

## **REPORT**

### **on the 2020 activities of the Audit Committee of the Orange Polska S.A. Supervisory Board**

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

The role of the Committee is to review the integrity of the financial information reported externally, the independence and objectivity of the external auditors of Orange Polska (the “Company”, “OPL”) and Orange Polska Group (the “Group”), the nature and scope of the audit and the auditors' work as well as internal audit, internal control and risk management systems and significant transactions with related parties, and to advise the Supervisory Board on these issues as appropriate.

#### **Audit committee members**

1. John Russell Houlden – Chairman (“Independent Director”)
2. Dr Maria Pasło-Wiśniewska (“Independent Director”)
3. Marc Ricau
4. Monika Nachyła (“Independent Director”)
5. Jean-Michel Thibaud

The Audit Committee is chaired by Mr. John Russell Houlden, an Independent Director of the Supervisory Board. He has relevant experience and/or qualifications in finance, accounting and audit. Other Independent Directors of the Committee are Dr Maria Pasło-Wiśniewska and Monika Nachyła.

#### **CORPORATE GOVERNANCE**

##### **Letter from the Chairman of the Audit Committee**

Dear Shareholder,

I am pleased to attach my report on the activities of the Audit Committee over the past 12 months.

One of the most important considerations of the Audit Committee in 2020 was monitoring the impact of the Covid-19 pandemic on the Company as well as on the Polish economy. In particular, the Audit Committee monitored the way in which that impact was reflected in the Company’s financial reporting and its communication to the market. The Audit Committee received periodic reports on the Covid-19 impact and had regular discussions with Management in this regard. The Audit Committee also received an internal audit review of the impact of Covid-19 on the internal control environment. The Audit Committee is satisfied with the way that the Covid-19 impact is reflected in the Company’s financial information as well as its external communication.

The Audit Committee finalised the auditor selection process and recommended the reappointment of Ernst & Young as the auditor for 2020 and KPMG for the years 2021-2025.

In 2020, a significant part of the Audit Committee's activities related to monitoring the implementation of changes to International Financial Reporting Standard 16 (Leases) with regard to the approach to cancellable leases and lease period valuation resulting from the interpretation of the International Financial Reporting Interpretations Committee (IFRIC) issued in December 2019. The Audit Committee thoroughly reviewed the manner of implementation proposed by Management and discussed with Management as well as the auditor the judgments and estimates which were made and the reasons behind them. The Audit Committee is satisfied that the Company has implemented the standard in an appropriate way.

One of the main responsibilities of the Audit Committee is to ensure proper financial reporting by the Company and the Group. As part of this, we review all significant accounting judgements and estimates proposed by Management. In addition to monitoring the Covid-19 impact and IFRS 16 implementation as mentioned above, the most significant areas requiring the exercise of judgement were those regarding the presentation of financial figures and disclosures related to the acquisition of Craftware. The Audit Committee also reviewed the impairment analysis results.

The Audit Committee has also been involved in reviewing internal control and compliance, the risk management processes and the external audit of the Company and Group financial statements. In particular, the Audit Committee worked to ensure the independence of both the external auditor and internal audit team, and had private meetings with the external auditor and the head of the Company's internal audit team to give them an opportunity to discuss any issues which may have arisen in their interactions with Management.

Last, but not least, the Independent Directors on the Audit Committee reviewed and, when necessary, challenged the terms of significant transactions with related parties including, in particular, the majority shareholder, Orange S.A.

A more detailed summary of the activities of the Audit Committee is presented below.

### **Russ Houlden**

Chairman of the Audit Committee

### **Main responsibilities of the 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 (i) monitoring the integrity of the financial information reported externally, (ii) reviewing the Group's internal control and risk management systems, (iii) reviewing plans for internal audit and their reports, (iv) reviewing and giving opinions on significant transactions with related parties, (v) recommending the selection and re-appointment of the audit firm, (vi) monitoring the independence and objectivity of the Company's external auditors, the nature and scope of the audit and monitoring the auditors' work, (vii) giving the Supervisory Board recommendations to ensure the faithful representation and relevance of the financial reporting process in the Company and the Group.

