower-than-previously-expected sale of new services and significantly impacted sale of equipment (revenues from equipment sales were down 13% year-on-year in 2020). This affected the pace of monetisation of our 'more for more' strategy, which we implemented last year. Closure of borders and restrictions regarding people's mobility affected international roaming revenues, which were down 40% year-on-year in 2020. This negatively influenced mainly revenues from mobile-only services. There was a slowdown in the IT/IS market and a slump in the real estate market, on which we are trying to actively sell some of our properties as part of our asset base transformation.

The pandemic has a significant negative impact on the Polish economy. In 2020, Poland's GDP is estimated to have fallen by 2.8%. There is uncertainty regarding the evolution of the pandemic in 2021 and recovery thereafter. The economic downturn has a negative impact on the operations of some of our customers, mainly on the business market. This had no significant impact on the Group's performance in 2020, but there is a risk that it will influence our results in 2021. To account for that risk, Orange Polska increased the value of the provision for receivables by PLN 25 million due to the higher risk of collection.

The Management Board launched additional measures to partially mitigate the negative impact of the pandemic on the Company's business goals. In particular, on June 4, 2020 we announced the conclusion of an amendment to the Collective Labour Agreement regarding jubilee awards for long service. As a result of this amendment, we reversed provisions for employee benefits in the amount of PLN 64 million. This increased our profits in 2020 and will allow for lower cash-out in the years to come. Also in June, we signed with trade unions an amendment to the Social Agreement. In particular, this provided for a reduction in the rate of basic salary increases in 2020 from 3.5% to 1.0%. We also initiated other cost efficiency measures beyond those planned within the framework of our on-going transformation. To keep economic Capex (eCapex) within the expected range (PLN 1.7–1.9 bn), we are optimising investment outlays to offset lower-than-previously-expected proceeds from asset disposal.

### 7.1.2 Increased Competition and Pressure on Services and Prices

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

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

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

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

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

### 7.1.4 Breach of Security of Information, Including Personal Data

Orange Polska constantly undertakes actions aimed to ensure protection of personal data (particularly from its extensive customer database), as well as proprietary information constituting telecommunication or corporate secrets. The Company holds a certificate of compliance of its Information Security Management System with ISO/IEC 27001:2013 for the following scope of services: ICT, hosting, collocation, cloud computing, cybersecurity and personal data processing in cloud computing. In addition, Orange Polska holds a certificate of compliance with ISO/IEC 27018:2019 *Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors* for the personal data processing services in cloud computing: UCaaS (Unified Communication as a Service), ICS (Integrated Computing Standard), ICM (Integrated Computing Managed) and smart CCaaS (smart Contact Center as a Service). Furthermore, the Company holds and maintains the FIRST and the Trusted Introducer certificates for CERT Orange Polska. Despite all the precautions taken, considering

the modern threats related to information technologies used for processing of information, including personal data, it is not possible to fully exclude the risk of infringement of the security thereof.

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

Since May 25, 2018, Orange Polska has complied with the General Data Protection Regulation (GDPR). For infringement of GDPR protection rules, administrative fines of up to 4% of the annual global turnover may be imposed. Such incidents could have a considerable negative impact on the Orange brand reputation and a heavy impact on the Group's liability, potentially including criminal liability, and hence have an adverse impact on Orange Polska's future financial performance.

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

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

Services provided by Orange Polska are directly dependent on the functioning of its IT and network infrastructure. Service disruption or interruption may occur following cyber-attacks (on the IT&N infrastructure), outages (of hardware or software), human errors, acts of terrorism or sabotage of critical hardware or software, failure of a critical supplier, or if the network in question does not have sufficient capacity to meet the growing usage needs, or during implementation of new applications or software. Among these risks of interruption, telecommunications operators are particularly exposed to attempts to breach security, cyber-attacks, and terrorist and sabotage attacks on sites and staff because of the vital nature of telecommunications in the functioning of the economy. Despite the precautions taken by Orange Polska to protect its network, the growing frequency of attempted attacks increases the risk of interruption to its services.

The current epidemic situation poses a new risk which may affect the duration of service disruption or interruption. However, a threat of technical teams of Orange Polska or its technical partners being infected, which could affect the timeliness of their efforts to remove failures and restore services, has been successfully minimised by the implementation of proper protective measures and safety procedures.

The impact of such incidents could seriously damage Orange Polska's reputation and result in revenue erosion, affecting its profits and market position. Nationwide service disruption or interruption might also create a crisis potentially affecting the national security.

This risk is mitigated in Orange Polska by proper planning for the network and ICT systems development and modernisation, investments in the development of disaster recovery solutions, insurance schemes (covering cyber and terrorism risks) as well as implementation of business continuity and crisis management plans. Orange Polska holds the ISO 22301:2012 Certificate for its Business Continuity Management System with respect to provision of telecommunication, ICT and cybersecurity services. Another major factor in mitigating this risk is continuous training of the employees of Orange Polska and its technical partners in the newly implemented or modernised technologies.

#### **7.1.6 Potential Consequences of Discussions on 5G Network Security**

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

At EU level, work was undertaken in 2019 to define a common approach to 5G network security, including a 5G risk assessment process and major risks identified in the 5G network. These works were concluded with the publication on January 29, 2020 of the document entitled *Cybersecurity of 5G networks – EU Toolbox of risk mitigating measures*. It does not explicitly exclude or prohibit any supplier, however the dependence on one supplier, as well as risk associated with the supply chain, including the activities of other countries, were considered a significant risk. It is also foreseen for Member States to carry out risk profile analysis and to introduce possible restrictions and exclusions especially for high-risk suppliers of key resources. On December 14, 2020, the European Union Agency for Network and Information Security (ENISA) published *ENISA Threat Landscape for 5G Networks Report*, an update of the first edition presented in 2019. It aims to support the implementation of *Cybersecurity of 5G networks – EU Toolbox of risk mitigating measures*. Simultaneously, with

the adoption of the EU Cybersecurity Act, work has begun on defining European cybersecurity certification schemes, and issues related to the certification of 5G network elements are being considered as candidates for such certification.

Work in this area is also carried out at national level, which is reflected, among others, in the following developments:

- On May 16, 2020, the 'Anti-Crisis Shield 3.0' (i.e. Act of May 14, 2020 amending certain acts regarding protection measures in connection with the spread of the SARS-CoV-2 virus) came into force. In terms of 5G network security, it provides for adding the requirements concerning the security and integrity of telecommunication infrastructure and services, determined by the President of UKE in line with ENISA's recommendations and guidelines upon consultation with the Cybersecurity Committee, as an obligatory element of frequency allotment. However, an official public consultation of the auction dossier with the relevant provisions, which is required by law, has not been held yet.
- On September 8, 2020, the Minister of Digital Affairs released for consultation the draft Act amending the act on the national cybersecurity system and the public procurement law. On January 21, 2021, the Chancellery of the Prime Minister published new versions of the draft Act on the national cybersecurity system and draft Telecommunications Law for further proceeding at the government level. Both the initial draft and its modified version provide for a mechanism of hardware and software vendor evaluation and determine the consequences of recognising a particular entity as a high risk vendor.
- On December 30, 2020, the Regulation of the Minister of Digital Affairs of June 22, 2020 on the minimum technical and organisational measures and methods to be used by telecommunication operators to ensure security or integrity of networks or services came into force. Regarding 5G, the regulation indicates the need to follow the recommendations of the Government Plenipotentiary for Cybersecurity issued pursuant to the Article 33 of the Act of July 5, 2018 on the national cybersecurity system (there are no such recommendations as yet) and to implement strategies avoiding the dependence on one supplier.

Thus, currently no legal regulations or other binding decisions have been adopted in Poland that would restrict co-operation with specific suppliers in the 5G network implementation. The sole requirement in force is the obligation to apply strategies avoiding the dependence on one supplier.

The potential introduction of more extensive restrictions in the future would involve the risk of limiting the pool of telecommunications equipment suppliers, and thus could affect the maintenance as well as plans for the construction and development of network infrastructure (including 5G). This may affect the time schedule and/or costs of implementing the 5G network.

#### **7.1.7 Decrease in Quality or Non-performance of Services Due to Dependence on External Partners**

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

The Group has partially outsourced operation and supervision of its telecommunications networks, as well as IT systems and processes to external suppliers. These processes are monitored on a regular basis in order to assure their optimum operation and take effective corrective actions, if required.

Although adequate safeguard and protection clauses are included in contracts, there is still a risk of non-performance by Orange Polska's partners, resulting in delays, a decrease in quality or non-performance of Orange Polska's services. Materialisation of this risk may have a direct impact on Orange Polska's financial performance.

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

#### **7.1.8 Emergence of New Types of Fraud with New Technologies**

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

#### **7.1.9 Potential consequences of negative impact of Orange Polska operations on climate**

There is growing awareness of climate change among our customers, investors and other stakeholders. We are also observing growing regulatory pressure related to climate neutrality goals adopted by the EU and its member states. Simultaneously, the roll-out of network infrastructure and the growing volume intensity of data traffic are contributing to increased CO2 emissions in the telecommunications sector. In order to reduce its negative impact on the climate, Orange Polska has implemented an energy saving programme, which embraces over 150 initiatives in various areas of its activity. Between 2015 and 2020, the total energy consumption by Orange Polska

fell by 14.8%, enabling a reduction in CO2 emissions by over 19%, despite a considerable increase in the volume of data traffic on Orange Polska's networks in the same period. The Company has also taken measures to increase the share of energy from renewable sources in its energy mix by direct contracting of renewable energy from its producers based on long-term Power Purchase Agreements (PPAs). The first such agreement was concluded in 2020. Pursuant to it, two wind farms have been constructed, which will become operational in 2021. Should the aforementioned initiatives be unsuccessful, Orange Polska, as a socially responsible company, would be exposed to reputational losses. Furthermore, Orange Polska's failure to achieve the intended share of energy from renewable sources could result in higher than expected electricity costs and, consequently, have a negative impact on its financial performance.

In order to facilitate the Group's climate impact management, Orange Polska has appointed Climate Officer, who is responsible for the co-ordination of the pursuit of its environmental goals. His role is to develop the Group's climate policy and monitor its implementation in close co-operation with the entire organisation. One of the elements of Orange Polska's policy is to join Orange Group in the pursuit of its global climate commitment to achieve climate neutrality by 2040.

### **7.1.10 Exposure to Electromagnetic Fields**

Exposure to electromagnetic fields (EMF) from radio equipment (used mainly on mobile, but also fixed, networks) might raise concerns for their possible adverse effects on human health. Since January 1, 2020, the Polish EMF limits have been consistent with the Council Recommendation 1999/519/EC. Consequently, they are currently similar to the limits adopted in most European countries.

Negative changes in perception of the EMF impact on human health would have a deleterious effect on the business and results of operators such as Orange Polska. If the aforementioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in a decline in use of mobile telecommunications services, difficulties and additional expense in rolling out base stations and other wireless equipment, and an increase in litigation.

In 2019, the Polish government decided to harmonize the obligations related to electromagnetic fields from telecommunications equipment with the European and global regulations. So far, the national provisions setting acceptable electromagnetic field levels have been harmonised. Furthermore, a new regulation on the means of verifying compliance with the acceptable electromagnetic field levels in the environment, which determines the methodology for measuring EMF emissions also by telecommunication systems, came into force on February 19, 2020. Currently, the issue of EMF exposure is particularly relevant owing to the intended legislation on the 5G network deployment, including new regulations on testing 5G systems for EMF compliance, on which legislative work is pending. Although Orange Polska has made its best efforts to test 5G technology, even compliance with the applicable regulations and the strictest environmental standards may not be sufficient to prevent negative sentiment of the social partner. Similar developments have been observed in other countries.

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

### **7.1.11 Human Resources Risks and Alignment of Organisation Structure**

Orange Polska and its managers continue transforming the Group's internal culture in order to motivate the employees and drive the performance culture, as well as streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. The current epidemic situation in Poland may on the one hand hinder the process of change, but on the other hand provide an opportunity owing to the resulting digitisation of processes, communications and training and widespread use of remote working tools in the hybrid work model. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Orange Polska has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant.

## **7.2 REGULATORY, LEGAL AND TAX RISKS**

### **7.2.1 Regulatory Risks**

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



## 7.2.2 Risk Related to Acquisition of New Spectrum for High-tech Telecommunications Services

Growing demand for data services and future development of 5G systems will necessitate the allocation of new bandwidth both below and above 6 GHz.

The primary pioneer band used for the development of 5G networks in Europe is 3400–3800 MHz. In March 2020, the Office of Electronic Communications announced an auction for these frequencies. However, due to the COVID-19 pandemic, the auction was first suspended by the President of UKE, then annulled as a result of an amendment to the telecommunication law which introduced new requirements related to cybersecurity and 5G network deployment. Furthermore, a legislation was passed to shorten the term of office of the then President of UKE. The new President of UKE took up his duties in September. In November, a draft regulation on the deadline for allotment of the 3600–3800 MHz band was released for public consultation. It provides that the spectrum will be allocated to operators by August 27, 2021. Hence, the auction process may be expected to be relaunched in the beginning of 2021.

The auction dossier which was presented in March 2020 included provisions ensuring that only responsible and financially reliable operators would participate in the bandwidth distribution process. This was guaranteed by the requirement to hold a nationwide frequency licence and have a documented record of investments of at least PLN 1 billion in the preceding three years. A high bid bond and the deposit mechanism were to prevent the process from artificial price increasing by entities participating in the auction without the intent to buy the spectrum. The same or similar provisions may be expected in the incoming auction as well.

The main risk related to the 3400–3800 MHz bandwidth distribution is a potential further delay in the auction process. On the one hand, this process may be delayed by the pandemic situation in Poland preventing its completion (for this reason, the auction announced in March 2020 was annulled). On the other hand, the new auction dossier will include for the first time the requirements related to 5G network cybersecurity; hence, a risk of delay in the spectrum allocation process due to potential discussions or revisions thereof.

Another uncertainty area is related to the distribution of the second digital dividend, that is 700 MHz spectrum. Pursuant to the European Commission's decision, all Member States should allow the use of this band for mobile services by June 30, 2020 (or June 2022 at the latest). In December 2018, Poland applied to the Commission for extending the deadline for releasing the 700 MHz band until June 2022. In July 2019, the Ministry of Digital Affairs published the updated *National Plan for 700 MHz Spectrum Reallocation in Poland*. It indicates that a number of international agreements, particularly with the Russian Federation, need to be signed in order to enable the spectrum refarming for the purpose of mobile communication systems.

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

## 7.2.3 Proceedings by UOKiK and European Commission Concerning Network Sharing

In 2014, Polkomtel sent a letter to the European Commission informing about a potential breach by Orange Polska S.A. and T-Mobile Polska of the Treaty provisions prohibiting agreements which may distort competition within the internal market (Article 101(1) of the Treaty). The letter also indicated a potential breach of the jurisdiction provisions contained in the Council Regulation 139/2004 on the control of concentrations between undertakings. Polkomtel claimed that the establishment of NetWorkS! should have been, allegedly, subject to approval by the European Commission rather than by UOKiK. In the ensuing proceedings, Orange Polska S.A. submitted the information and documents requested by the Commission.

UOKiK, which in 2014–2016 investigated the co-operation between T-Mobile and Orange Polska S.A. within their joint venture Networks!, completed the proceedings and announced that, if needed, it would submit its findings to the European Commission.

## 7.2.4 Increased Tax Burden Resulting from Changes in Legislation

Polish tax laws and regulations, in particular regarding value added tax and income tax, are complex and subject to frequent changes and contradictory interpretations by tax authorities. Changes in regulations, leading to lack of reasonable certainty of the tax system, may adversely affect the legal, business and financial situation of the Group. Recently, the Ministry of Finance has not indicated any plans to change tax rates; in particular, return to VAT rates of 22% and 7% is not intended. Furthermore, there has been a clear tendency of the Ministry of Finance to tighten up the tax system by eliminating solutions which used to enable lawful tax optimisation and imposing additional disclosure obligations, as illustrated by the introduction of the Standard Audit File for Tax or incorporation of a clause against tax avoidance into the Tax Ordinance as from July 15, 2016.

Owing to the scale of the Company's operations, legislation changes in other areas, e.g. spatial planning, may also in the future negatively affect the amount of tax obligations of an infrastructure-based operator such as Orange Polska. Unclear provisions or unfavourable interpretations may result in increased tax burden.

## 7.2.5 Increase in Fees for the Use of Third Parties' Land for the Purpose of Development and Maintenance of Orange Polska's Infrastructure

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

## 7.3 COMPETITIVE RISKS

### 7.3.1 Failure to Obtain the Expected Return on Investment in Fibre and Loss of Broadband Market Share

Apart from the positive social impact of our investments in fibre, two related risks for Orange Polska have been identified.

Firstly, as for Orange Polska's own fibre investments, there is a risk of failure to achieve the assumed sales objectives on the fibre infrastructure developed by Orange Polska. Secondly, as for the fibre infrastructure developed under the Operational Programme Digital Poland (POPC), there is a risk of failure to achieve the expected return on investment due to potential financial adjustments by the Managing Authority and a resulting decrease of co-financing or the necessity to complete additional works in the project. The Company makes every effort to execute its contracts with the Digital Poland Project Centre with due diligence.

Furthermore, investments by other operators in the POPC framework may result in a loss of the Company's market share in the broadband market in which Orange Polska provides services based on the ADSL technology. However, Orange Polska is making its best efforts to use the opportunity provided by open access to third parties' infrastructure by offering its own fibre services to customers over it.

### 7.3.2 Increased Competition in the Convergent Market

In big cities, where cable TV (CATV) operators have an established position, Orange Polska has demonstrated that it can effectively compete with their comprehensive offer with its convergent service portfolio (Orange Love) and the growing reach of its fibre network. However, gradual expansion of CATV operators in local markets, where Orange Polska S.A. has had an established position hitherto, through organic growth or acquisitions, poses a risk for the Group. Therefore, Orange Polska S.A.'s FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

In 2019, the Cyfrowy Polsat Group, strengthened by the acquisition of Netia, launched sales of convergent services based on a fixed network. Furthermore, Play launched sales of a service bundling mobile voice with LTE broadband (Homebox). It also concluded a co-operation agreement with Vectra (second largest cable television operator in Poland), which provides for sales of Vectra's fixed line services to Play's mobile customers. In addition, Iliad, a French-based operator, acquired Play in 2020, which may lead to transforming the latter into a fully fixed-mobile provider of competitive convergent services. All these developments may in the long run increase the risk to Orange Polska's strategic objectives in the convergent market.

### 7.3.3 Further Fixed Line Customer Base Erosion Due to Fixed/Mobile Voice Substitution

For years, fixed/mobile substitution has been one of the major challenges for telecom operators, particularly in Central and Eastern Europe, where the fixed line penetration at the time of popularisation of mobile telephony was significantly lower than in West European countries.