The Committee must consist of at least three members, the majority of whom, including the Chairman, are independent of the Company. The Audit Committee must meet (physically or virtually) at least on a quarterly basis before the publication of the financial statements.

The Audit Committee held six meetings in 2020. The meetings were generally attended by the Chief Executive Officer, Chief Financial Officer, as well Internal Audit Director. Other members of the Management Board, Executive Directors and other managers and invited guests attended

the meetings when appropriate. The meetings were also attended by representatives of the Company's external auditor, Ernst & Young.

### **Our approach to monitoring the financial reporting process**

As required by law, the Audit Committee monitored the process of financial reporting. The goal of the Audit Committee was to assess and provide advice to the Supervisory Board on whether the financial statements as well as the Management report on the Company's operations, taken as a whole, secured faithful representation and relevance of the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

The Audit Committee reviewed the quarterly and annual financial statements. The Committee reviewed also Orange Polska Group's strategic plan as well as budgets. The aim of the review was to ensure that the key messages being followed in the annual and periodic reports were aligned with the Company's position, performance and strategy and that the narrative sections of the reports were consistent with the financial statements. In order to assess that the reports and the financial statements secured faithful representation and relevance of the information, the Audit Committee also reviewed reports on financial performance of the Company, accounting policies and procedures, accounting estimates and judgments, one-off items as well as market guidance and Orange Polska Group's performance against the budget and other information with the aim to assess the Company's position and performance. The Audit Committee was satisfied that all the key events and issues which had been reported by the Management Board during the year, both good and bad, had been adequately referenced or reflected within the annual report.

In 2020, as a result of significant changes in accounting standards, the Committee gave special attention to Alternative Performance Measures (APMs) to make sure that the new APMs reported by the Orange Polska Group were in line with the ESMA guidelines, relevant and understandable to shareholders and reflected properly the way in which the Management Board manages the operations of the Orange Polska Group.

The auditor was regularly participating in the meetings of the Audit Committee and gave its view on issues significant from an accounting perspective as they arose during the year. Subsequently, the auditor presented, and the Audit Committee reviewed and where appropriate discussed with the auditor, the additional report prepared as required by the Regulation (EU) No 537/2014 of the European Parliament and of the Council.

### **Our approach to monitoring the performance of the auditor**

The Audit Committee is responsible for the relationship with the external auditor and that role involves examining the effectiveness of the audit process as well as the independence of the auditor. The auditor is Ernst & Young and 2020 was the sixth year of Ernst & Young being the auditor of the Orange Polska Group. The reappointment of Ernst & Young for a sixth year was authorised by the Financial Supervisory Authority as required by law.

The Audit Committee reviewed the external auditor's proposed audit plan for 2020 including key auditing matters to be focused on, the materiality level set for audit testing and schedule of planned works and reporting along with planned interactions with the Audit Committee. Subsequently, the Audit Committee reviewed and discussed the auditor's recommendations, observations and comments on key areas requiring special consideration taking into account also the views of the Management Board on those issues. The key auditing personnel participated in the meetings of the Audit Committee to allow for discussion of all issues as they arose during the year. Also, private meetings with the auditor were held

by the Audit Committee to ensure open and transparent discussion between the auditor and the Audit Committee without the presence of the Management Board. The Audit Committee monitored the progress of the audit and its quality against the audit plan throughout the year.

In order to assess the performance and independence of the auditor as well as generally the relationship with the auditor feedback was sought from all members of the Audit Committee, the Management Board, key members of the senior management team and those who have regular contact with the auditor. The feedback was collated and presented to the Audit Committee in July 2020. The Audit Committee also asked the auditor for its feedback on the co-operation with the Company. The conclusions were discussed and it was noted that over previous periods the co-operation, had improved significantly and so there were now no issues requiring special attention.