The fixed/mobile substitution in Poland, like in other CEE countries, has a greater extent than in the majority of West European countries and the ratio of 'only-mobile' users is generally higher.

Offers in which a fixed voice service is an added value to a broadband or mobile service as the equivalent of a 'traditional' fixed line have been clearly gaining popularity. Such services dedicated to fixed applications (at home or office) but based on mobile infrastructure are generally offered by mobile operators; yet, the mobile virtual network operator (MVNO) model has been increasingly used for this purpose, recently. Such operators as Netia, Novum or Telestrada gradually migrate their fixed-line customers to mobile networks.

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

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

## 7.4 RISKS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

### Macroeconomic Factors

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

In 2020, the Polish economy, similarly to other European economies, was in recession due to the COVID-19 pandemic (-2.8% decrease of GDP in 2020 vs. 4.5% growth in 2019). The GDP decline in the second quarter of 2020 resulting from the lockdown as well as the restrictions imposed in the fourth quarter demonstrated the interdependence between sectors of the economy.

Both residential and business customers were hit by the pandemic. Private consumption expenditure and investments slumped in 2020 due to a range of reasons related to both uncertainty about the imposed restrictions and job instability. And numerous business customers had to limit their operations due to COVID-19 restrictions, which led to both working time reduction and a decrease in the number of positions. Pessimistic economic views in the wake of the second wave of the pandemic in the autumn/winter season were mitigated by the news about vaccines which should significantly reduce the risk of an increase in the number of COVID-19 cases in 2021.

Nevertheless, uncertainty is seen in the economic forecasts for 2021 as well as the attitude of households towards consumption and the level of investments, affecting the current and future GDP growth rate. It is clearly reflected in the Consumer Confidence Index, which stood at -29.2 points in November 2020 (vs. 6.7 points in December 2019) and the Leading Indicator, which was -30.1 points in November 2020 (vs. 2.2 points in December 2019). In subsequent years, consumer sentiment and continued high inflationary pressure may result in a decrease in household expenditure, particularly on telecommunication services and electronic equipment.

Prospects of Poland's return to growth depend also on the condition of other European economies and the economic climate in global markets. Owing to strong ties between the Polish economy and economies of other European countries, especially Germany, a potential negative scenario for European economies may have adverse effects on Poland's GDP growth rate.

#### 7.4.2 Risk to the National Budget Stability Due to Fiscal Pressure

The risk due to fiscal pressure is heavily dependent on the curve of economic recovery in Poland. This risk is also influenced by budgetary expenditure aimed to both fulfil election pledges related to social policy and provide financial aid to businesses (to mitigate the negative impact of the COVID-19 pandemic). The next few years will be crucial in this respect. Growing inflationary pressure is already observed, which increases state revenues but may affect the level of investments and savings.

The general government deficit to GDP at 3% is the reference for assessment of Poland's fiscal condition in the medium to long term. Arguably, as long as this level is not exceeded, the risk of fiscal pressure is under control.

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

#### 7.4.3 Reduced Profitability of the Telecommunications Sector Due to Growing Inflationary Pressure

Average annual CPI reached 3.4% in 2020 and was significantly above the National Bank of Poland's inflation target (2.5%). Relatively high inflationary pressure is expected to continue in the next few years, mainly due to a rise in electricity prices and an economic downturn worldwide.

Despite continued inflationary pressure, the Monetary Policy Council in the face of the pandemic lowered the reference rate to 0.10%.

Compared with other branches of the economy, the telecommunications sector reported declining profitability in previous years, which was a result of a decrease in effective prices accompanied by significant capital expenditures required to upgrade obsolete infrastructure in line with the growing expectations of customers and ensure service availability, particularly in the areas of coverage gaps.

Continued uncertainty of the future accompanied by high inflation rate may result in reduced demand for telecommunication services. Furthermore, growing competition in the telecom market, including the convergent segment, may intensify pressure on service prices.

Simultaneously, there was a continued need in the market for the development of infrastructure in order to meet the growing demand for data transmission generated by retail customers and the on-going digital revolution in the economy as a whole. The COVID-19 pandemic demonstrated the crucial role of access to telecommunication services for households (remote work and education), businesses and numerous government agencies, both central and local. This trend of infrastructure development, both fibre and 5G, will continue in the next few years. It may result in a further decline in profitability of the sector, though with the prospect of improvement in subsequent years, as new services dedicated to residential, business and public customers are launched over the modern 5G infrastructure. The ultimate effect depends also to a large extent on the regulatory environment, which determines the scope of administrative regulations, the amount of wholesale revenues and the possibility of consolidation of market players aimed at business optimisation.



#### 7.4.4 Negative Trends in the Labour Market

Poland's labour market was negatively affected by economic recession caused by the COVID-19 pandemic. Lockdown and subsequent pandemic restrictions eroded the financial standing of companies, triggering bankruptcies. Reduction in working time and the number of positions were seen across all segments of the business market. The support system provided by the state aimed to mitigate the negative impact of the pandemic on the financial standing of businesses. However, due to a difficult economic situation, the unemployment rate in Poland grew to 6.2% at the end of December 2020. At the same time, despite a significantly more difficult financial situation of companies, the level of wages increased. Between January and November 2020, the average gross monthly remuneration in the enterprise sector was up 4.2% compared to the same period of 2019.

A further increase in unemployment may be expected in 2021 as a result of the existing COVID-19 restrictions. These restrictions also limit foreign employees' ability to work in Poland (especially for Ukrainian workers). The situation in the labour market in 2021 will largely depend on the extent of the financial support provided under the EU budget framework and the EU economic recovery plan.

#### 7.4.5 Risk of Reduced Influx of EU Funds for Infrastructure Investments

A potential decrease in influx of EU funds, which are of key importance for the development of the telecommunications infrastructure, poses a risk to the entire Polish economy, including the telecom market. This risk may result from linking the distribution of resources from the new framework (2021–2027) to the respect for the principles of the rule of law in Poland.

### Factors Related to Financial Markets

#### 7.4.6 Increase of Interest Rates

In the face of the pandemic, the Polish central bank lowered the reference rate to its historic low of 0.10%. The market does not expect the Monetary Policy Council to change its policy in 2021. This policy might be continued until the end of the term of office of the current Council, which ends in 2022. However, a potential increase in interest rates should not have any major influence on the debt service costs of the Group, as it maintains a high hedging ratio.

#### 7.4.7 Depreciation of the Local Currency

Foreign exchange rate fluctuations affect Orange Polska's liabilities denominated in foreign currencies and settlements with foreign operators. However, this influence is greatly contained by a portfolio of hedging instruments held by Orange Polska. In 2020, the Polish zloty lost 8.4% against the euro and gained 1.1% against the US dollar. The Polish currency fluctuations were caused mainly by external factors. Any potential depreciation of the Polish zloty should not have a major influence on Orange Polska's liabilities denominated in foreign currencies or settlements with foreign operators owing to a high hedging ratio.

#### 7.4.8 Risk of Asset Impairment

The recoverable amounts of enterprises, which affect the accounting value of fixed assets, including goodwill, are sensitive to valuation methods and model assumptions, as well as to any changes in the business environment contrary to the assumptions made. For more information about goodwill impairment and recoverable amounts please see notes to the Consolidated Full-Year Financial Statements.

#### 7.4.9 Factors That May Influence the Price of Orange Polska Shares

Other than major factors already mentioned earlier in this document, the following may also result in changes in Orange Polska share price:

- Presentation and implementation of a new strategy;
- Implementation of the FiberCo project;
- Change in the outlook for dividend payments;
- Change in the Group's debt;
- Sale or purchase of significant assets by the Group;
- Significant changes in the shareholder structure; and
- Changes in the capital market analysts' forecasts and recommendations concerning the Group, its competitors and partners, or business sectors in which the Group operates.

## **CHAPTER V STATEMENTS**

## 8 STATEMENTS OF THE MANAGEMENT BOARD

### 8.1 Statement on Adopted Accounting Principles

Orange Polska S.A. Management Board, composed of:

- |                       |   |
|-----------------------|---|
| 1. Julien Ducarroz    | – President of the Board  |
| 2. Bożena Leśniewska  | – Vice President in charge of Business Market                     |
| 3. Witold Drożdż      | – Board Member in charge of Strategy and Corporate Affairs        |
| 4. Jolanta Dudek      | – Board Member in charge of Customer Experience                   |
| 5. Piotr Jaworski     | – Board Member in charge of Networks and Technology               |
| 6. Jacek Kowalski     | – Board Member in charge of Human Capital                         |
| 7. Jacek Kunicki      | – Board Member in charge of Finance                               |
| 8. Maciej Nowochoński | – Board Member in charge of Carriers Market and Real Estate Sales |

hereby confirms that according to its best knowledge the annual consolidated financial statements and annual standalone financial statements of Orange Polska S.A. as well as comparable data have been drawn up in compliance with the accounting regulations in force and reflect the property, financial standing and financial result of Orange Polska S.A. and its Group in an accurate, reliable and transparent manner.

This Management Board's Report provides accurate depiction of the development, achievements and standing of the Orange Polska Group, including the description of major threats and risks.

### 8.2 Agreement with the Licensed Auditor

On February 6, 2020, the Supervisory Board of Orange Polska S.A. passed a resolution on selecting Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. to audit financial statements of Orange Polska S.A. and the Orange Polska Group for 2020 and to review the relevant interim six-month financial statements of Orange Polska S.A. and the Orange Polska Group.

On March 19, 2020, the Supervisory Board of Orange Polska S.A. passed a resolution on selecting KPMG Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. to audit financial statements of Orange Polska S.A. and the Orange Polska Group for 2021 to 2025 and to review the relevant interim six-month financial statements of Orange Polska S.A. and the Orange Polska Group.

On April 16, 2020, Orange Polska S.A. concluded an agreement for 2020 with an entity licensed to audit financial statements, pursuant to which Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. performed the following:

- reviews of the standalone financial statements of the Company and the consolidated financial statements of the Group for the first six months of 2020 prepared in accordance with IFRS; and
- an audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2020 prepared in accordance with IFRS; and
- procedures regarding the Magnitude reporting package of Orange Polska S.A.

Audits of financial statements of subsidiaries have been performed under separate agreements between Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. and each subsidiary.

The aggregate remuneration payable for auditing and reviewing the above-mentioned financial statements and other services rendered by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. for 2020 is presented below (in PLN '000):

	2020
Audit of the consolidated financial statements of the Group, the standalone financial statements of Orange Polska S.A. and financial statements of its subsidiaries for the year 2020, as well as review of the consolidated financial statements of the Group and the standalone financial statements of Orange Polska S.A. as of June 30, 2020	2,660
Audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law	1,168
Other services	405
<b>Total amount payable by the Group</b>	<b>4,233</b>

In 2019, the aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. was as follows: PLN 2,324 thousand for audit of financial statements of the Group, Orange Polska S.A. and its subsidiaries as well as review of financial statements of the Group and Orange Polska S.A.; PLN 403 thousand for other services to Orange Polska S.A.; and PLN 1,218 thousand for audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law.

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

As announced in the current report 3/2020 of February 12, 2020, the Group forecast that EBITDAaL in 2020 would be higher than in 2019 (PLN 2,718 million). The forecast was met, as EBITDAaL was PLN 2,797 million in 2020, which is a 2.9% increase year-on-year. The growth of EBITDAaL was a result of a trend improvement in our core telecom services coupled with additional measures implemented by the Management Board to mitigate the negative impact of the crisis resulting from the COVID-19 pandemic.

### 8.4 Statement of the Orange Polska Supervisory Board on the Audit Firm Selection Policy and Appraisal of the Financial Statements and the Management Board's Report on the Activity in 2020

#### I. Statement on the Audit Firm Selection

The Supervisory Board hereby states the following:

- 1) On February 6, 2020, it selected an audit firm to audit the annual financial statements of Orange Polska S.A. and the Orange Polska Group for 2020, namely Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k.;
- 2) On March 19, 2020, it passed a resolution on selecting KPMG Audyt spółka z ograniczoną odpowiedzialnością sp.k. to audit financial statements of Orange Polska S.A. and the Orange Polska Group for 2021 to 2025 and to review the relevant interim six-month financial statements of Orange Polska S.A. and the Orange Polska Group;
- 3) Both the audit firm and the audit team members met the conditions to develop an impartial and independent report on the audit of annual financial statements in line with the mandatory legal provisions, standards of profession and rules of professional ethics;
- 4) Orange Polska complies with the provisions on the rotation of the audit firm and the key auditor as well as mandatory cooling-off periods;
- 5) Orange Polska has adopted the audit firm selection policy and the policy for provision of authorised non-audit services by an audit firm conducting the audit, entities affiliated with that audit firm or a member of their networks, including services exempted conditionally from the ban on provision of services by an audit company;
- 6) Orange Polska complies with the requirements for the establishment, composition and functioning of the Audit Committee, particularly the independence criteria for the majority of its members and the requirements for their qualifications and knowledge of the industry in which Orange Polska operates, as well as accounting or audit;
- 7) The Audit Committee has performed the tasks set forth in the mandatory legal provisions.

#### II. Appraisal of the Financial Statements and the Management Board's Report on the Activity in 2020

The Supervisory Board has examined and appraised the following documents:

- 1) IFRS standalone financial statements of Orange Polska S.A. for 2020, that include:
  - a) income statement for 2020, showing net income of PLN 47 million (in words: PLN forty seven million),
  - b) statement of comprehensive income for 2020, showing total comprehensive income of PLN 34 million (in words: PLN thirty four million),
  - c) statement of financial position as at 31.12.2020, with the balance sheet total of PLN 23,904 million (in words: PLN twenty three billion nine hundred and four million),
  - d) statement of changes in equity for 2020, showing an increase in equity by PLN 43 million (in words: PLN forty three million),
  - e) statement of cash flows for 2020, showing a decrease in net cash and cash equivalents by PLN 46 million (in words: PLN forty six million),
  - f) notes to financial statements;
- 2) Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2020;
- 3) IFRS consolidated financial statements of the Orange Polska Group for 2020, that include:
  - a) consolidated income statement for 2020, showing net income of PLN 46 million (in words: PLN forty six million), including net income attributable to owners of Orange Polska S.A. of PLN 46 million (in words: PLN forty six million),
  - b) consolidated statement of comprehensive income for 2020, showing total comprehensive income of PLN 33 million (in words: PLN thirty three million), including total comprehensive income attributable to owners of Orange Polska S.A. of PLN 33 million (in words: PLN thirty three million),
  - c) consolidated statement of financial position as at 31.12.2020, with the balance sheet total of PLN 24,300 million (in words: PLN twenty four billion three hundred million),
  - d) consolidated statement of changes in equity for 2020, showing an increase in total equity by PLN 42 million (in words: PLN forty two million), including an increase in equity attributable to owners of Orange Polska S.A. by PLN 42 million (in words: PLN forty two million),

- e) consolidated statement of cash flows for 2020, showing a decrease in net cash and cash equivalents by PLN 48 million (in words: PLN forty eight million),
- f) notes to consolidated financial statements.

Having analysed the above-mentioned documents and taking into consideration the independent auditor's reports on the audit of the annual standalone financial statements of Orange Polska S.A. and the consolidated financial statements for the year ended 31 December 2020, the Supervisory Board hereby states that:

- IFRS standalone financial statements of Orange Polska S.A. for 2020,
- Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2020, and
- IFRS consolidated financial statements of the Orange Polska Group for 2020

have been drawn up in compliance with the books and documents, the factual status and mandatory legal provisions, and that they provide a complete and fair picture of the operational and financial standing of Orange Polska S.A. and the Orange Polska Group. The Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2020 has been drawn up in all major aspects on the basis of the financial data contained in the standalone and consolidated financial statements for 2020. The Management Board's Report contains a description of all material events that may have influence on Orange Polska S.A.'s property and financial standing in at least several quarters as well as a description of all material risks.

Disclosures on performance measures, including comparable data, are presented in the Note 2 and 3 to the Consolidated Full-Year Financial Statements for 2020.

From 2020 we have revised definitions of capex and EBITDAaL alternative performance measures. Capex is now presented net of the accrued proceeds from asset disposals and is named economic capex (eCapex). Consequently, EBITDAaL excludes gains on asset disposals. This change reflects better the transformation of Orange Polska's fixed asset base which has been rapidly evolving over the past few years and will do so in the future. We invest in assets essential for our future value creation (fibre and mobile network) and dispose assets no longer necessary for our core operations. Economic benefits of this transformation have been shifted from EBITDAaL to eCapex.

## 9 CORPORATE GOVERNANCE STATEMENT

### (a) Company's corporate governance policy

The Company, as an issuer of securities listed on the Warsaw Stock Exchange (WSE), is obliged to comply with the corporate governance practices set out in the *Best Practice for WSE Listed Companies 2016*. The version of the latter in force until December 31, 2020 is available at <http://corp-gov.gpw.pl>.

### (b) Corporate governance compliance

In 2020, the Company complied with the corporate governance best practice referred to above.

### (c) Description of major features of Orange Polska's internal control and risk management systems with respect to the process of development of standalone and consolidated financial statements (please see chapter IV for additional information on key risk factors)

The system of internal control and risk management in Orange Polska S.A. has been designed to manage, rather than eliminate, the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Code of Ethics encompasses relations with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A whistleblowing system, which has been used effectively for years, is co-ordinated by the Ethics Committee of Orange Polska, which was established in 2007. The process enables problem identification through a number of communication channels for employees, associates and external partners, such as emails to the dedicated mailbox, letters to the Chairman of the Ethics Committee, contact with the Chairman of the Audit Committee of the Supervisory Board, anonymous reports on the dedicated intranet website or the Orange Group website. Regular training on ethics is provided to employees, which is confirmed by certification.

In accordance with the approach adopted by the Orange Group assuming gradual implementation of subsequent elements of the Compliance Programme, the Anti-Corruption Policy and Guidelines have been introduced in Orange Polska. These regulations contain detailed rules and standards as well as references to specific conditions and circumstances relating to the identification and mitigation of the risk of corruption. They are regularly reviewed and updated, if required. In addition, a number of information and training actions are carried out in order to raise employees' awareness of anti-corruption laws and rules. The Compliance Programme encompasses a mechanism for reporting cases of corruption, influence peddling and actual or suspected infringement of legal regulations. These may be reported through the same channels which are used for reporting unethical conduct. Reports are confidential and are examined with proper care. The Programme and the Policy are also supported by a due diligence process for screening business partners as well as a cyclic review of corruption risks. The mechanisms functioning within the Company comply with the *Standards recommended for the compliance management system on counteracting corruption and the whistleblower protection system* adopted by the Warsaw Stock Exchange in October 2018.