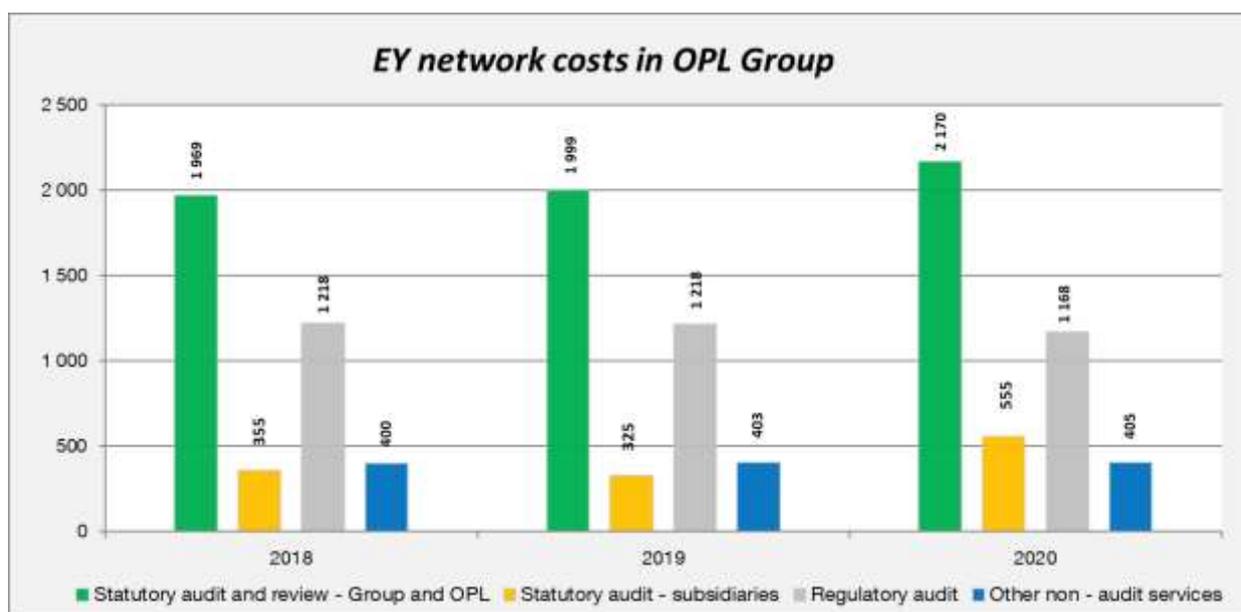
In summary, the Audit Committee concluded that the overall external audit process and services were effective and met the Group's high audit quality requirements.

### **Our approach to assessing the independence of the external auditor**

There are three aspects to auditor independence that the Audit Committee monitors to ensure the external auditor remains independent of the Company.

First, in assessing the independence of the auditor from the Company, the Audit Committee takes into account the information and assurances provided by the auditor. The Audit Committee received the auditor's statement on independence made in accordance with the Polish Act on Auditors of 11 May 2017 (Polish Audit Act) and the Regulation (EU) No 537/2014 of the European Parliament and of the Council (Audit Regulation).

Second, the Audit Committee reviews the proportion of the value of non-audit services rendered by the auditor or its affiliated entities and the audit fees. As required by law, the Company has a Policy on the provision of authorised non-audit services by the audit firm and its affiliated entities. Following the Policy all authorised non-audit services should be approved in advance by the Audit Committee taking into account their potential influence on the independence of the auditor. Also, any non-audit service allowed by the law requires prior consent from the Audit Committee. According to the relevant law as well as the Policy, authorised non-audit services are subject to a fee cap of no more than 70 per cent of the average annual statutory audit fee for the three consecutive financial years preceding the year in which the cap will apply. The 70% rule has been applicable since 17 June 2016 under the Audit Regulation. Management provides the Audit Committee with information on the value of non-audit services compared to the average statutory audit fee presenting data for the previous three years. Non audit services provided by Ernst & Young were 17% of the audit fee in 2020, similar to 2019. Ernst & Young provides also a regulatory audit relating to the costs of regulated services rendered by the Company. That audit is commissioned by the regulator but its costs are borne by the Company. The costs of regulatory audit are also shown in the chart below.



Third, the feedback questionnaire referred to in the previous section included questions relating to the independence of the audit firm and individuals in the audit staff. There was no case of auditor's independence threat observed and reported by the respondents.

Taking into account all aspects described above the Audit Committee was satisfied that the auditor continues to be independent.

### **Recommendation on the appointment of the statutory auditor**

The Company, around the same time as the Orange SA Group, last undertook a formal tender process for statutory audit services in 2014. The tender process for the Company was separate from the tender process for the Orange SA Group. Based on the tender, Ernst & Young was selected as an auditor of the Company and independently Ernst & Young was also selected as one of two auditors of the Orange SA Group. Ernst & Young presented their first audit report of the Orange Polska Group for the year ended 31 December 2015.

In 2017, based on the Polish Audit Act and Audit Regulation, a new Policy on the audit firm's selection was adopted by the Supervisory Board of the Company. The Policy formalised most of the requirements which were already followed by the Company but a new requirement was the time limitation for the appointment of an auditor to 5 consecutive years (with certain exceptions). The year 2019 was the fifth year of Ernst & Young acting as the statutory auditor of the Company. Ernst & Young was eligible to be reappointed for another year only in exceptional circumstances based upon consent of the Financial Supervisory Authority.

In 2019, the Company launched the tenders for statutory audit service for 2020 (if Ernst & Young turned out to have submitted the best offer) or 2020-2021 (if another company have submitted the best offer as it is not possible to appoint a new auditor for less than two years) and also for the following five year period. The Audit Committee Chairman monitored the process of the audit firm's selection and actively participated in this process, including discussions with the Financial Supervisory Authority.

As regards the year 2020, the offer of Ernst & Young was assessed to be the best based on a high quality audit team, the knowledge of the Polish telecom market and also the knowledge of the Orange Polska Group. Therefore, the Company applied to the Financial Supervisory Authority for its consent for Ernst &

Young being reappointed for another year explaining its high quality auditing standards and the special situation facing the Group in the year 2020 being, among others, the last year of implementation of its long term strategic plan and the number and diversity of lease contracts to be assessed in response to the December 2019 decision of IFRIC. In January 2020, the Financial Supervisory Authority issued its consent and the Audit Committee recommended to the Supervisory Board the reappointment of Ernst & Young as the statutory auditor for 2020.

As regards the following five year period, the offers of KPMG and Deloitte both met the Group's high audit quality standards and were similarly priced. The Audit Committee selected KPMG partly because of the high quality of the audit team proposed and partly to provide a fresh view of the audit given that KPMG, unlike Deloitte, had not audited the Group in the last decade. As a result, the Audit Committee recommended to the Supervisory Board KPMG as the auditor for the years 2021-2025.

The Supervisory Board followed both recommendations of the Audit Committee.

### **Significant issues considered by the Audit Committee in relation to the financial statements and how these were addressed**

In relation to the Group's financial statements, the Audit Committee reviewed the following principal areas of judgement:

- 1) Covid-19 pandemic. As a result of the Covid-19 pandemic, the year 2020 was a turbulent period for the worldwide economy and businesses. The Company was no exception and its business has been and continues to be affected generally by the crisis and specifically by some of the restrictions aimed at slowing the pace of the pandemic within Poland. The Audit Committee reviewed the Company's approach to the analysis of the Covid-19 impact on its financial statements and the results of the analysis. The Audit Committee paid special attention to the impact on the Company's financial plans and impairment tests, bad debt allowance calculation, valuations based on interest rates and foreign exchange rates, as well as all other potentially affected areas including provisions and commitments;
- 2) The Group's key judgments and estimates relating to significant one-off transactions such as:
  - a) Acquisition of Craftware, a company operating in the area of analysis, design and implementation of customer relationship management (CRM) systems. The Audit Committee focused on the recognition and valuation of the assets and treatment of post-transaction services;
  - b) Amendment to the Collective Labour Agreement. The Audit Committee focused on the impact of the amendment on the value of the related provision and on the income statement;
- 3) New accounting standard IFRS 16. The new standard was implemented by the Company in 2019 but, in December 2019, IFRIC issued an interpretation which necessitated a significant change to the accounting policy adopted in 2019 regarding cancellable leases and their lease period valuation;
- 4) Management's assessment of risks relating to claims and litigation, tax proceedings as well as other matters and the level of related provisions or decisions on the lack of provisions;
- 5) Approach to immaterial errors identified in 2020;
- 6) Impairment indicators and impairment test prepared by Management as well as goodwill recognition and deferred tax recoverability;
- 7) Management's assessment of the length of the economic useful life of assets;
- 8) Disclosures in the Financial Statements and Management Report relating to new matters
- 9) Distributable capital calculation.