The Group is diligent in its approach to reporting financial results and its ongoing communication with the Polish and international investment community, as well as fulfilling its disclosure obligations. Key managers responsible for the financial, legal, regulatory and internal control functions review financial statements and make comments thereto at the Disclosure Committee. The purpose of the Committee's meetings is to ensure that financial disclosures are timely, exact, transparent, complete, and presented in accordance with all relevant laws, applicable regulations and recognised practices, as well as being properly representative of the financial and operational condition of both the Company and the Group. In 2020, the Disclosure Committee had four meetings. In addition, the Audit Committee reviews the financial disclosures of the Company and the Group before they are published.

The key elements of Orange Polska S.A.'s internal control and risk management system include the following procedures:

- (1) An internal audit function, which functionally reports to the President of the Management Board. The internal audit programme is developed on the basis of, *inter alia*, the Company's key risks, and annually reviewed by the Audit Committee, which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit, decisions regarding the conclusion and termination of an employment contract with the Group Internal Audit Director as well as his evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.
- (2) The Company conducts ongoing assessments of the quality of the risk management system and controls. This process includes identification and classification of Orange Polska S.A.'s financial and non-financial risks as well as verification of the effectiveness of the risk management system – please see Chapter IV, section 7 above.
- (3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.



In 2020, the Management Board again completed a comprehensive assessment of the Group's internal controls over financial reporting. Main deficiencies were identified and corrected or appropriate action points were launched. As a result of the assessment, the Management Board concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at December 31, 2020.

**(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Assembly**

Please see section 6.4 above for the information about major shareholders.

**(e) Indication of holders of any securities granting special control rights and description of such rights**

The Company has not issued any securities granting any special control rights to shareholders or other entities.

**(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities**

The Company has not introduced any specific restrictions concerning the exercise of the voting rights on shares.

**(g) Indication of any restrictions concerning transfer of ownership of the securities issued by Orange Polska**

The transfer of ownership of the securities issued by the Company is not subject to any restrictions.

**(h) Description of procedures for appointment and removal of managing persons as well as their rights, particularly the right to make decisions regarding the issuance or redemption of shares**

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office for the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy and budget; establishment, transformation and liquidation of the Company's business units; and governance of the Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly.

The powers of the Management Board are detailed in the Management Board by-laws, available at [www.orange-ir.pl](http://www.orange-ir.pl).

**(i) Description of procedures for amending the Articles of Association or the deed of the company**

Any amendment to the Articles of Association requires a resolution of the General Assembly adopted by a majority of the three quarters of votes.

**(j) Rules of operation of the General Assembly and its major responsibilities, and description of the shareholders' rights and the way of exercise thereof, particularly the rules resulting from the General Assembly by-laws, if any, unless the information in this respect results directly from mandatory regulations**

I. General Assemblies shall be held in Warsaw. The General Assembly shall be valid irrespective of the number of shares represented. According to the adopted by-laws, the General Assembly shall be opened by the Chairman of the Supervisory Board or his deputy, or, in case of their absence, by the President of the Management Board or a person designated by the Management Board. Thereafter, the Chairman of the General Assembly shall be elected from among the persons entitled to take part in the General Assembly. After each subsequent matter on the agenda has been presented, the Chairman shall open a discussion giving floor to speakers in the sequence in which they have declared their willingness to speak. Upon the consent of the General Assembly, several items of the agenda may be discussed jointly. The participants may speak only on the matters which have been put on the agenda and are being considered at that moment.

II. Pursuant to the Regulations of the General Assembly of Orange Polska S.A., the shareholders have the following rights:

(1) The shareholders may take part in the General Assembly and exercise the right to vote in person, by a proxy holder (other representatives) or by means of electronic communication, provided that such a possibility has been specified in the announcement convening the General Assembly.

(2) Each shareholder entitled to participate in the General Assembly has the right to stand as a candidate for the Chairman of the General Assembly or to put forward one candidate for the position of the Chairman of the General Assembly to the minutes.



(3) When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.

(4) Each shareholder has the right to ask questions on any matters on the agenda.

(5) The shareholder has the right to object a decision of the Chairman of the General Assembly. The General Assembly shall decide in a resolution whether the decision of the Chairman be upheld or reversed.

(6) Each shareholder has the right to suggest amendments or additions to draft resolutions, which are covered by the agenda of the General Assembly, by the time of closing the discussion over the item on the agenda referring to the draft resolution to which the suggestion is related.

**(k) Composition and changes thereof in the last financial year, and description of bodies that manage, supervise or administer Orange Polska S.A. and any committees thereof**

**I. Composition of the Management Board in 2020**

Composition on January 1, 2020:

- |                            |                               |
|----------------------------|-------------------------------|
| 1. Jean-François Fallacher | – President of the Board      |
| 2. Mariusz Gaca            | – Vice President of the Board |
| 3. Bożena Leśniewska       | – Vice President of the Board |
| 4. Witold Drożdż           | – Board Member                |
| 5. Jolanta Dudek           | – Board Member                |
| 6. Piotr Jaworski          | – Board Member                |
| 7. Jacek Kowalski          | – Board Member                |
| 8. Maciej Nowohoński       | – Board Member                |

The following changes took place in 2020:

On March 31, 2020, Maciej Nowohoński, previously in charge of Finance and Carriers Market, became the Management Board Member in charge of Carriers Market and Real Estate Sales, while Jacek Kunicki, previously the Group's Chief Controller, became Orange Polska's Chief Financial Officer as the Executive Director in charge of Finance. On July 21, 2020, Jacek Kunicki was appointed by the Supervisory Board as the Management Board Member.

On June 12, 2020, Jean-François Fallacher informed Orange Polska that he had accepted an offer to become the CEO of Orange Spain as of September 1, 2020. He remained the President of the Management Board of Orange Polska to August 31, 2020.

On July 21, 2020, the Supervisory Board appointed Julien Ducarroz as the President of the Management Board, effective on September 1, 2020.

On July 21, 2020 Mariusz Gaca informed Supervisory Board that he had accepted an offer to become the CEO of Orange Moldova. He stepped down from the Management Board of Orange Polska on October 31, 2020.

Composition on December 31, 2020:

- |                      |                               |
|----------------------|-------------------------------|
| 1. Julien Ducarroz   | – President of the Board      |
| 2. Bożena Leśniewska | – Vice President of the Board |
| 3. Witold Drożdż     | – Board Member                |
| 4. Jolanta Dudek     | – Board Member                |
| 5. Piotr Jaworski    | – Board Member                |
| 6. Jacek Kowalski    | – Board Member                |
| 7. Jacek Kunicki     | – Board Member                |
| 8. Maciej Nowohoński | – Board Member                |

Profiles of Management Board Members:

**Mr. Julien Ducarroz** (born 1975), CEO and President of the Management Board of Orange Polska since September 1, 2020. Between 2016 and 2020 he was the CEO of Orange Moldova, the country's largest convergent operator. His achievements included the launch of convergent services with the acquisition of major cable operators, cultural transformation to implement entrepreneurial mindset and adopt agile ways of working across the organisation, and preparation for the introduction of mobile financial services.

Julien Ducarroz has extensive experience in the telecom industry, with more than 10 years on executive positions, gained in different countries in a number of areas, including strategy and commercial functions. He joined the Orange Group in 2002 in the International Division, then continued as the Business Intelligence and Value-based Marketing Manager in Orange Group Marketing in London (2003-2004). Subsequently, he became the Deputy Chief Marketing Officer in Orange Nederland (2006-2007). In 2007 he joined Orange Romania as the Strategy Director, and from May 2009 to May 2016 he managed sales, marketing and marketing communication as the Chief Commercial Officer. He has graduated from Swiss Federal Institute of Technology of Lausanne and Zurich.

**Ms. Bożena Leśniewska** (born 1965), Vice-President of the Management Board in charge of Business Market and responsible for Integrated Solutions and BlueSoft. She has over twenty years' experience in management and technology. She consistently moved up the ladder, from a sales representative (DHL), manager and regional director (Polkomtel) and HQ department director (Polkomtel, PTK Centertel, Telekomunikacja Polska S.A.) to Executive Director and Management Board Member at Orange Polska.

She is a graduate of the Jagiellonian University, the Academy of Leadership Psychology at Warsaw University of Technology Business School, and AMP at INSEAD. She is a member of the Responsible Leadership Council of the Responsible Business Forum, a member of the Professional Women Network and the President of LiderShe. Furthermore, she has been an active mentor in mentoring programmes held by Vital Voices, Perspektywy Education Foundation and others.

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

He was awarded Info-Star (2009), INFOSTAT (2009) and Electronic Economy Ambassador (2008) awards. He sits on the Orange Foundation Board and the dialogue and the University of Warsaw Co-operation and Dialogue Council. He is a graduate of Law and International Relations at the University of Warsaw and has completed the Stanford Executive Program at Stanford University.

**Ms. Jolanta Dudek** (born 1964), Management Board Member in charge of Customer Experience since 2015. She began her career in telecommunications at PTK Centertel in 2000, holding management positions related to mass customer care and taking part in the development of customer service for the "Idea" mobile network. Between 2004 and 2010, she served as Director of Business Customer Service for the Orange network. In October 2010, she was appointed Director of Mobile Business Customer Service in Orange Customer Service. From November 2013, she was the Executive Director in charge of Customer Care in Orange Polska. Until incorporation of Orange Customer Service into Orange Polska's main structure in 2016, she served as CEO of Orange Customer Service. She has been responsible for the area of Customer Care and Customer Excellence in Orange Polska since 2014.

She is a graduate of the Faculty of Philology at the University of Silesia and postgraduate studies in European Economy Management with a diploma from French Ecole des Hautes Etudes Commerciales (HEC) and the Warsaw School of Economics (SGH). She is also a graduate of postgraduate studies at the Academy of Leadership Psychology at Warsaw University of Technology Business School. She is also an experienced Lead Auditor of Quality Management System ISO 2002 and Customer Operations Performance Center (COPC®) Co-ordinator.

**Mr. Piotr Tadeusz Jaworski** (born 1961), Management Board Member in charge of Network and Technology since November 2018. From September 2016 he held the position of Executive Director in charge of Network and Technology in Orange Polska. He is a member of the Orange Network Experts Committee. He is also the Chairman of the Supervisory Boards of TP Teltech and NetWorkS!

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

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

**Mr. Jacek Kowalski** (born 1964), the Management Board Member in charge of Human Resources since January 2011. Previously, from 2009 he was the Executive Director in charge of Human Resources at Telekomunikacja Polska (now Orange Polska). He has worked for the Company for over ten years. He started his career in the Group in 2001 as the Manager of Human Resources in Sales & Marketing at PTK Centertel. From 2005, he was the Branch Director for Employee Competence and Development Management. Prior to that, he worked as the Director of the Entrepreneurship and Human Resources School in Infor Training (an Infor Media Group company) and the Director of the National In-Service Teacher Training Centre, responsible for the implementation of training programmes supporting the development of education in Poland.

He graduated from the Faculty of History at the University of Warsaw (1989) and completed postgraduate studies in local government and non-governmental organisation management also at the University of Warsaw (1996). He is a member of the Advisory Board of the Polish Human Resources Management Association.

**Mr. Jacek Kunicki** (born 1979) has worked at Orange Polska since 2003, holding a number of managerial positions of growing responsibility within the finance area. In particular, he was the Director of Investor Relations from 2010 to 2014 and Orange Polska Group Chief Controller from 2014. Jacek Kunicki has held the position of Orange Polska Chief Financial Officer as the Executive Director in charge of Finance from March 31, 2020 and as the Management Board Member in charge of Finance from July 21, 2020.

Jacek Kunicki is a Member of the Supervisory Boards of TP Teltech and NetWorkS! (Orange Polska Group companies). Prior to joining Orange, he worked in the finance team of the telecom operator Energis Polska. He graduated from the Higher School of Management in Warsaw and holds an MBA from the Oxford Brookes University.

**Mr. Maciej Nowohoński** (born 1973), Management Board Member in charge of Carriers Market and Real Estate Sales (previously in charge of Finance since March 2014). He has been with Orange Polska since 2003 and has held several positions of growing responsibility in finance, including Orange Polska Group Controller in 2006–2014. He was a Member of the Management Board of Emitel from 2010 to 2011 and the Chief Financial Officer of PTK Centertel between 2011 and 2013. Since January 2020, he has been responsible also for the carriers market. Furthermore, he sits on Supervisory Boards of selected Orange Polska Group companies. Prior to joining the Orange team, he worked for Arthur Andersen and Andersen Business Consulting.

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

## II. Composition of the Supervisory Board and its Committees and changes thereof in 2020

Composition of the Supervisory Board on January 1, 2020:

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

On June 17, 2020, the mandates of Messrs. John Russell Houlden and Patrice Lambert-de Diesbach expired. On the same day, the Annual General Assembly appointed the aforementioned persons, that is John Russell Houlden and Patrice Lambert-de Diesbach, for another term of office.

On October 20, 2020, Mr. Gervais Pellissier resigned his position as Member of the Supervisory Board and Deputy Chairman of the Supervisory Board of Orange Polska. On the same day, the Supervisory Board appointed Ms. Marie-Noëlle Jégo-Laveissière as Member of the Supervisory Board of Orange Polska.

Composition on December 31, 2020:

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

As at December 31, 2020, Orange Polska had five independent Members on the Supervisory Board, namely Henryka Bochniarz, PhD; John Russell Houlden; Prof. Michał Kleiber; Monika Nachyła; and Maria Pasło-Wiśniewska, PhD.

Composition of the Committees of the Supervisory Board on December 31, 2020:

#### The Audit Committee

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

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

#### The Remuneration Committee

1. Maria Pasło-Wiśniewska, PhD – Chairman
2. Prof. Michał Kleiber
3. Marc Ricau
4. Jean-Marc Vignolles

#### The Strategy Committee

1. Jean-Marc Vignolles – Chairman
2. Henryka Bochniarz, PhD
3. Thierry Bonhomme
4. Eric Debroeck
5. Patrice Lambert-de Diesbach
6. Monika Nachyła
7. Maria Pasło-Wiśniewska, PhD

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

Below, is the list of the Members of Orange Polska Supervisory Board and Management Board together with the Annual General Assemblies on which their mandates expire.

Management Board	Year of AGM
Julien Ducarroz – President	2023
Bożena Leśniewska – Vice President	2021
Witold Drożdż	2021
Jolanta Dudek	2021
Piotr Jaworski	2021
Jacek Kowalski	2023
Jacek Kunicki	2023
Maciej Nowohoński	2023

Supervisory Board	Year of AGM
Maciej Witucki – Chairman	2022
Ramon Fernandez – Deputy Chairman	2021
Marc Ricau – Secretary	2022
Henryka Bochniarz	2021
Thierry Bonhomme	2021
Eric Debroeck	2022

John Russell Houlden	2023
Marie-Noëlle Jégo-Laveissière	2021
Michał Kleiber	2022
Patrice Lambert-de Diesbach	2023
Monika Nachyła	2022
Maria Pasło-Wiśniewska	2021
Jean-Michel Thibaud	2022
Jean-Marc Vignolles	2021

### III. Operations of the Management Board

The operations of the Management Board are managed by its President. Meetings of the Management Board are chaired by the President of the Management Board or, in case of his absence, another member of the Management Board designated by the President. Resolutions may be adopted if all members of the Management Board have been duly notified about the meeting. Resolutions of the Management Board shall be adopted by an absolute majority of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at [www.orange-ir.pl](http://www.orange-ir.pl).

### IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying the suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting. The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all Members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in subsequent paragraphs.

The Supervisory Board by-laws are available at [www.orange-ir.pl](http://www.orange-ir.pl).

In particular, the Supervisory Board is responsible for the appointment and remuneration of the Members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Group's business. As part of its supervisory responsibilities, it examines the Group's strategic plan and annual budget, monitors the Group's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Group's assets that exceed the equivalent of €100,000,000, and evaluates the Management Board's Report on the Company's Activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to the Group's business.

Furthermore, the Polish Accounting Act determines the responsibility of the Members of the Supervisory Board regarding the reliability and fair presentation of the Company's financial reporting.

### V. Operations of the Committees of the Supervisory Board

#### (A) The Audit Committee

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

- (1) monitoring the integrity of the financial information reported externally,
- (2) reviewing the Group's internal control and risk management systems,
- (3) reviewing plans for internal audit and internal audit reports,
- (4) reviewing and giving opinions on significant transactions with related parties,
- (5) recommending the selection and re-appointment of the audit firm,



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

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

#### (B) The Remuneration Committee

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of the Group, determining the terms of employment and remuneration (including the setting of objectives) of the Members of the Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of variable pay for the Members of the Management Board.

#### (C) The Strategy Committee

The tasks of the Strategy Committee include:

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

(2) consulting on all strategic projects related to the development of the Group, monitoring of the evolution of industrial partnerships within the Group and projects involving strategic agreements for the Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

In particular, the Committee is invited to consider projects such as:

(1) strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the Group's strategic partnership with Orange S.A.; and

(2) significant acquisitions and sales of assets.

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

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

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

**John Russell Houlden** has declared that he has knowledge and skills in the area of accounting and auditing of financial statements. He holds a first class honours degree from Warwick Business School and has completed executive programmes at INSEAD, Stanford and London Business School. He has qualifications in accounting and corporate treasury management and is a Fellow of the Chartered Institute of Management Accountants (CIMA), a Chartered Global Management Accountant (CGMA) and a Fellow of the Association of Corporate Treasurers (ACT). He gained extensive experience in accounting and audit in a variety of financial roles in Spicer & Oppenheim (now part of Deloitte), ICI and BT. Next, he served as Finance Director of Lovells (2002 to 2008), Chief Financial Officer of Telecom New Zealand (2008 to 2010) and Chief Financial Officer of the United Utilities Group (2010 to 2020). From 2014 to 2020 he was also a Member of the Main Committee and the Chairman of the Financial Reporting Committee of the '100 Group' (which represents the collective views of FTSE 100 companies to the International Accounting Standards Board, the European Securities and Markets Authority and other regulatory bodies) and from 2020 to date he has also been the Chairman of the Audit Committee of Babcock International Group (a FTSE 250 company).

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

**Maria Pasło-Wiśniewska** has declared that she has knowledge in the area of accounting and auditing of financial statements. She is an economist and has Ph.D. in sociology; she graduated from the University of Economics in Poznań and the Kellogg School of Management, Northwestern University in Chicago. She gained knowledge of accounting and audit throughout her long management practice, during which the

banks, financial institutions and corporations she managed successfully implemented their strategies and achieved, or even exceeded, the intended goals and the expected value for shareholders. She started her professional career at the National Bank of Poland (NBP). Between 1988 and 1996 she worked in Wielkopolski Bank Kredytowy in Poznań, reaching the position of Vice-President of the Management Board. In 1997 she was the CEO of SKARBIEC Investment Fund Company. In 1998–2003, as the President of the Management Board of Pekao S.A., she effected a merger of four banks from the Pekao Group.

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

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

**John Russell Houlden** holds a first class honours degree from Warwick Business School and has completed executive programmes at INSEAD, Stanford and London Business School. He is a Fellow of the Chartered Institute of Management Accountants (CIMA), a Chartered Global Management Accountant (CGMA) and a Fellow of the Association of Corporate Treasurers (ACT). Prior to joining the Supervisory Board of Orange Polska, his knowledge of telecommunications was largely based on his experience as Finance Director of BT Networks & Information Services, Finance Director of BT Wholesale and Chief Financial Officer of Telecom New Zealand whilst his broader strategic, operational, commercial and transformational capabilities were also based on his experience in a variety of financial roles in ICI and as Chief Financial Officer of United Utilities Group.

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

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

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

**Jean-Michel Thibaud** is the Orange Group Deputy CFO in charge of controlling. He is a graduate of the Centrale-Supélec engineer school and Sciences Po Paris. He started his career working seven years in the



banking sector in the areas of export and structured and project finance. He joined Orange as a manager, then head of project finance, and became the Orange Group Treasurer in 2008 until 2012, covering debt raising (bonds, corporate, project, structured finance), relationship with rating agencies and equity capital markets, as well as cash management and customer financing. Between 2013 and 2019, he acted as CFO and Senior VP, Strategy, Transformation & General Services at Orange Business Services. Orange Business Services is a worldwide provider of IT and telecom services for large corporations.

- (4) An audit firm auditing the financial statements of Orange Polska, i.e. Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., provided authorised non-audit services to the Company. Therefore, Orange Polska assessed the independence of the audit firm and the Audit Committee approved the provision of the services.
- (5) The key elements of the audit firm selection policy and the policy for provision of authorised non-audit services by an audit firm conducting the audit, entities affiliated with that audit firm or a member of their networks:
  1. The body authorised to select an audit firm is the Supervisory Board of Orange Polska. The Supervisory Board shall make the selection based on a prior recommendation of the Audit Committee.
  2. The Audit Committee in its recommendation shall:
    - indicate the audit firm which it proposes to entrust with the audit;
    - state that the recommendation is free from third party influence;
    - state that the Company has not entered into any agreements containing clauses that restrict the ability of the Supervisory Board to select an audit firm for the purposes of the statutory audit of the Company's financial statements to certain categories or lists of audit firms.
  3. Where the selection of an audit firm does not concern the extension of an audit agreement, the recommendation of the Audit Committee shall:
    - contain at least two options for selecting an audit firm with justification, indicating the Audit Committee's justified preference for one of them;
    - be drawn up according to the selection procedure specified below.
  4. Selection Procedure
    - 4.1. The Company shall invite any audit firms to submit proposals for provision of the audit service, provided that:
      - it does not infringe the principle that after the expiry of the maximum duration of engagement, neither the statutory auditor or the audit firm nor, where applicable, any members of their networks within the European Union shall undertake the audit of the Company within the following four-year period;
      - the organisation of the tender procedure does not preclude the participation in the selection procedure of firms which received less than 15% of the total audit fees from public-interest entities in the Member State of the European Union concerned in the previous calendar year, included in the list of audit firms that carried out statutory audits in public-interest entities during the preceding year.
    - 4.2. The Company shall prepare the tender dossier for the attention of the invited audit firms, which shall contain transparent and non-discriminatory selection criteria to be used by the Company to evaluate the proposals made by audit firms.
    - 4.3. The Company shall evaluate the proposals made by audit firms in accordance with the selection criteria defined in the tender dossier.
    - 4.4. The Audit Committee shall discuss with the audit firm, upon its request, the threats to its independence and the safeguards to mitigate those threats, as documented by the audit firm. The audit firm shall confirm annually in writing to the Audit Committee that the statutory auditor, the audit firm as well as its partners, senior managers and managers conducting the statutory audit are independent from the audited company.
5. The Company has the right to grant a further engagement referred to in Article 17(6) of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 – based on the consent of the Financial Supervisory Authority.
6. In the course of the selection procedure, the Supervisory Board shall account for the experience of the audit team in auditing financial statements of companies, including those listed on the stock exchange, as well as competences and financial criteria.
7. The selection decision shall be taken with the consideration of the principles of impartiality and independence of the audit firm as well as the analysis of the work performed by the latter in the Company that go beyond the scope of the audit in order to avoid any conflict of interest.

8. If the decision of the Supervisory Board regarding the selection of an audit firm departs from the recommendation of the Audit Committee, the Supervisory Board shall justify in writing the reasons for not following the recommendation of the Audit Committee and submit such justification to the General Assembly.
- (6) The recommendation for selecting an audit firm to audit financial statements (renewing the agreement for financial statements audit with Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k.) complied with the mandatory legal provisions and the audit firm selection policy and procedures at Orange Polska.
- (7) The Audit Committee held six meetings in 2020.

## 9.1 Information about Sponsorship Policy

Orange Polska has adopted a sponsorship policy (pursuant to the Decision No. 49/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016). Orange Polska's approach reflects the global sponsorship strategy of the Orange Group. In the strategic field, which is music now, Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers. Orange Polska sponsors various initiatives on a long-term rather than one-off basis.

The implementation of our sponsorship policy is a responsibility of the Corporate Communication and CSR Director, to whom the CSR, Analysis & Events Department reports. Key sponsorship projects are subject to approval by the Management Board of Orange Polska S.A. Each sponsorship project has its own target Key Performance Indicators (KPIs), such as attendance, advertising value equivalent (AVE), number of publications, etc. Upon completion of a project, it is evaluated by the Management Board. We have established the Sponsorship Committee to centralise sponsorship project management in the Orange Polska Group.

Furthermore, Orange Polska carries out its charitable activities through a dedicated corporate foundation, the Orange Foundation, and the Donation Fund.

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the Decision no. 10/20 of the Board Member in charge of Strategy and Corporate Affairs dated 25 February 2020.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska;
- Each agreement includes a requirement to confirm that the donation has been used in line with its purpose.

The Orange Foundation, which carries out charitable activities on behalf of Orange Polska, has adopted its own strategy. The Foundation works towards modern education of children and youth, carrying out its own nationwide educational and social programmes to support the comprehensive development of young people. All its programmes and projects are based on the results of research and implemented in consultation with renowned experts in specific fields. At least twice a year, the Foundation submits reports on its activities to the Foundation Board, which includes representatives of the Founder, i.e. Orange Polska S.A. Furthermore, on an annual basis the Foundation submits a report on its activities to the competent ministry and draws up a financial report, which is subject to an audit. Reports of the Foundation are publicly displayed on its website.

The Foundation's policy fits into Orange Polska's social responsibility strategy, which is part of the business strategy of the Company. Our corporate social responsibility (CSR) strategy focuses on four areas which are of key importance from the point of view of our sector and our operations on the Polish market: digital inclusion, safe network, clean environment and enquiring team. Conclusions from a dialogue with stakeholders, as well as market trends and social challenges for our industry at home and abroad have been an important road sign in the development of our CSR strategy. Responsibility for the implementation of the strategy lies with the CSR Steering Committee, which is made up of managers from different areas within the organisation. Our CSR initiatives are presented annually in the Orange Polska's Integrated Report (formerly in the Corporate Social Responsibility Report), which is developed in compliance with the Global Reporting Initiative (GRI) international non-financial reporting standards and the International Integrated Reporting Framework (IIRC). Each Report is subject to internal approval by the Disclosure Committee and an external audit by independent auditors.

## 9.2 Description of the Diversity Policy

Orange Polska has adopted the Diversity Management Policy, which was determined in the Decision no. 36/16 of the President of the Management Board dated 19 September 2016.

Our Diversity Management Policy aims to bolster the pursuit of our business objectives and support compliance with the values enshrined in the Code of Ethics, CSR goals and the obligations under the Diversity Charter, of which Orange Polska is a signatory. In addition, the Policy refers to the Global Diversity Management and Inclusion Policy in Orange.

The key diversity dimensions in Orange Polska identified in its Diversity Management Policy are as follows:

- gender;
- age;
- competence / expertise / experience / way of thinking;
- psychophysical skills – (dis)abilities;
- parental status.

Other diagnosed dimensions include:

- religion / beliefs;
- workplace location (HQ vs. region);
- type of employment;
- nationality / ethnic origin.

The implementation of our Diversity Management Policy is supported by the Committee for Gender Equality and Diversity in the Workplace (Decision no. 28/2020 of the President of the Management Board dated 30 June 2020). The quality of our diversity management has been confirmed by the Gender Equality European and International Standard (GEEIS) certificate.

With respect to administering, managing and supervising bodies, the rules specified in the Policy include proper selection of employees, and leadership.

In the recruitment process, we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities.

In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities, as well as the requirements related to qualifications, expertise and competence of the Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of fourteen members, including five independent members. They are appointed by the General Assembly (or, in exceptional cases, by the Supervisory Board). The term of office for the member of the Supervisory Board is three years. There are four women on the Supervisory Board.

The Management Board currently consists of eight members, including the President. They are appointed by the Supervisory Board. The term of office for the member of the Management Board is three years. There are two women on the Management Board (as of December 31, 2020).

### 9.3 Report on the Remuneration Policy of Orange Polska

#### Remuneration Policy of Orange Polska S.A.

The strategy of Orange Polska S.A. is based on building and maintaining high customer satisfaction, while providing a full range of the best quality telecommunication, multimedia and specialised ICT services fitting both household and business needs, as well as offering extensive connectivity and high customer relationship standards.

The Remuneration Policy contributes to implementing the Company's comprehensive strategy. By enabling the recruitment, retention and motivation of the best managers and professionals in the specialised areas existing in Orange Polska S.A. it provides people prepared to achieve the strategic goals of the Company.

While recognising that employees are a key asset of the Company, the Policy supports the creation of favourable conditions in the digital work environment by stimulating the commitment to the Company's objectives, employee development and use of flexible work methods.

Remunerations within Orange Polska S.A. are compared to those offered by peer companies in the market. The managers' remuneration level depends on the Company's financial results, and on one's individual contribution and performance.

Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

1. Base salary;
2. Performance bonus;
3. Discretionary bonuses;
4. Benefits.

Due to the need to adjust the Company's workforce structure to the changing market conditions, Orange Polska S.A. carries out a voluntary departure programme. Employees who depart the Company voluntarily are offered severance pay in excess of statutory amounts due to them under the relevant regulations. The terms of severance pay for employees are determined in separate arrangements with trade unions, whereas the terms of severance pay for managers excluded from the Intragroup Collective Labour Agreement are settled in individual agreements and codified in their employment contracts.

#### 1. Base salary

The base salary level takes into account the scope of duties assigned to a particular job position as well as the market value of the work performed.

Orange Polska S.A. monitors the remuneration market by comparing, at least annually, the Company's salaries and remuneration practices to those adopted by the Polish market leaders, particularly ICT companies.

Orange Polska S.A. ensures the consistency of remuneration between different positions, taking into account their grade in the internal pay scale of job positions.

managerial and expert skills involved as well as job comparability between various parts of the organisation.

Orange Polska S.A. develops remuneration terms based on principles of equality, particularly with respect to gender, age, disability, race, religion, nationality, political opinion, trade union membership, ethnic origin and sexual orientation.

Individual base salaries are determined within the following framework:

- Annual remuneration reviews, taking into account the evolving work standards of various professional groups and each employee's contribution to the achievement of goals;
- Promotions;
- Recruitment arrangements for candidates assuming their duties in a new professional area;
- Management of the risk of attrition of the most qualified employees leaving for the competition.

#### 2. Performance bonus

The purpose of the bonus system is to motivate employees to achieve high performance by attaining the predefined and agreed objectives which support the implementation of the Company's strategy and growth of customer satisfaction. In addition, the system of objectives stimulates co-operation among employees and business units by setting some solidarity objectives in addition to individual ones.

Orange Polska S.A.'s bonus system is aligned with the specifics of the tasks performed by particular functions. Consequently, it encompasses three groups of employees:

- Managers – they are covered by a bonus system with a uniform structure but different bonus rates, ranging from 12.5% to 50% of one's base salary (for achieving objectives in 100%) depending on a professional group;

- Employees with sales targets – they have different models of bonuses or commissions, ranging from 30% to 50% of one's base salary (for achieving objectives in 100%) depending on a professional group;
- Non-managers without sales targets – they are not covered by a bonus system.

The bonus systems provide for higher bonuses for achieving above 100% of the objectives set at the beginning of the settlement period.

For key managers, bonus is more related to the Company's performance, and depends more on the achievement of solidarity objectives shared by all, whereas for experts/line managers, bonus is related to their individual performance and depends less on the solidarity components shared by the particular function or the entire Company.

The objectives and bonuses are set for periods closely linked to the budgeting cycle.

All senior managers and line managers in the support functions receive bonuses on a semi-annual basis. Front-line sales managers and sales employees receive bonuses/commissions on a quarterly or monthly basis.

The detailed bonus terms are defined in the relevant Bonus Regulations.

### 3. Discretionary bonuses

The Company's long-term strategy is based on innovation and commitment to outstanding performance.

Discretionary bonuses encourage employees to get involved in the development of innovative solutions, implementation of strategic projects and cross-functional co-operation. Owing to this scheme, employees can be rewarded for achievements which exceed the expectations defined in their periodic objectives.

Discretionary bonuses are awarded as follows:

- Line managers, middle managers and employees without sales targets may be rewarded at any time of the year, directly after an event or a combination of events for which, in their superior's opinion, they deserve a reward;
- Distinguished employees are rewarded on an annual basis upon highlighting the Company's greatest achievements over the past calendar year.

### 4. Benefits

In order to improve the quality of life and promote employee integration, Orange Polska S.A. provides a broad package of market-competitive benefits to its employees, building a valuable offer which supports employee recruitment and retention.

Employee are eligible to join the Employee Pension Fund, which is financed by Orange Polska S.A.

The key areas influenced by Orange Polska S.A. through benefit schemes are as follows:

- health and physical activity;
- financial stability;
- improved quality of life;
- employee development.

Orange Polska S.A. wants all its employees to be the ambassadors of the Orange brand; therefore, it provides them with access to its own products and services.

The terms of remuneration of the Members of the Management Board and Supervisory Board have been set out in the Remuneration Policy for Members of the Management Board and Supervisory Board of Orange Polska S.A. adopted at the Extraordinary General Meeting on August 27, 2020.

### Management Board and Supervisory Board Remuneration

Persons that were Members of the Management Board of the Company as at 31 December 2020

The President of the Management Board of Orange Polska S.A. is employed by Orange Global International Mobility S.A., an Orange Group company, and performs his duties as the CEO based on posting to Orange Polska S.A.

The amounts paid by Orange Polska S.A. on account of the reimbursement of the costs of employment related to posting of the President of the Management Board are presented in the table below:

(PLN '000)	12 months ended 31 December 2020			
	Fixed cost in 2020	Variable cost in 2020 <sup>1</sup>	Total cost in 2020	Additionally: Variable cost incurred in 2019 and paid in 2020
Julien Ducarroz <sup>2</sup>	1,036	303	1,339	–
<b>Total</b>	<b>1,036</b>	<b>303</b>	<b>1,339</b>	<b>–</b>

<sup>1</sup> Includes bonuses accrued in 2020 to be paid in 2021.

<sup>2</sup> From the date of appointment as the President of the Management Board of Orange Polska S.A.

The remuneration of the Management Board Members employed by Orange Polska S.A. was as follows:

(PLN '000)	12 months ended 31 December 2020			
	Fixed remuneration expense in 2020	Variable remuneration expense in 2020 <sup>1</sup>	Total remuneration expense in 2020	Additionally: Variable remuneration expense in 2019 and paid in 2020
Jolanta Dudek	1,104	520	1,624	298
Jacek Kowalski	1,287	648	1,935	338
Bożena Leśniewska	1,496	752	2,248	437
Maciej Nowochoński	1,326	646	1,972	348
Witold Drożdż	992	495	1,487	282
Piotr Jaworski	1,000	504	1,504	289
Jacek Kunicki <sup>2</sup>	408	206	614	–
<b>Total</b>	<b>7,613</b>	<b>3,771</b>	<b>11,384</b>	<b>1,992</b>

<sup>1</sup> Includes bonuses accrued in 2020 to be paid in 2021, excludes bonuses accrued in 2019 and paid in 2020.

<sup>2</sup> From the date of appointment as the Member of the Management Board of Orange Polska S.A.

Persons that were Members of the Management Board of the Company in 2020 and previous years

The remuneration of the Management Board Members employed by Orange Polska S.A. was as follows:

(PLN '000)	12 months ended 31 December 2020			
	Fixed remuneration expense in 2020	Variable remuneration expense in 2020 <sup>1</sup>	Total remuneration expense in 2020	Additionally: Variable remuneration expense in 2019 and paid in 2020
Jean-François Fallacher <sup>2</sup>	4,407	670	5,077	961
Mariusz Gatza (Gaca) <sup>2</sup>	3,193	736	3,929	489
<b>Total</b>	<b>7,600</b>	<b>1,406</b>	<b>9,006</b>	<b>1,450</b>

<sup>1</sup> Includes bonuses accrued and paid in 2020, excludes bonuses accrued in 2019 and paid in 2020.

<sup>2</sup> To the date of termination of employment (including benefits payable thereafter).

Persons that were Members of the Management Board of the Company as at 31 December 2019

(PLN '000)	12 months ended 31 December 2019			
	Fixed remuneration expense in 2019	Variable remuneration expense in 2019 <sup>1</sup>	Total remuneration expense in 2019	Additionally: Variable remuneration expense in 2018, paid in 2019
Jean-François Fallacher	3,111	1,271	4,382	681
Mariusz Gatza (Gaca)	1,699	830	2,529	443
Jolanta Dudek	1,023	505	1,528	252
Jacek Kowalski	1,189	578	1,767	314
Bożena Leśniewska	1,486	747	2,233	365
Maciej Nowochoński	1,226	595	1,821	323
Witold Drożdż	975	478	1,453	86
Piotr Jaworski	1,005	493	1,498	85
<b>Total</b>	<b>11,714</b>	<b>5,497</b>	<b>17,211</b>	<b>2,549</b>

<sup>1</sup> Includes bonuses accrued in 2019 to be paid in 2020, excludes bonuses accrued in 2018 and paid in 2019.



The Supervisory Board remuneration was as follows:

(PLN '000)	12 months ended 31 December 2020	12 months ended 31 December 2019
Maciej Witucki	422	432
Ramon Fernandez <sup>(1)</sup>	–	–
Gervais Pellissier <sup>(1)(2)</sup>	–	–
Marc Ricau <sup>(1)</sup>	–	–
Henryka Bochniarz, PhD	217	221
Thierry Bonhomme	210	210
Eric Debroeck <sup>(1)</sup>	–	–
Marie-Noëlle Jégo-Laveissière <sup>(1)</sup>	–	–
Russell Houlden	394	394
Prof. Michał Kleiber	218	214
Patrice Lambert-de Diesbach <sup>(1)</sup>	–	–
Monika Nachyła	215	155
Maria Pasło-Wisniewska, PhD	317	287
Wiesław Rozłucki, PhD <sup>(2)</sup>	–	104
Jean-Michel Thibaud <sup>(1)</sup>	–	–
Jean-Marc Vignolles <sup>(1)</sup>	–	–
<b>Total</b>	<b>1,993</b>	<b>2,017</b>

<sup>(1)</sup>Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.

<sup>(2)</sup>Persons that were not Members of the Supervisory Board of the Company as at 31 December 2020 but were Members of the Supervisory Board of Orange Polska S.A. in 2019.

The Management Board Members and Executive Directors are entitled to a variable part of remuneration equal to 50% of their annual base remuneration if the objectives have been achieved in 100%. In some cases, if performance is higher than 100%, the variable part of remuneration may exceed 50% of the annual base remuneration. The variable part of remuneration is calculated on the achievement by Orange Polska of certain indicators: Revenues, EBITDAaL, Organic Cash Flow, NPS and specific telco indicators.

In case of termination of employment, a notice period for the Management Board Members is up to 6 months and they receive base remuneration during that period.

In addition, the Management Board Members are entitled to one-off severance pay in the amount of 6-month base remuneration upon meeting some conditions specified in their employment contracts. All Members of the Management Board shall refrain from engaging in competitive activities for 12 months after the termination of employment, and in return for refraining from competitive activities they are entitled to receive compensation in the amount of 6-month base remuneration.

A notice period for termination of an employment contract of a Member of the Management Board posted to Orange Polska S.A. and an amount of potential severance pay are individually determined taking into account the labour law in the posting country. In each case, these terms are approved by the Supervisory Board after obtaining a recommendation of the Supervisory Board's Remuneration Committee.

The President of the Management Board of Orange Polska S.A. is subject to the same rules for determining the variable part of remuneration as other Members of the Management Board and additionally is entitled to the Stretch Bonus if he achieves EBITDAaL and eCAPEX at a higher level. The terms of its payment are each time determined by the Supervisory Board based on the recommendation of the Supervisory Board's Remuneration Committee.

Furthermore, those Management Board Members and Executive Directors who are expatriates are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

#### Orange Polska S.A. Incentive Programme in the form of phantom shares settled in cash

On September 4, 2017, the Supervisory Board of Orange Polska S.A. adopted the Incentive Programme for the key executives of Orange Polska S.A. based on derivatives (phantom shares), where the underlying instrument is the price of Orange Polska S.A. shares listed on the Warsaw Stock Exchange (WSE).

According to the Programme Regulations, each programme participant was eligible to purchase 70,000 phantom shares (President of the Management Board), 50,000 phantom shares (Management Board Members and Executive Directors) or 10,000/15,000 phantom shares (other participants, at their discretion). The participants have voluntarily purchased phantom shares from the basic pool for a price of PLN 1 per phantom share, and they will purchase additional packages of phantom shares if the conditions for the average price of Orange

Polska shares and the NPS ranking are met. Phantom shares will be bought back from the programme participants by the Company at the average Orange Polska share price in the first quarter of 2021, provided that it is not lower than the arithmetic mean of share closing prices of Orange Polska in the third quarter of 2017, which was PLN 5.46. Otherwise, phantom shares will not be bought back and the participants will lose the invested funds.

In 2020, the condition of the minimum Orange Polska share price on the WSE, obligating the participants to purchase additional packages of phantom shares, was not met. However, the condition of the number one position in the NPS ranking on the telecommunications market was met at the end of the first half of 2020. Consequently, each Management Board Member and Executive Director purchased 9,000 additional phantom shares, while other programme participants purchased 4,500 additional phantom shares each. The price per phantom share was PLN 1.

The table below presents the number and payment cost based on the phantom shares granted by Orange Polska S.A. to the Management Board Members.

	Options for additional phantom shares			The cost of share-based payments for 12 months to 31 December 2020 (PLN '000) <sup>1</sup>	The cost of share-based payments for 12 months to 31 December 2019 (PLN '000) <sup>1</sup>
	Phantom shares – initial pool (number)	Share price condition (number)	NPS condition (number)		
Jean-François Fallacher <sup>2</sup>	–	–	–	(423)	324
Mariusz Gatza (Gaca) <sup>3</sup>	50,000	–	9,000	(94)	246
Jolanta Dudek	50,000	–	9,000	(7)	246
Jacek Kowalski	50,000	–	9,000	(7)	246
Bożena Leśniewska	50,000	–	9,000	(7)	246
Maciej Nowohoński	50,000	–	9,000	(7)	246
Witold Drożdż	50,000	–	9,000	(5)	246
Piotr Jaworski	50,000	–	9,000	(5)	246
Jacek Kunicki <sup>4</sup>	15,000	–	9,000	30	–
<b>Total</b>	<b>365,000</b>	<b>–</b>	<b>72,000</b>	<b>(525)</b>	<b>2,046</b>

<sup>1</sup> For cost calculation assumptions please see Note 17.2 to the Orange Polska Group IFRS Consolidated Financial Statements for 2020.

<sup>2</sup> On August 31, 2020, Jean-François Fallacher ceased to be the President of the Management Board of Orange Polska and withdrew from further participation in the Programme; the Company redeemed his phantom shares and returned the amount of PLN 70 000 which had been paid for them.

<sup>3</sup> Costs presented to the end of tenure as the Member of the Management Board of Orange Polska S.A.

<sup>4</sup> Costs presented from the date of appointment as the Member of the Management Board of Orange Polska S.A.

### Long Term Incentive Plan of the Orange Group

The Long Term Incentive Plan includes key managers in the Orange Group and is conjuncted with the Essentials 2020 strategic plan. Selected Executives and Leaders are awarded a defined number of free shares of Orange S.A. under the following conditions: continuous service in the Orange Group throughout the three-year edition of the plan and some performance-based criteria.

The aim of the programme is to recognise the engagement of the Group's key Executives and Leaders, to share the value created by the Essentials 2020 strategic plan, to achieve a balance between short-term and long-term remuneration and to rely on well-known, monitored performance indicators.

In April 2020, the first edition of the group-wise three-year Long Term Incentive Plan (LTIP) made available for 2017–2019 was settled, and Orange S.A. granted disposable shares to the participants.

The table below presents the number of disposable shares granted to the individual Members of the Management Board (included in Orange Polska S.A.'s costs).

	Disposable shares granted upon the completion of the LTIP edition (number)	Cost of share-based payments for 12 months to 31 December 2020 (PLN '000)	Cost of share-based payments for 12 months to 31 December 2019 (PLN '000)
Jean-François Fallacher	1,717	–	24
Mariusz Gatza (Gaca)	1,717	–	24
Jolanta Dudek	1,717	–	24
Jacek Kowalski	1,717	–	24
Bożena Leśniewska	1,717	–	24
Maciej Nowohoński	1,717	–	24
Witold Drożdż	1,717	–	24
Piotr Jaworski	1,717	–	24
<b>Total</b>	<b>13,736</b>	<b>–</b>	<b>192</b>

In July 2018, the next edition of the Long Term Incentive Plan of the Orange Group for 2018–2020 was made available, in which the individual Members of the Management Board of Orange Polska S.A. may receive the following number of Orange S.A. shares:

	<i>Shares (number)</i>	<i>Cost of share-based payments for 12 months to 31 December 2020 (PLN '000)</i>	<i>Cost of share-based payments for 12 months to 31 December 2019 (PLN '000)</i>
Julien Ducarroz <sup>1</sup>	2,000	11	–
Jean-François Fallacher <sup>2</sup>	2,000	22	30
Mariusz Gatza (Gaca) <sup>2</sup>	2,000	28	30
Jolanta Dudek	2,000	33	30
Jacek Kowalski	2,000	33	30
Bożena Leśniewska	2,000	33	30
Maciej Nowohoński	2,000	33	30
Witold Drożdż	2,000	33	30
Piotr Jaworski	2,000	33	30
Jacek Kunicki <sup>1</sup>	1,000	7	–
<b>Total</b>	<b>19,000</b>	<b>266</b>	<b>240</b>

<sup>1</sup> Costs presented from the date of appointment as the Member of the Management Board of Orange Polska S.A.

<sup>2</sup> Costs presented to the end of tenure as the Member of the Management Board of Orange Polska S.A.

In October 2019, the next edition of the Long-term Incentive Plan of the Orange Group for 2019–2021 was made available, in which the individual Members of the Management Board of Orange Polska S.A. may receive the following number of Orange S.A. shares:

	<i>Shares (number)</i>	<i>Cost of share-based payments for 12 months to 31 December 2020 (PLN '000)</i>	<i>Cost of share-based payments for 12 months to 31 December 2019 (PLN '000)</i>
Julien Ducarroz <sup>1</sup>	2,000	9	–
Jean-François Fallacher <sup>2</sup>	2,000	18	12
Mariusz Gatza (Gaca) <sup>2</sup>	2,000	23	12
Jolanta Dudek	2,000	27	12
Jacek Kowalski	2,000	27	12
Bożena Leśniewska	2,000	27	12
Maciej Nowohoński	2,000	27	12
Witold Drożdż	2,000	27	12
Piotr Jaworski	2,000	27	12
Jacek Kunicki <sup>1</sup>	1,000	6	–
<b>Total</b>	<b>19,000</b>	<b>218</b>	<b>96</b>

<sup>1</sup> Costs presented from the date of appointment as the Member of the Management Board of Orange Polska S.A.

<sup>2</sup> Costs presented to the end of tenure as the Member of the Management Board of Orange Polska S.A.

In July 2020, the next edition of the Long-term Incentive Plan of the Orange Group for 2020–2022, integrated with the Essentials 2020–2025 strategic plan, was made available, in which the individual Members of the Management Board of Orange Polska S.A. may receive the following number of Orange S.A. shares:

	<i>Shares (number)</i>	<i>Cost of share-based payments for 12 months to 31 December 2020 (PLN '000)</i>
Julien Ducarroz <sup>1</sup>	2,000	10
Jean-François Fallacher <sup>2</sup>	2,000	3
Mariusz Gatza (Gaca) <sup>2</sup>	2,000	7
Jolanta Dudek	2,000	12
Jacek Kowalski	2,000	12
Bożena Leśniewska	2,000	12
Maciej Nowochoński	2,000	12
Witold Drożdż	2,000	12
Piotr Jaworski	2,000	12
Jacek Kunicki <sup>1</sup>	1,000	6
<b>Total</b>	<b>19,000</b>	<b>98</b>

<sup>1</sup> Costs presented from the date of appointment as the Member of the Management Board of Orange Polska S.A.

<sup>2</sup> Costs presented to the end of tenure as the Member of the Management Board of Orange Polska S.A.

### Non-financial Remuneration Components for Management Board Members and Key Managers

The Management Board Members and Executive Directors are entitled to the following non-financial remuneration components: health care package, life insurance in Orange Polska, legal indemnity in the event of personal liability, and access to Orange services in line with the relevant Company's policies. In addition, the Management Board Members and Executive Directors, having worked at Orange Polska for more than six months, are eligible to join the Employee Pension Programme (PPE).

Key managers other than Executive Directors are entitled to health care package, company car, and access to Orange services in line with the relevant Company's policies. In addition, all key managers, having worked at Orange Polska for more than six months, are eligible to join the Employee Pension Programme (PPE).

After enrolment to the Employee Pension Programme (PPE), the PPE contribution for all participants is paid by Orange Polska S.A.

In addition, expatriate key managers are eligible for benefits connected with staying in Poland, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

If the President of the Management Board is posted by the Orange Global International Mobility S.A., he shall not receive the benefits provided to other Members of the Management Board (i.e. PPE contributions, life insurance, health care package).

### Assessment of the Remuneration Policy and Description of Changes Thereto in 2020

In 2020, we introduced changes in the elements of our remuneration policy. In order to meet the market trends and follow the processes aimed at flattening of the Company's organisational structure, we redesigned our pay scale of job positions. In its part concerning employees covered by the Intragroup Collective Labour Agreement, we reduced the number of pay grades from 13 to 7. As a result, we achieved higher flexibility in internal migrations of employees between different jobs. Simultaneously, based on the latest market data, we raised pay ranges, thus increasing the base salaries of employees whose wages would fall below the new pay ranges. All these changes were introduced in the course of constructive negotiations with our trade unions.

Due to the situation caused by the COVID-19 pandemic, in agreement with our trade unions, we reduced the initially planned budget for base salary increases from 3.5% to 1.0%. At the same time, the increases in headline rates resulting from the increase in wage brackets were entirely financed from the 1% budget allocated to wage increases.

We also consolidated our bonus systems by including the selected groups of our sales force in the uniform bonus scheme, while preserving the distinctive character and value of their sales targets. In addition, all managers outside the direct sales function were included in the common bonus scheme (MBO), although the value of their bonuses and the structure of their bonus objectives remained specific to individual positions. Non-management, non-sales positions were excluded from performance bonus systems, and the role of financial incentive instruments was shifted to a system of discretionary bonuses. These are awarded in two schemes: (i) ad hoc bonuses which are available throughout the year to non-sales employees, and (ii) bonuses to highlight the greatest achievements which are awarded on an annual basis to beneficiaries chosen from among the entire workforce.

The situation of the COVID-19 crisis made us implement additional temporary measures which involved a special allowance to sales outlet staff.

Throughout the COVID-19 pandemic we have actively participated in the communities of HR managers from various companies in order to share experience and discuss adjustment plans in the face of changing market and legal environment. We also still participate in market remuneration reviews and we adjust remunerations in selected functions, particularly related to technology positions.

#### 9.4 Orange Polska Group and Orange Polska S.A.'s Statement on Non-financial Information for 2020

The key content, scope of information, as well as commitments and indicators have been defined using the PN/ISO 26000 standard and GRI Standards, as well as INDICIA, an internal reporting tool of the multinational Orange Group. However, this statement should not be considered to comply with the GRI Standards, but only to be based thereon. A complete GRI-compliant report is prepared separately by the Company in the form of an integrated report.

The presented data covers the entire Orange Polska Group with separate presentation of Orange Polska S.A. The Orange Polska Group is comprised of the following companies\*: Orange Polska S.A., Integrated Solutions sp. z o.o., TP Teltech sp. z o.o., BlueSoft sp. z o.o., Essembli sp. z o.o., Telefony Podlaskie S.A. Orange Retail S.A. Orange Energia sp. z o.o., Orange Szkolenia sp. z o.o., Pracownicze Towarzystwo Emerytalne Orange Polska S.A., Fundacja Orange, Telekomunikacja Polska sp. z o.o.

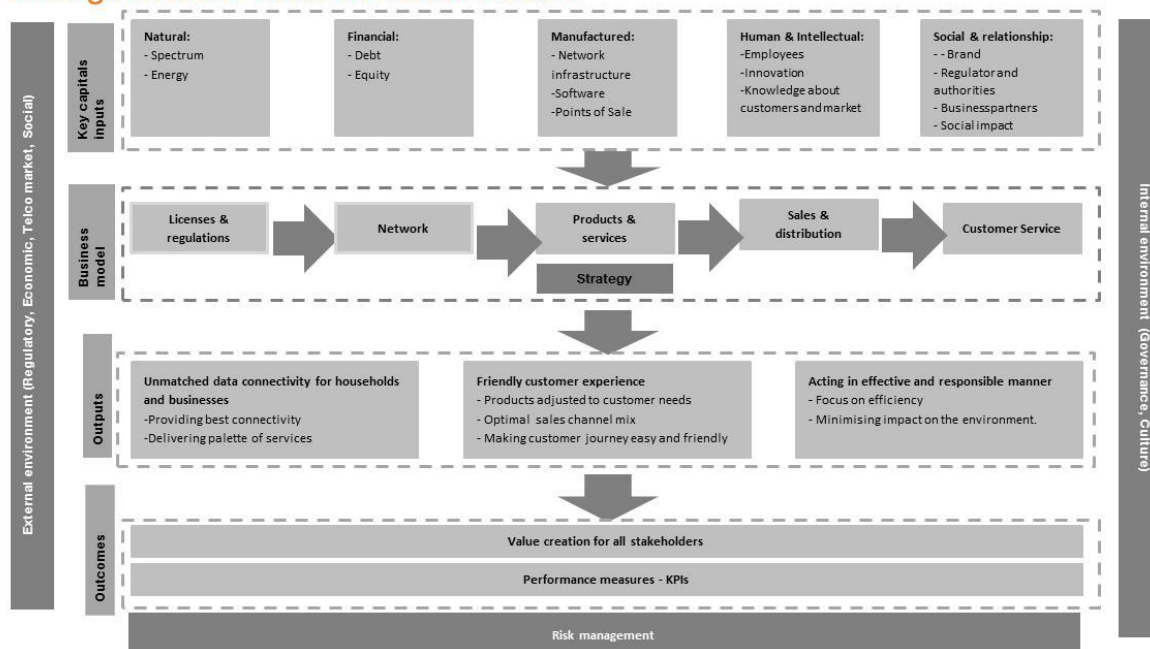
*\*The Group and T-Mobile Polska hold a 50% stake each in NetWorkSI sp. z o.o. This company has been classified as a joint operation and is not covered by this Statement. In addition, in December 2020 Orange Polska acquired a 100% stake in Craftware sp. z o.o., but it is not covered by this Statement due to the date of acquisition.*

This Statement presents the non-financial data identified during our dialogue with stakeholders and included in the Orange Polska Group's corporate social responsibility strategy for 2016–2020 and other strategic documents. The content of this document reflects the importance of particular issues for our stakeholders. This Statement is a continuation of the CSR Reports developed by Orange Polska from 2006 and integrated reports developed since 2017.

#### • Governance Area

##### Business Model

#### Orange Polska Value Creation Model



The Orange Polska Group's business model consists of the following components:

#### Licences and Regulations

To be able to render mobile telecom services the Group needs access to radio spectrum. The Company holds licences for 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequencies. The amount of spectrum that is at our disposal influences the competitiveness and quality of the services we render.

## Network

We have the largest network infrastructure in Poland. Network topology consists of fibre backbone and aggregation networks, and access network. This constitutes the basis for rendering fixed and mobile services. To increase the efficiency of our infrastructure, legacy technologies and solutions, which are mainly voice-oriented, are being replaced with a converged network capable of handling all types of traffic: voice, data and video.

## Products and Services

We offer a broad portfolio of telecommunication products and services for residential, business and wholesale customers. We combine fixed line and mobile services, offering consistent connectivity based on different technologies.

## Sales and Distribution

We ensure easy access to our products and services, using different channels to connect with customers, including traditional points of sale (our own or our agents'), independent distribution chain outlets (e.g. consumer electronics stores), on-line, telesales and door-to-door.

## Customer Care

We deliver customer care across all channels of communication adjusted to customer needs, from traditional (points of sale, Contact Center, face to face, field technicians, delivery couriers) and automated (USSD, IVR, SMS) to modern digital channels (mobile apps, social media, chat, email).

### • Corporate Governance

Orange Polska S.A., as an issuer of securities listed on the Warsaw Stock Exchange (WSE), follows corporate governance rules, complying with Polish and international standards of proper governance. The corporate governance framework in the Company is regulated by a number of internal documents, including Articles of Association of Orange Polska, Regulations of the Management Board, Regulations of the Supervisory Board and Regulations of the General Assembly. The Company also complies with the Best Practice for Warsaw Stock Exchange (WSE) Listed Companies and the Code of Ethics.

The Management Board provides the leadership and introduces policies and rules for maintaining the internal cohesiveness of the organisation. All Members of the Management Board act as executives, while the Members of the Supervisory Board play an oversight role. These two roles are separable and strictly assigned to these governing bodies. The Supervisory Board consists of shareholders' representatives, elected by the General Assembly. In order to ensure quality decision-making, the Supervisory Board uses its committees as advisory bodies. These include the Audit Committee, the Remuneration Committee and the Strategy Committee. Such a corporate governance model ensures proper distribution of responsibilities within the Company and establishment of the roles of the key governing bodies, which in turn enhances the decision-making process.

Our values are enshrined in the Orange Polska Code of Ethics. The Code's principles are consistent with such fundamental acts as the Universal Declaration of Human Rights and the recommendations of the International Labour Organization. Adherence to ethical standards is scrutinised by the Ethics Committee, which submits reports to employees as well as the President of Orange Polska and the Audit Committee of the Supervisory Board.

The Company has adopted and maintained certified management systems and an internal control system. Orange Polska S.A.'s management system has been certified for compliance with the following international standards: ISO 9001, 27001, 27018, 17025 and 22301:2012. Compliance with procedures and international standards is regularly audited internally and confirmed through external oversight audits conducted by authorised independent entities. Orange Polska also holds the COPC (Customer Operations Performance Center) certificate.

Orange Polska S.A. maintains a risk management framework based on the ISO 31000:2009 standard. In addition, the identified similar risks are grouped into clusters to ensure consistent and effective risk management across the Orange Polska Group. In particular, this includes a cluster of social risks related to human health and safety, natural environment, human rights and fundamental freedoms, and climate risks.

### • Attitude to Corporate Social Responsibility

In the Orange Polska Group, we have been successfully implementing a policy of corporate business responsibility (CSR) in all areas of our business for several years now. Orange Polska CSR Strategy for 2016–2020 accounts for the Group's business objectives and fits into their implementation. The conclusions from a dialogue with stakeholders, as well as market trends and social challenges for our industry in Poland and abroad have been key elements in its development.

A strong foundation of this strategy is:



- **responsible management:** values, ethics, human rights, compliance, dialogue with stakeholders, supply chain, corporate culture and responsible communications.

On this foundation are based four pillars of our CSR strategy:

- **Social and digital development** – We make new technologies an ally to economic and social development.
- **Safe network** – We want the use of new technologies to be easy and risk-free.
- **Clean environment** – We implement our business goals with respect for ecology rules and in harmony with the environment.
- **Engaged team** – We build culture of co-operation in which all employees feel respected, work towards achieving shared goals and have an influence on the functioning of the Company.

Responsible management and actions within these four pillars account for the maximisation of our positive impact and minimisation of our negative impact on the society, which is analysed in six areas: economy, innovations, customers, environment, communities, and employees.

## 1. Environmental Area

Orange Polska has adopted an environmental policy that defines its key areas of use of natural resources and its impact on the environment.

Under this policy, we:

- oversee the processes which may affect the environment in compliance with legal requirements and other environmental regulations;
- identify our negative impact on the environment;
- account for environmental issues while setting objectives and making decisions, as well as carrying out initiatives reducing our impact on the environment;
- monitor the compliance of electromagnetic emissions with the relevant standards;
- attempt to reduce CO<sub>2</sub> emissions related to our activity;
- improve our business practices and apply technological solutions to reduce negative environmental impact;
- engage in dialogue with stakeholders and inform them about our environmental protection initiatives;
- raise environmental awareness among our employees and customers;
- co-operate with our suppliers to ensure their compliance with our environmental policy.

In order to facilitate our climate impact management, in 2020 we created the position of climate officer, who is responsible for the co-ordination of Orange Polska's pursuit of environmental objectives.

We consider energy consumption with related greenhouse gas emissions, as well as generation of waste electrical and electronic equipment to be the most important aspects of our environmental impact.

We undertake comprehensive energy saving initiatives, combined into a single programme, 'Energy Optimisation'. To date, Orange Polska has launched almost 200 such initiatives, involving replacement of older technical devices with modern energy-efficient ones, modernisation of cooling systems, introduction of energy saving functionalities, etc. Between 2015 and 2020, this generated total energy savings of 710 GWh, which corresponds to an overall reduction in carbon dioxide emissions of 510 thousand tonnes. The projects implemented in 2020 and earlier years generate savings of 209 GWh annually (vs. base year 2015). Thanks to this programme, our electricity consumption decreased by 6% between 2015 and 2019, despite our investments in new technologies and development of new services. Without it, our electricity consumption would have increased by 25% in that period.

Another major environmental impact in our industry is use of electronic equipment. We encourage our customers to recycle old mobile devices. It is also possible to drop off old mobile phones and accessories, free of charge, in Orange stores. We refurbish multimedia devices, such as modems and set top-boxes, which are leased to customers for the term of their telecommunication service agreements, so that they can be reassigned to other customers. In 2020, 503,045 modems, broadband and CPE devices were refurbished and returned to the market, which was approximately 60% of the total number in circulation in Poland. About 39 tonnes of plastics and over 1.1 million power supplies, cabling or other components attached to multimedia devices were saved in the refurbishment process. On top of our in-house refurbishment initiatives, with the help of our external service partner, over 10,000 mobile devices, both smartphones and tablets, were refurbished and put back into distribution in Poland in 2020. In line with the Orange Group's Engage 2025 strategy, we aim to generate 10% of our handset sales from reconditioned mobile phones by 2025. Therefore, we are already actively participating in the tender procedures within the Orange Group and on the domestic market to secure such large volumes of refurbished phones.

Digital technology also creates the potential for more innovative and sustainable solutions promoting energy conservation and pro-environmental attitudes. We provide environmentally friendly solutions which help to reduce greenhouse gas emissions through services that can replace traditional communications or written



documents, such as tele- and video-conferences, electronic document flow, e-services, e-invoices and comprehensive ICT systems for business, public administration and local communities.

### Key environmental indicators

Environmental Data*			
Energy consumption	Unit	2019**	2020**
<b>Scope 1</b>			
<b>Direct energy consumption by primary energy sources</b>			
Fuel oil (all buildings, all uses)	'000 m <sup>3</sup>	2.0	1.4
Gas	'000 m <sup>3</sup>	2,306	2,014
Coal	tonnes	51	13
Gasoline for company cars	'000 litres	1,549	1,813
Diesel fuel for company vehicles	'000 litres	2,315	886
Scope 1: Total energy	GWh	<b>85</b>	<b>62</b>
Scope 1: CO <sub>2</sub> emissions from fuel, gas and coal	'000 tonnes	11.9	9.2
Scope 1: CO <sub>2</sub> emissions from vehicles	'000 tonnes	9.8	6.5
Scope 1: CO <sub>2</sub> emissions from greenhouse gases	'000 tonnes	5.3	7.1
<b>Scope 1 – Direct CO<sub>2</sub> emissions***</b>	<b>'000 tonnes</b>	<b>21.7</b>	<b>22.8</b>
<b>Scope 2 – Indirect CO<sub>2</sub> emissions</b>			
Energy consumption – electricity	GWh	552	541
Scope 2: CO <sub>2</sub> emissions (location-based)	'000 tonnes	397	382
<b>Total CO<sub>2</sub> emissions (Scope 1+2)</b>	<b>'000 tonnes</b>	<b>424.5</b>	<b>404.6</b>
<b>Scope 3</b>			
Business trips: distance travelled by plane	'000 km	5,740	526
Business trips: distance travelled by train	'000 km	4,800	1,227
<b>Scope 3 – CO<sub>2</sub> emissions</b>	<b>'000 tonnes</b>	<b>1.4</b>	<b>1.3</b>
<b>Total CO<sub>2</sub> emissions (Scope 1+2+3)</b>	<b>'000 tonnes</b>	<b>426</b>	<b>405</b>
KPI: Electricity consumption/customer	kWh/customer	25.8	26.2
KPI: CO <sub>2</sub> emissions from electricity consumption/customer	kg/customer	18.6	18.5
KPI: Scope 1+2 CO <sub>2</sub> emissions during electricity consumption/customer	kWh/customer	29.8	29.2
KPI: Scope 1+2+3 CO <sub>2</sub> emissions (all energies)/customer	kg/customer	19.9	19.6
<b>Materials</b>			
Paper	'000 tonnes	0.6	0.4
<b>Water</b>			
Water consumption	'000 m <sup>3</sup>	242.6	215.0
<b>Waste management ****</b>			
Internal WEEE (network & tertiary)	tonnes	112.2	38.5
Wooden poles	tonnes	216.3	9.2
Cables	tonnes	126.2	20.2
Batteries	tonnes	92.6	3,670
Paper / Cardboard	tonnes	14.7	41.2
Other hazardous waste (including PCB)	tonnes	3.4	2.9
Other non-hazardous waste	tonnes	1,234	4,911
Total waste	tonnes	1,799	8,693
<b>Electrical and electronic equipment</b>			
Collected and recycled handsets	pcs.	36,671	33,609
Refurbished and relaunched handsets	pcs.	8,561	11,515
Refurbished and relaunched multimedia (broadband) devices	'000	411	503
<b>Electromagnetic field emissions</b>			
Compliance with the relevant standards		yes	yes

\* The presented environmental indicators are the same for the Group and Orange Polska, as the latter owns the buildings and network infrastructure which constitute the basis for determining energy consumption and greenhouse gas emissions. Emissions generated by business trips (gasoline and diesel combustion) are determined for the Orange Group, whereas other indicators, i.e. EMF emissions and handset recycling/refurbishment, are specific to Orange Polska only.

\*\* The presented full-year figures consist of actual data for Q1, Q2 and Q3 and estimates for Q4.

Environmental data are based on reporting to the Orange Group's global database INDICIA.

Electricity consumption in Orange Polska's buildings is determined on the basis of records in the electricity database (BEE), which contains readouts of individual electricity meters.

GHG emissions are calculated according to the GHG Protocol. For electricity, GHG emissions are calculated using emission factors derived from International Energy Agency (IEA).

There are no biogenic GHG emissions in the Company.

\*\*\* Scope 1 (direct) GHG emissions are defined as emissions from sources (resources, processes) that are owned or controlled by the organisation. In line with global guidelines and adopted objectives, only CO<sub>2</sub> emissions are monitored.

\*\*\*\* Waste is generated during liquidation of fixed assets or in the course of investments/repairs. The summary below indicates major drops in some items, such as cables, wooden poles or used-up equipment, while large increases in other categories, such as batteries or other waste not classified otherwise. The increases resulted from a process of replacement of network infrastructure elements related to their service life and investments in new solutions.

### Key environmental commitments and their delivery

Key commitments related to the environmental impact defined in the Orange Polska CSR strategy for 2016–2020 in the 'Clean Environment' pillar:

Commitments in the environmental area for 2016–2020*	Delivery in 2020 (vs. 2019)	Delivery in 2020 (aggregate)*
<b>Energy</b>		
Reduction in energy consumption by 10%	(2)%	(15)%
<b>Reduction in greenhouse gas emissions</b>		
Reduction in total CO <sub>2</sub> emissions (Scope 1+2+3) by 10%	(5)%	(20)%
<b>Recycling and refurbishment</b>		
50% of marketed broadband devices are refurbished ones	17%	60%
<b>Materials and natural resources</b>		
Decrease in paper consumption / increase in the share of customers using e-invoices to 78.2%	1%	79%
<b>Management of the environmental impact</b>		
Compliance with regulations: number of infringements	No infringements	No infringements

\* Aggregate figures vs. the base year 2015.

### Reference to Risks in the Environmental Area

#### ***Risk of loss of trust and reputation due to improper treatment of hazardous waste***

For years, we have carried out waste management in co-operation with trusted business partners, so this risk can be deemed low.

Orange Polska has adopted an Environmental Protection Policy, which identifies the negative impact of our processes on the environment and provides for categorisation and monitoring of waste, particularly hazardous. The Company monitors the processes which may affect the environment in compliance with environmental laws and regulations, and applies technological solutions to reduce its negative environmental impact and ensure compliance with the set limits.

Waste electronic and electrical equipment (WEEE), batteries and storage cells, cables and telegraph poles are disposed of under strict control in co-operation with waste disposal companies that take full responsibility for further waste management, document the subsequent stages of waste treatment and hold a waste management licence (following registration by the Chief Inspectorate for Environmental Protection).

Environmental issues are also addressed in contracts with suppliers through CSR clauses and the Supplier Code of Conduct.

#### ***Risk of ineffective WEEE collection processes***

We fulfil our statutory obligations to collect old equipment at points of sale, free of charge, and to meet the required recycling levels for the given category of waste. Orange Polska manages the process of electronic equipment recycling and monitors its results. We co-operate with organisations offering waste treatment and recycling, and we have a buy-back offer encouraging customers to dispose of unwanted equipment.

Customers can return used devices through our customer service centres or our dedicated online platform under a handset buy-back programme, which involves collecting used-but-working handsets in return for discount vouchers. In addition, the Company has implemented a programme of refurbishing and relaunching old electronic equipment.

#### ***Exposure to electromagnetic fields***

Exposure to electromagnetic fields (EMF) from radio equipment (used mainly on mobile, but also fixed, networks) might raise concerns for their possible adverse effects on human health. Negative changes in perception of the EMF impact on human health would have a deleterious effect on the business and results of operators such as Orange Polska. If the aforementioned health risks were scientifically confirmed to a certain extent in the future,

this would likely result in a decline in use of mobile telecommunications services, difficulties and additional expense in rolling out base stations and other wireless equipment, and an increase in claims and litigation.

Despite discontinuation of *ISO 14001:2015 certification* of our Environmental Management System, Orange Polska has made every effort to meet the most restrictive environmental standards in order to eliminate any concerns of the social partner resulting from the perceived lack of transparency in the implementation of new technologies (and testing of 5G technology).

### Climate Impact Management

Orange Polska's environmental efforts are consistent with the Orange Group's global climate commitment to achieve net zero carbon emissions (Scope 1+2) by 2040. With reference to this commitment, in the first half of 2021 Orange Polska intends to adopt its own climate policy, setting local goals related to reduction in CO<sup>2</sup> emissions and circular economy requirements. Currently, the issues in the environmental area are a part of Orange Polska's CSR strategy described above. However, a separate climate policy will enable improved management in this area and the development of a comprehensive programme to attain our objectives. The implementation of this policy will be supervised directly by the CEO. The effects of the climate policy will be subject to regular reviews by the Management Board and annual reviews by the Supervisory Board. Orange Polska's climate policy is currently in the process of verification and approval. It will constitute an integral element of the Group's new overall strategy to be adopted in 2021.

In the first step of our climate impact management, in 2020 we created the position of Climate Officer, who is responsible for the co-ordination of Orange Polska's pursuit of environmental objectives. His role is to develop our climate policy and monitor its implementation in close co-operation with the entire organisation. The Climate Officer reports directly to the Management Board Member in charge of Strategy and Corporate Affairs.

The Company has chosen energy consumption and CO<sup>2</sup> emissions (Scope 1+2) as the key indicators to measure the progress towards its climate goals. We have reported them as part of our non-financial reporting for over a decade. These indicators and the relevant methodology are described in detail in the section related to our environmental policy. Furthermore, the Orange Group is working globally to expand the CO<sup>2</sup> emissions indicator to include the Scope 3. In addition, new indicators to measure the share of renewable energy in our energy mix and our commitment to circular economy are to be designed and reported from 2021.

In our risk management framework, separate environmental risks have been identified in the social risks domain. These risks are subject to a standard risk review once a year, the results of which are reported to the Management Board and Supervisory Board. In the climate risk area, the Orange Group has defined short-term risks with respect to its annual strategic plans, mid-term risks related to its Engage 2025 strategy for 2020–2025, and long-term risks in the 2050 perspective. Currently, Orange Polska's environmental risks are identified in the short-term perspective. One of the climate risks has been considered a key risk, which means that it is a subject to an additional monitoring procedure and may be covered by the annual internal audit plan and the Audit Committee's assessment.

The most important climate risk, which has been included among our TOP risks, is related to the Group's negative impact on the climate due to growing demand for energy from its expanding infrastructure and services. However, the analysis of this risk has enabled us to plan strategic actions aimed to minimise it and to implement the relevant mitigation measures, particularly the energy optimisation programme and the renewable energy purchase plan.

The most important climate risks include also the issue of business continuity in case of exposure of Orange Polska's technical infrastructure to damage caused by natural disasters (the frequency of which is growing due to climate change) and the risk related to inefficient electronic waste management not taking into account the requirements of the circular economy.

The mid-term risks will be defined in 2021 with reference to the Orange Group's Engage 2025 strategy, while the long-term risks will be defined in the 2050 perspective. On the international level, the Orange Group has carried out a climate risk assessment project aiming to determine the physical resistance of business entities under a scenario of global warming by more than 3°C. The project, initially conducted in France, has involved a review of historic data in terms of climate risks to network elements (data centres, access nodes, cables, poles, antennas, etc.). This has led to the determination of their climate vulnerability thresholds with the focus on the most dangerous risks (heat waves, strong winds, intensive rainfall, lightning strikes, fires). Orange Polska is now developing local scenarios based on it.

Our climate policy and the heat map in this area are developed in conjunction with the international Orange Group and Carbone4 experts. On the local level, Orange Polska collaborates with Bureau Veritas, social partners (UNEP GRID) and industry associations (Polish Chamber of Information Technology & Telecommunications and Polish Confederation Lewiatan) with respect to its environmental footprint.

## 2. Employment Area

The employment area in Orange Polska is regulated mainly by the following documents: Staff Regulations; policies on mobility, training and development, remuneration, diversity, health and well-being investments, and occupational safety and health; and the Intragroup Collective Labour Agreement and the Social Agreement.

## Staff Regulations

The organisation and order of work in Orange Polska, as well as the rights and obligations of its employees are regulated by the Staff Regulations, which in particular address the following:

- work organisation and equipping employees with tools and materials;
- working time systems and schedules, as well as adopted working time settlement periods;
- date, place, time and frequency of remuneration payments;
- list of works prohibited to young persons and women;
- types of works and list of positions allowed to young persons for the purpose of occupational training;
- obligations related to occupational health and safety and fire safety, including a procedure for informing employees about occupational risks;
- procedures for confirming the arrival and presence at work, as well as justifying absence by employees.

The Staff Regulations and any amendments thereto are consulted by the employer with trade unions.

## Key workforce indicators

Workforce	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Workforce	11,356	10,221	12,058	10,967
Full-time positions	11,339	10,211	12,034	10,952
Full-time employees	11,294	10,176	11,978	10,912
Part-time employees	62	45	80	55
Outsourced employees (full-time positions)*	3,166	2,514	3,203	2,534
Employees in management positions	1,309	1,194	1,447	1,339

\* Outsourced FTPs are reported on an annual average basis.

## Mobility Policy

The Mobility Policy effectively supports the pursuit of Orange Polska's business objectives through HR processes, such as recruitment, carrier management, as well as identification and development of employees with high professional potential.

This policy is implemented through:

- counselling on employees' development paths;
- training programmes supporting competence development in various professional roles;
- trainship and development programmes within the Group.

## Key mobility indicators

Mobility	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Total number of new employee hires	427	239	492	311
Departures*	1,422	1,149	1,489	1,218
Turnover**	2.8%	2.1%	3%	2.4%

\* Total number of employees leaving, including voluntary departures (for reasons unrelated to the employee) and departures at the employer's initiative, but excluding intra-group transfers (e.g. an Orange Polska's employee departing for TP Teltech)

\*\* Rate of turnover, excluding voluntary departures (for reasons unrelated to the employee) and departures at the employer's initiative, as well as intra-group transfers

## Development and Training

Orange Polska, as a technology company, focuses on employee development adapted to the challenges of the modern world. Our employees can develop their competencies through the Orange Learning platform, following development paths for key competencies based on the 'Know-Practice-Deepen' framework. The platform offers various forms of development, from short knowledge pills and videos (Know) and e-learning courses, business simulations, virtual classes and webinars (Practice) to educational communities, coaching, mentoring, peer mentoring and action learning (Deepen). These resources are supplemented by the international Orange Campus programme. In addition, Orange Polska supports the emergence of employee expert communities. In the Knowledge Highway programme, selected internal experts conduct training, sharing their expertise in the particular area with other employees.

The right choice of development activities is supported by the feedback culture we build in the organisation and the relevant tools: 360 Feedback and Pulse Meter, i.e. a quick monthly opinion poll on achievement of objectives and atmosphere within teams.

Development of managers is based on the leadership model which comprises 10 Leader-in-Action rules. We offer dedicated development paths based on these rules to our managers. We will also support the emergence of leaders community.

In 2020, the pandemic necessitated quick adaptation to the new needs and implementation of development initiatives supporting remote work and the hybrid work model. Consequently, we have developed new training modules in the short, digital form, which aim at developing competencies, such as individual and team efficiency, co-operation and communication, digital mindset, work tools, and stress and well-being management.

We also train outsourced staff in knowledge specific to Orange Polska and necessary to perform their duties.

#### Key development and education indicators

Development and education*	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Total number of employees trained (in '000)	10.1	11	10.3	11.2
Total number of partners trained (in '000)	18	18	18.1	18
Total hours of employee training (in '000)	300	272	302.6	272.5
Total hours of partner training (in '000)	341.4	197.4	342.3	197.4
<b>Employee assessment</b>				
% of regularly evaluated employees**	80.2%	97%	80.2%	97%
% of employees with individual development plans	78.6%	52.7%	78.6%	52.7%
% of regularly evaluated outsourced staff**	35.7%	43.8%	35.7%	43.8%
% of outsourced staff with individual development plans*	42%	25.4%	42%	25.4%

\* The education data for the Orange Polska Group cover the following entities: Orange Polska S.A., TP Teltech, Integrated Solutions, Orange Foundation, Orange Szkolenia and PTE Orange.

\*\* The assessment of employees and managers is based on 360 Feedback, and the related development plans are implemented on a two-year basis. The feedback process was completed in 2018 and 2020. Only with front-line employees (responsible for customer care), development conversations are carried out annually. The uniform assessment process covers the following entities: Orange Polska S.A., TP Teltech, Integrated Solutions, Orange Energia and Orange Foundation.

#### Remuneration

The Remuneration Policy regulates the main guidelines and principles for remuneration in Orange Polska, supporting the recruitment, retention and motivation of the best managers and professionals. Remuneration is determined in a manner ensuring balance and consistency across the Orange Group.

Our Remuneration Policy complies with the labour law and corporate governance regulations. Terms of remuneration for Orange Polska's employees covered by the Intragroup Collective Labour Agreement are determined in co-operation with trade unions.

The remuneration system consists of the following components:

- Basic salary – this takes into account the market remuneration standards for various positions and individual competence and contribution of employees, as well as non-discrimination principles;
- Performance bonus – the bonus system is dedicated to specialist sales positions and all managers, and its purpose is to motivate employees to achieve high performance by attaining the predefined and agreed goals which support the implementation of the Company's strategy;
- Discretionary bonuses;
- Benefits; and
- Contribution to the Employee Retirement Plan – in Orange Polska, the contribution is 7%.

#### Key remuneration indicators

Wages	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Average basic salary (in PLN)	7,402	8,093	7,423	8,070
Ratio of wages at the lowest positions to the legal minimum wage	140%	130%	141%	131%

## Diversity Management in Orange Polska

Orange Polska has adopted the **Diversity Management Policy**, which covers the following areas:

- Creating a working environment open to diverse mindsets;
- Building a corporate culture which derives from diversity;
- Providing adequate conditions for employee development;
- Supporting involvement of all employees;
- Increasing the quality of human capital management in the organisation.

The implementation of this policy in Orange Polska is supported by the Committee for Gender Equality and Diversity in the Workplace.

Furthermore, we hold the Gender Equality European and International Standard (GEEIS) certificate and we are a signatory to and a guardian of the Diversity Charter in Poland.

### Key diversity indicators

Diversity	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
<b>Access to positions</b>				
% of women in the Group	39.2%	38.9%	38.6%	38.2%
% of women in management positions	34.5%	34.8%	33%	33.1%
% of women in the Management Board	27.3%	33.3%	21.7%	18.2%
<b>Ratio of basic salary of women to men by positions (men's salary = 100%)*</b>				
General	79.8%	80.2%	80.2%	81%
Non-management positions	81.8%	81.4%	82.4%	81.7%
Management positions	81.1%	85.8%	82.9%	85.8%
<b>Ratio of salary of women to men within the same pay grades (men's salary = 100%)</b>	97.2%	97.2%	97.7%	97%
<b>People with disabilities</b>				
% of employees with disabilities	1.9%	2%	2%	2%

\* In order to better account for differences in salaries between men and women, we have introduced an additional indicator for individual pay grades. This shows a lower gender pay gap. It means that the differences between men's and women's salaries result from a different structure of positions, as more women hold low-wage positions (call center and outlet staff), while technical positions (network engineers, IT specialists) are held chiefly by men.

## Working Environment

We ensure safe and friendly working conditions for our employees, promoting integration and making them feel better in their workplace. We have implemented a competitive package of initiatives to support health and well-being of our employees, creating conditions for development, increased creativeness and commitment to the assigned tasks. This in turn enables building a valuable offer which supports employee recruitment and retention.

The goals set in the Policy for Investing in Health Quality and Well-being of Orange Polska's Employees are pursued through a comprehensive approach to:

- Physical well-being – we provide comprehensive health care to our employees, support their physical activity, including operation of sports clubs, promote a healthy lifestyle, and create safe and friendly work environment, particularly during the coronavirus pandemic;
- Mental well-being – we educate employees in stress reduction techniques, take initiatives to support balance between professional and personal life, strive for healthy workplace relations, implement culture of feedback and appreciation, and provide psychological support in difficult situations; and
- Social well-being – we build culture of co-operation in which all employees feel respected and can freely pursue their professional goals and life passions, and we support their involvement in social initiatives in the corporate volunteering programme.

Orange Polska's employees are eligible for the following benefits:

- Comprehensive medical services at clinics of LUXMED Group (to the end of May) or PZU Zdrowie (from June), as well as partner medical facilities nationwide;
- Employee Retirement Plan;
- Company Social Benefits Fund, as a means of social welfare addressed to employees and retired employees in need;
- Central Housing Fund and Central Welfare Fund;



- Discounts by the Group's partners and for Orange products and services in the 'Offer for You' programme;
- Sports, tourist and cultural events, as well as FitProfit cards;
- Tele- or remote work;
- Healthy lifestyle promotional initiatives: webinars, challenges and expert consultations;
- Psychological support by an internal team of psychologists and external specialists.

Both full-time and part-time employees are eligible for all the aforementioned benefits. Employees working under a fixed-term employment contract are eligible for health care and promotional offers, but are not eligible for benefits that require long-term commitments, such as the Central Welfare Fund or the Employee Retirement Plan.

### Key working environment indicators

Working Conditions	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
% of employees eligible for health care	100%	100%	100%	100%
% of employees covered by the Employee Retirement Plan*	85.3%	86%	83.9%	84.1%

\* The Employee Retirement Plan has been expanded to include additional companies. Now, employees of Orange Polska, Telefony Podlaskie, Orange Szkolenia, TP Teltech, Pracownicze Towarzystwo Emerytalne Orange Polska S.A., Fundacja Orange [Orange Foundation] and Integrated Solutions sp. z o.o. are eligible for participation.

### Occupational Health and Safety

The Occupational Health and Safety (OHS) Policy regulates activities aimed to ensure work safety, health protection and constant improvement in working conditions to all employees. We aim to incorporate OHS elements into all activities of Orange Polska and on all management levels in order to ensure safe working conditions, so that all our employees can actively perform their day-to-day duties in a friendly working environment.

In 2020, our efforts in the occupational health and safety area focused primarily on ensuring safety at work to all employees and protecting their health during the pandemic. We developed and implemented workplace safety rules for our outlets, call centers and offices, and provided disinfectants and personal protective equipment. We also prepared special operating procedures in case of suspected or confirmed COVID-19 infection.

### Key OSH indicators

Occupational Health and Safety	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Number of accidents	32	26	36	31
Accident frequency rate*	2.7	2.4	n/a	n/a
Days off due to work-related accidents	1,120	859	1,449	1,076
Accident severity rate**	35	33	n/a	n/a
Fatal accidents	0	0	0	0
Serious accidents	0	1	0	1
Other accidents	32	25	36	30
% of employees represented in OSH Committees	100%	100%	100%	100%
Employees in positions with high risk of occupational diseases	No such positions			

\* Number of persons injured in work-related accidents per 1,000 employees. This ratio is determined separately for each company, as the aggregate figure for the Group does not adequately reflect vulnerability to accidents.

\*\* Number of days off per accident. This ratio is determined separately for each company, as the aggregate figure for the Group does not adequately reflect vulnerability to accidents.

\*\*\* Pursuant to mandatory legal provisions, there are OSH Committees in Orange Polska and TP Teltech owing to their workforce size.

### Social Dialogue

We respect the employees' right to associate and we run continuous dialogue with our Social Partners. As part of this dialogue, we negotiate settlements, agreements or other documents with trade unions in Orange Polska S.A. There is also the Employee Council in the Company, which pursuant to mandatory regulations is consulted on matters related to the level, structure and intended changes of workforce, actions aimed at maintaining the workforce level, as well as any significant changes in work organisation or employment terms.

The Intragroup Collective Labour Agreement has been concluded with Social Partners in Orange Polska, which regulates, inter alia, the rules for concluding and terminating employment contracts, working hours, holiday



entitlement, rules of remuneration and obtaining extra benefits connected with work, occupational safety and health issues, training, social care and health care.

Furthermore, the Management Board of Orange Polska S.A. concludes Social Agreements with its Social Partners. The current Social Agreement was concluded in December 2019 and remains in force for two years. In particular, it sets the number of voluntary departures, determines a financial package for employees leaving the Company under the voluntary departure scheme, provides for potential basic salary rises and additional compensation for employees reaching retirement age within the next four years, while specifying the position and role of internal mobility in supporting an allocation programme and offering participation in an outplacement programme. In addition, the Social Agreement for 2020–2021 provides for the follow-up of the 'Friendly Work Environment' programme and continuation of medical coverage.

In addition, the Settlement for 2020 was concluded in December 2019, determining the detailed procedures for the implementation of the Social Agreement for 2020–2021 in 2020. The Settlement set the number of employees to leave Orange Polska S.A. in 2020 at 1,250 and determined the terms of voluntary departures in 2020 as well as the amount of severance pay and additional compensation for employees departing in 2020. The Settlement also specified the principles and criteria to be applied by the employer in the process of selecting employees whose employment was to be terminated through no fault of the employee. In June 2020, the Management Board of Orange Polska S.A. and the Signatories to the Intragroup Collective Labour Agreement signed the Additional Protocol regarding the system of jubilee awards for long service.

In June 2020, the Management Board of Orange Polska S.A. signed a Settlement with its Social Partners on amending the Social Agreement for the years 2020–2021 to partially mitigate the negative impact of the COVID-19 pandemic on the Company's business performance. Under the negotiated Settlement, the rate of basic salary increases in 2020 was reduced and the procedure of awarding them was changed, while PLN 8 million from the Central Fund was reallocated for additional financing of the 'Orange Vitality Academy', particularly the 'Friendly Work Environment' project. The employer also undertook to minimise the number of dismissals in the process of collective redundancies until the end of 2020; as a result, the quota of departures in 2020 was not to fully utilized.

In December 2020, a Settlement was concluded with the Social Partners, which determines the detailed procedures for the implementation of the Social Agreement for 2020–2021 in 2021. The Settlement determines the terms of voluntary departures in Orange Polska S.A. and sets the limit of dismissals at 920 in 2021.

In addition, there is a Collective Labour Agreement at TP Teltech sp. z o.o.

#### Key social dialogue indicators

Social Dialogue	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Number of trade unions	17	17	18*	18*
% of employees in trade unions	32.4%	32.4%	31.4%	31.1%
% of employees covered by the Intragroup Collective Labour Agreement	97.1%	97%	94.8%	94%

\* Based on figures for Orange Polska S.A. and TP Teltech sp. z o.o.

#### Key employment commitments and their delivery

Key commitments related to employment defined in the Orange Polska CSR strategy for 2016–2020 in the 'Committed Team' pillar and particular policies:

Commitments in the employment area	Delivery in 2020
<b>Development and Education</b>	
No disparity in access to training on account of gender or age	No disparity
<b>Diversity Policy</b>	
35% of women in management positions by 2020	32.4%
1.5% of people with disabilities employed in Orange Polska by 2020	2%

#### Reference to the Key Risks in the Employment Area

##### *Risk of physical or mental harm*

Working in Orange Polska involves a low risk of work-related accidents, as confirmed by the relevant statistics. Relatively few accidents are typically minor. Hence, the risk related to the traditionally understood health and safety can be deemed rather low.

The Company has implemented the Health, Safety and Quality of Life Policy. All employees undergo regular and mandatory training in occupational health and safety, and work-related accidents and absence from work are monitored and analysed. We provide our employees with medical care, physical activity co-financing, and the additional health-promoting programme 'Yes to Health', which is dedicated particularly to employees with disabilities. During the pandemic, we offered our employees additional training and support related to remote work organisation, mental and physical condition, healthy lifestyle, and personal relationship and emotion management during the pandemic.

Human health and safety issues are also addressed in contracts with suppliers through CSR clauses and the Supplier Code of Conduct.

### ***Risks related to human resources and alignment of organisational structure***

Orange Polska and its managers continue transforming its internal culture in order to motivate employees and drive the performance culture, while streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Therefore, the Company carries out a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant. The Policy of Investing in Health Quality and Well-being of Employees of Orange Polska has been adopted by the Company. Employees are offered a broad range of health services, including psychological care, in PZU Zdrowie medical centres. For employees leaving the Company, we have developed the Outplacement and Mobility 2.0 programmes.

### **3. Social Area**

The activity of the Orange Foundation, which pursues social goals on behalf of the Orange Polska Group, has been defined in its Strategy for 2019–2020. It provides for the pursuit of digital education and digital inclusion goals through long-term social programmes based on accurate identification of social needs and expectations. The Orange Foundation's key initiatives include *MegaMission*, *#SuperCoders* and *Orange Studios*, which are complemented by the corporate volunteering programme and activities for the safe use of new technologies by children and young people. The strategy is a follow-up of the long-term programmes implemented in 2016–2018.

#### ***Safe Use of New Technologies***

One of the most important issues for us is the safety of children and young people on the internet and preparing young people to use new media in a conscious way. These goals are pursued through educational activities of the Orange Foundation and the Group's services related to customer safety. We support education on children's on-line safety in schools and kindergartens all around Poland. The Orange Foundation, in co-operation with the Empowering Children Foundation, offers a range of educational tools and materials, such as e-learning and educational websites, on-line brochures and guidelines for pupils, parents and teachers. Adults (especially educators and specialists) can participate in conferences, seminars and workshops, as well as use an on-line interactive course for parents and guardians teaching them how to protect their children on-line. Furthermore, in 2020, the Orange Foundation was a partner to the 'Protect your child's brain!' campaign carried out by the Empowering Children Foundation. The campaign, which promoted introducing screen rules for kids, reached 3,316,064 people.

#### **Key indicators and goals**

<b><i>Safe Use of New Technologies</i></b>	<b>2019</b>	<b>2020</b>
Parents and guardians using the educational materials	418,365	174,917
Children involved in the educational initiatives	1,114,868	984,029
Schools participating in the initiatives	3,977	4,600

#### ***MegaMission***

*MegaMission* is a nationwide educational programme for primary schools. It can be carried out during lessons or in after-school clubs. It is addressed to kids aged 6 to 10 and their teachers. We aim to enhance knowledge and digital competence of teachers and after-school educators and their pupils. We want children to be safe and conscious multimedia users, and we want their teachers to have access to proven materials which they can use to deliver modern classes. *MegaMission* provides a solid basis for wisely and safely navigating the world in which we can no longer function without technology. Due to the closure of schools and the need to support teachers, the programme was modified to include a number of additional webinars for teachers to assist them in coping with the remote education challenges. School closure was also reflected in a decrease in the number of children participating in the programme in 2020.

### Key indicators and goals of the *MegaMission* programme

<i>MegaMission</i>	2019	2020
Children trained in the programme	7,000	3,000
Teachers trained in the programme	150	150
School facilities provided with IT equipment and teaching aids	150	150

### #SuperCoders

#SuperCoders is a nationwide educational programme aimed at primary school students of grades 4 to 8. Its key element is learning the skill of programming in an innovative manner, as it takes place during science, mathematics, history, music or Polish language classes rather than IT classes. All teaching materials have been based on the Polish school curriculum. Young #SuperCoders develop teamwork skills, creativity and logical thinking. A separate path has been launched for children with special educational needs. The teachers participating in the programme are offered professional training and technical support by expert educators. In 2020, a new educational path was incorporated into the programme. Due to the closure of schools, an additional series of remote classes for children, 'Mornings with #SuperCoders', was introduced.

### Key indicators and goals of the #SuperCoders programme

#SuperCoders	2019	2020
Children trained in the programme	2,894	2,866
Teachers trained in the programme	300	280
Schools provided with equipment to teach programming	150	140

### Lesson:Enter

Lesson:Enter is a nationwide digital education programme addressed to teachers and aimed to enhance their digital skills. Over 75,000 teachers (15% from each region of Poland) will be trained in 2020–2023. The programme prepares teachers to use activating teaching methods. They learn how to use educational websites and portals, e-resources and various applications in a responsible and creative way, while observing safety precautions. Training includes a hands-on component, in which teachers create their own digital content for future use during their lessons.

The programme is carried out in conjunction with the Information Society Development Foundation and Institute of Public Affairs. It is implemented in the re-granting scheme by in-service teacher training centres in collaboration with local governments or non-governmental organisations. In 2020, we provided financial and technical support to 54 grant projects. The programme was joined by 1,739 schools and 7,890 teachers began their training. The programme is co-financed by the European Regional Development Fund in the Digital Poland Operational Programme with almost PLN 49 million.

### Orange Studios and FabLabs

In order to facilitate access to information, knowledge and technology among local communities, we have developed Orange Studios. Orange Studios are public multimedia studios in small towns and villages, which we create and help to manage. Their purpose is to provide members of the local community with access to new technologies, courses and workshops. The studio leaders are provided with professional training and financial aid to help them manage these modern and attractive meeting places. To date, we have set up a total of 100 Orange Studios across the country. In addition, we have launched an on-line knowledge-sharing platform for their users. It features a portfolio of ready-to-implement projects and a gamification module that uses game mechanisms to build social skills and motivate residents to work for the benefit of their neighbourhoods. The initiatives are aimed at different groups: children and youth, people with disabilities, young mothers and senior citizens. In 2020, the equipment in the oldest studios was replaced or retrofitted. In addition, a makerspace (i.e. a space supporting the use of new technologies in the DIY approach) was launched in five Orange Studios.

Furthermore, in two cities, Warsaw and Gdańsk, Orange Polska has created FabLabs (fabrication laboratories), that is open studios for people who want to learn how to use modern technologies in a creative way. FabLabs offer support by experienced educators, professional equipment and free workshops for children and young people. FabLab in Gdańsk carried out a project supporting women in the labour market, while FabLab in Warsaw launched a series of classes for children and young people, 'FabLab at Home'. FabLabs and selected Orange Studios became involved in the 3D printing of visors for medical staff.

## Key indicators and goals of the Orange Studios programme

Orange Studios	2019	2020
Active Studios maintained	65	81
Local leaders trained in digital and organisational skills	138	46
Population with access to Studios	585,000	729,000

## Corporate Volunteering

Orange Polska has the biggest employee volunteering programme in Poland, which has been running for 16 years. Our employees share their knowledge, skills and experience, teaching children and seniors how to use the Internet safely and wisely and carrying out their own projects for local communities with the support of the Orange Foundation. In 2020, the scope and nature of volunteering activities had to change and quickly adapt to the new needs due to the pandemic. Our volunteers focused on mitigating the pandemic impact by sewing of masks, 3D printing of visors, delivering personal protection equipment and meals to hospitals or doing shopping for senior citizens.

### Key corporate volunteering indicators

Corporate volunteering	2019	2020
Volunteers	3,497	1,148
Volunteers' working hours	25,590	8,400

## Sponsorship

Orange Polska has adopted a sponsorship policy. Our approach reflects the global sponsorship strategy of the Orange Group. In our strategic sponsoring area, which currently is music, we develop long-term, comprehensive, nationwide projects addressed to a large group of our existing or prospective customers. We sponsor various initiatives on a long-term rather than one-off basis. Key projects are subject to approval by the Management Board of Orange Polska. We have established the Sponsorship Committee to centralise project management of sponsorship opportunities in the Orange Polska Group.

### Key sponsorship indicators

Due to the COVID-19 pandemic, Orange music festivals were not held in their usual spots in 2020. However, an on-line event, Open'er Festival Powered by Orange: TAKE ME THERE!, was organised, which involved rebroadcast of 23 best concerts from the last ten editions of Open'er Festival. The event comprised 30 hours of on-line concerts and over 113 hours of streaming.

Sponsorship	2019	2020
<b>Music sponsorship: Orange Warsaw Festival, Open'er Festival Powered by Orange and Krakow Live Festival</b>		
Number of participants	230,000	n/a
Advertising value equivalent (in PLN millions)	10.3	n/a
Number of publications	3,524	n/a

## Grants

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the relevant Decision of the Board Member in charge of Strategy and Corporate Affairs.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska;
- Each agreement includes a requirement to confirm that the donation has been used in line with its purpose.

Furthermore, Orange Polska provides free of charge dedicated fundraising numbers for charity SMS messaging. All the receipts are subsequently transferred to social causes, such as social campaigns and programmes, assistance to the victims of natural or man-made disasters, or initiatives saving human life and health.

For years, we have provided charity SMS messaging to a number of charity organisations, including Caritas Polska, Polsat Foundation, TVN Foundation, Great Orchestra of Christmas Charity and Work of the New Millennium Foundation. In 2020, fundraising numbers were launched for 15 organisations, which raised a total of over PLN 7.2 million.

### Key grant indicators

Grants	2019	2020
Total support granted, (in PLN millions)	9.3	11.3

### Key social commitments and their delivery

Key social commitments defined in the Orange Foundation strategy for 2019–2020, which was the continuation of the strategy for 2016–2018, were as follows:

Commitments in the social area	Aggregate outcome in 2016–2020	Goal for 2016–2020
<b>Safe Use of New Technologies</b>		
Parents and guardians using the educational materials	2,432,699	2,000,000
Children involved in the educational initiatives	4,487,881	3,400,000
Schools participating in the initiatives	16,363	12,800
<b>MegaMission</b>		
Children trained in the programme	30,000	26,000
Teachers trained in the programme	1,100	1,100
School facilities provided with IT equipment and teaching aids	1,100	1,100
<b>#SuperCoders and #CodeTheFuture</b>		
Children trained in the programme	31,157	30,800
Teachers trained in the programme	2,502	2,180
Schools provided with equipment to teach programming	895	900
<b>Orange Studios</b>		
Active Studios maintained (out of 100 established)	81	50
Local leaders trained in digital and organisational skills	205	100
Population with access to the Studios	729,000	450,000
FabLab implementation in the Studios	30	20

Commitments in the corporate volunteering area	Delivery in 2020*	Goal
% of employees involved in corporate volunteering	11%	20%
% of volunteers involved in competence volunteering	3%	25%

\* The scope and nature of volunteering activities was changed due to the pandemic.

### Reference to the Key Risks in the Social Area

#### Negative impact of new technologies on children and young people

There is a risk that Orange Polska will be perceived as a provider of services which have a negative influence on the behaviour and health of children and young people. The issue of the negative impact of new technologies on them has been increasingly present in the media and may affect purchase decisions of prospective customers and satisfaction of the existing ones.

Through the Orange Foundation's educational programmes, i.e. *MegaMission*, *#SuperCoders*, *Orange Studios* and initiatives for the on-line safety of children, as well as collaboration with social partners and public institutions, Orange Polska educates children, parents and teachers how to use modern technologies safely and wisely, distributing educational materials, lesson scenarios and guides for all age groups and carrying out informational campaigns. The Group also supports research on the children and young people's attitudes towards new technologies to even better respond to social needs. Furthermore, Orange Polska offers parental control services for mobile phones, such as 'Protect Kids on the Net' and 'Safe Starter Pack'. Orange Polska launched the online platform [www.orange.pl/razemwsieci](http://www.orange.pl/razemwsieci), which provides information on how to use digital media responsibly and safely.

#### 4. Human Rights

Owing to the nature of our business model and supply chain, we follow the human rights policy formulated at the international level by the Orange Group. In addition to the general framework of the International Labour Organization conventions, the Universal Declaration of Human Rights and the Global Impact principles, the Orange Group complies with the UN Guiding Principles on Business and Human Rights. The Group's activities with respect to safeguarding fundamental human rights focus on three main areas:

- Relations with employees;
- Relations with suppliers; and
- Privacy and freedom of expression.

The issues related to respect for human rights are addressed in the Orange Polska Code of Ethics. Furthermore, Orange Polska has introduced the Supplier Code of Conduct. It seeks to encourage suppliers to comply with and respect the relevant laws and regulations, and ensure that they are faithfully and effectively enforced. Our suppliers shall respect human rights and shall avoid being complicit in human rights abuses of any kind.

The Supplier Code of Conduct covers the following areas:

- Social responsibility: freedom of association and the right to collective bargaining, forced labour, child labour, diversity and non-discrimination, remuneration, working hours, and health and safety;
- Environmental responsibility: environmental protection, natural resources, and waste management; and
- Prohibited business practices: anti-corruption policy, competition, sponsorship, political contributions, money laundering, data security, and data protection.

The Code has been implemented through a CSR clause which is obligatory in all our purchase agreements. Pursuant to the clause, the parties undertake to comply with, and ensure that their employees, suppliers and sub-contractors comply with all national, European and international rules associated with standards of ethical and responsible behaviour, including standards on human rights, environmental protection, human health and safety, and sustainable development. They also undertake to combat any infringements of human rights and fundamental freedoms, as well as any risks to the health and safety of persons and the environment. In addition, they declare that they will require their employees, suppliers and sub-contractors to refrain from using child labour or forced labour, and shall combat any discrimination.

#### Key human rights indicators

Human Rights	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Total hours of employee training in ethics and human rights	5**	156	5**	156
Total hours of partner training in ethics and human rights	22	28	22	28
% of purchase department employees trained*	94%	100%	94%	100%
% of new agreements incorporating the Supplier Code of Conduct	100%	100%	100%	100%
% of new agreements incorporating the CSR clause*	100%	100%	100%	100%
<b>Child labour</b>				
Operations identified as having significant risk for incidents of child labour	None were identified in the Group			
<b>Forced labour</b>				
Operations identified as having significant risk for incidents of forced labour	None were identified in the Group			
<b>Discrimination</b>				
Total number of incidents of discrimination	None	None	None	None
<b>Right to privacy</b>				
Number of reasonable grievances and violations with respect to privacy	None	None	None	None
<b>Right to safety</b>				
% of products evaluated for safety standards	100%	100%	100%	100%
Number of grievances and violations regarding product safety	None	None	None	None
<b>Human rights violations</b>				
Number of grievances about human rights	None	None	None	None

\* New initiatives introduced in Orange Polska S.A. in 2019.

\*\* Employees transferring within Group companies or coming from external partners do not undergo training in ethics again.



## Key human rights commitments and their delivery

Key human rights commitments defined in the Orange Polska CSR strategy for 2016–2020:

Commitments in the human rights area	2019	2020
% of employees trained in business ethics	100%	100%
Compliance clauses as a standard in agreements with suppliers	Yes	Yes
% of new agreements incorporating the Supplier Code of Conduct	100%	100%
% of new agreements incorporating the CSR clause	100%	100%
% of purchase department employees trained in human rights	94%	100%

## Reference to the Key Risks in the Human Rights Area

Orange Polska takes all issues related to human rights very seriously, paying particular attention to the rights to privacy and personal data protection.

### *Breach of security of information, including personal data*

In order to prevent theft or unauthorised modification or processing of personal data of its customers and employees, or personal data entrusted by Orange Polska, we have implemented security measures consistent with international standards. In addition, we are introducing a process to identify and prevent violation of rights and freedoms of data subjects. The Company has implemented a certified Information Security Management System, which complies with ISO/IEC 27001:2013. Furthermore, the Company has maintained the FIRST and Trusted Introducer certification for CERT Orange Polska.

Despite all the precautions taken, considering the modern threats related to information technologies used for processing of information, including personal data, it is not possible to fully exclude the risk of infringement of the security thereof.

Recourse to liability proceedings is facilitated by the General Data Protection Regulation (GDPR). GDPR infringement incidents could have a considerable impact on the Group's reputation and a heavy impact on its liability, potentially including criminal liability, and hence have an adverse impact on Orange Polska's future financial performance. In accordance with GDPR, ISO 29134:2017 and the Article 29 Working Party guidelines, we have had a process to identify and prevent violation of rights and freedoms of data subjects since 2018. We have also delivered dedicated training for Orange Polska's employees and partners.

### *Slavery, forced labour and child labour*

The risk of forced or child labour is marginal (immaterial) in case of our domestic operations and key suppliers, but may appear within the global supply chain. Therefore, the human rights policy has been formulated and implemented by the Orange Group on the international level.

On the national level, Orange Polska's purchasing contracts with suppliers include CSR and compliance clauses and incorporate the Code of Ethics and the Supplier Code of Conduct, which particularly address the issues of human health, safety and protection. Our local whistleblowing system, 'Ask an ethicist', is available to our suppliers and other stakeholders.

### *Risk of poor working conditions*

The risk of poor working conditions in Orange Polska is considered low. The Company has introduced the Policy of Investing in Health Quality and Well-being of Employees of Orange Polska, which in particular provides for compliance with the occupational health and safety standards and development of friendly working environment.

This risk can potentially appear on the level of providers of services to Orange Polska in such areas as personal outsourcing, process outsourcing or technical partners. Human health and safety issues are addressed in contracts with suppliers through a CSR clause, as well as incorporation of the Supplier Code of Conduct and the Code of Ethics. Any irregularities in this area can be reported through our local whistleblowing system, 'Ask an ethicist', which is available to both our employees and suppliers.

## 5. Anti-bribery and Anti-corruption

We have introduced the Compliance Management Programme as part of our Corporate Governance framework, and the Anti-Corruption Policy is an important responsibility of our compliance function. The Anti-Corruption Policy specifies a set of rules to be complied with by our employees in any business activity and indicates prohibited behaviours which may be considered corruption or influence peddling. The Policy is supplemented by the Anti-Corruption Guidelines, which include detailed rules and procedures with reference to specific conditions and situations. As enshrined in the Anti-Corruption Policy, Orange Polska takes a zero-tolerance approach towards corruption, which must be followed by all employees, co-workers and business partners who act on our behalf.



To support the Compliance Management Programme, we have implemented a new process to optimise and harmonise the due diligence procedures relating to compliance and fraud. Its goal is to thoroughly screen our partners for risks of corruption, fraud, non-compliance with economic sanctions, money laundering and terrorism financing. Matters related to compliance are reported to the Audit Committee of the Supervisory Board in the following areas: ethics, general compliance with laws and regulations, anti-fraud, security and anti-corruption. The activities of the compliance management function, the results of planned inspections, as well as the results of inspections initiated by notification of irregularities (whistleblowing) are monitored by the Audit Committee on the basis of regular reports.

Orange Polska provides its employees with adequate and up-to-date knowledge of compliance management rules. In 2020, we launched a new programme of mandatory anti-corruption training, which comprises e-learning courses and additional on-line workshops for our teams particularly exposed to compliance risk. All employees and external stakeholders can notify potential cases of non-compliance through the relevant channels we have established.

### Key compliance indicators

Anti-bribery and anti-corruption	Orange Polska S.A.		Orange Polska Group	
	2019	2020	2019	2020
Total number of employees trained in compliance	194	9,057	281	9,066
Total number of partners trained in compliance	87	7,688	91	7,738
Total hours of compliance training of employees (in '000)	0.8	16	0.87	16
Total hours of compliance training of partners (in '000)	0.2	11.2	0.2	11.3
Total value of cash donations or donations in kind to political parties, politicians or related institutions	The Group does not finance such entities			

### Key compliance commitments and their delivery

Key compliance commitments defined in the Orange Polska CSR strategy for 2016–2020:

Commitments in the anti-bribery and anti-corruption area	2019	2020
Corruption risk reduction (zero-tolerance approach towards corruption)	No infringements	No infringements

### Reference to the Key Compliance Risks

#### Bribery and corruption risks

Orange Polska performs regular analysis and assessment of the corruption risk exposure. The areas particularly exposed to corruption risk are monitored for compliance with the relevant internal and external regulations, as well as the efficacy of the applied risk mitigation measures.

The Company and its Management Board take a zero-tolerance approach towards corruption, as enshrined in the Anti-Corruption Policy. This principle has been supplemented by a system of detailed internal procedures and instructions addressed either generally to the entire organisation or to particular functions and groups of employees owing to their specific duties.

The adopted internal regulations define standards of co-operation with third parties, especially public officers (particularly with respect to accepting and offering gifts or invitations) as well as procedures for effecting transactions, establishing co-operation with suppliers or providing grants or support.

## GLOSSARY OF TELECOM TERMS

**4G** – fourth generation of mobile technology, sometimes called LTE (Long Term Evolution)

**5G** – fifth generation of mobile technology, which is the successor to the 4G mobile network standard

**Access Fee** – revenues from a monthly fee (incl. a pool of free minutes) for New Tariff Plans

**ARPO** – Average Revenues per Offer

**AUPU** – Average Usage per User

**BSA** – Bitstream Access Offer

**CATV** – Cable Television

**EBITDAaL (EBITDA after Leases)** – Operating income before depreciation, amortisation and impairment of property, plant and equipment and intangible assets, decreased by interest expense on lease liabilities and adjusted for the impact of deconsolidation of subsidiaries, employment termination programmes, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items

**F2M** – Fixed to Mobile Calls

**FBB** – Fixed Broadband

**FTE** – Full time equivalent

**FTTH** – Fibre To The Home

**Home Zone** (or Office Zone for business customers) – area within range of predefined base stations which cover the particular location (home/office)

**Household connectable with fibre** – an apartment in a multi-family building or a single family house within the reach of our fibre-to-the-home service that allows to provide service with a speed of at least 100 Mbps

**ICT** – Information and Communication Technologies

**ILD** – International Calls

**IP TV** – TV over Internet Protocol

**Liquidity ratio** – Cash and unused credit lines divided by debt to be repaid in the next 18 months

**LLU** – Local Loop Unbundling

**LTE** – Long Term Evolution, standard of data transmission on mobile networks (4G)

**M2M** – Machine to Machine, telemetry

**MTR** – Mobile Termination Rates

**MVNO** – Mobile Virtual Network Operator

**Net gearing** – net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders' equity)

**Organic Cash Flow** – Organic Cash Flow = net cash provided by operating activities – (CAPEX + CAPEX payables) + proceeds from sale of assets

**RAN agreement** – agreement on reciprocal use of radio access networks

**SAC** – Subscriber Acquisition Cost

**SIMO** – mobile SIM-only offers without devices

**SMP** – Significant Market Power

**SRC** – Subscriber Retention Cost

**UKE** – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

**UOKiK** – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

**USO** – Universal Service Obligation

**VDSL** – Very high bit-rate Digital Subscriber Line

**VHBB** – Very high speed broadband, above 30 Mbps

**VoIP** – Voice over Internet Protocol

**Wireless for fixed** – LTE broadband access offers dedicated to use within the Home/Office Zone, consisting of a fixed router (Home Zone) plus large or unlimited data packages, which are a substitute for fixed broadband and are provided by all mobile operators in Poland, including Orange Polska

**WLL** – Wireless Local Loop

**WLR** – Wholesale Line Rental