## Internal control

Management implements internal controls at various levels of the organisation. The scope of these controls includes, but is not limited to, transactional level controls, line managers' or corporate reviews, trend analysis, reconciliation controls and entity level controls. The aim is to provide reasonable assurance in safeguarding assets, detecting errors, the accuracy and completeness of accounting records, and the overall reliability of the financial statements. The Company continuously monitors the evolution of the control environment. It ensures that all significant changes are sufficiently controlled and any identified deficiencies in the internal control system are addressed with action plans. On a quarterly basis, the internal control system is monitored in a self-assessment tool implemented by the Company and, in addition, senior managers certify the effectiveness of the internal controls in their areas of responsibility. On a yearly basis, the controls are subject to testing by the internal control team, internal and external auditors, and the results are reported to the Audit Committee.

The Audit Committee received reports from Management on the internal control system, and monitored the appropriateness of the "control culture" as well as the way risks were identified, managed and disclosed. The Committee also reviewed reports from Management on implementation of actions in response to comments on internal controls from the internal and external auditors. In addition, the Audit Committee received assurance from management after completion of a yearly comprehensive assessment of Orange Polska Group's internal controls over financial reporting. All deficiencies identified were corrected or appropriate action points have been adopted. Management concluded that there were no weaknesses that would materially impact internal control over financial reporting in the year ended 31 December 2020 and the Audit Committee was satisfied that Management's conclusion was reasonable in light of the reports it had received.

## Internal audit function and assessing the effectiveness of the internal audit function

The Internal Audit function provides the Audit Committee, the Management Board and senior management with independent and objective assurance and advice on governance, risk management and internal control. It assists the organisation in reaching its objectives by systematically and methodically evaluating its processes, risk management and internal control system.

In addition to reviewing the effectiveness of these areas and reporting on aspects of the Orange Polska Group's compliance with them, Internal Audit makes recommendations to address any key issues and improve processes. Once any recommendations are agreed with management, Internal Audit monitors their implementation and reports to the Audit Committee on progress made at every meeting.

Internal Audit considers all of Orange Polska Group's activities, and reports to the Audit Committee, and to the Management Board President. The Director of Internal Audit attends all scheduled meetings of the Audit Committee, and also has the power to raise any matters with the members of the Committee without the presence of management.

Internal Audit responsibilities are clearly defined and approved as stated in the internal audit charter which is reviewed and approved annually by the Audit Committee. The Internal Audit function acts in conformity with the Standards for the professional practice of Internal Auditing and the Code of Ethics issued by the Institute of Internal Auditors (IIA). Internal Audit plans are drawn up annually and take account of risk assessment, changing business needs and issues raised by management, follow-up on prior audit findings and cyclical review planning. The approach also builds reserved hours into the plan for ad-hoc, specially requested audits, and for urgent audit issues that arise throughout the year. The annual plan of Internal Audit approved by the Management Board President and then submitted for review of the Audit

Committee. Progress against the annual Internal Audit plan, is monitored and regularly reported to the Audit Committee.

In the course of its work, the Internal Audit function also liaises with the statutory auditor, discussing relevant aspects of their respective activities and assisting them in internal control testing which ultimately supports the assurance provided to the Audit Committee and management.

The effectiveness of the Internal Audit is monitored using the quality assurance and improvement programme which is composed of internal assessment activities and annual external assessment by IFACI - l'Institut Francais de l'Audit et du Controle Interne (the French Chapter of the IIA). Following the assessment carried out in 2020, Orange Polska's Internal Audit maintained its IIA certification from IFACI.

The Audit Committee reviews the annual plan of Internal Audit, its budget and progress reports. The Committee monitors the periodic reporting on internal audit actions and findings and responsiveness of management to Internal Audit recommendations. In addition, the Committee meets privately with the Director of Internal Audit and reviews the independence of the Internal Audit process.

### **Risk management**

The Audit Committee monitors the effectiveness of the risk management system. An update report on the system's design and operation was reviewed by the Audit Committee in July 2020.

Risks are identified within all relevant business units. The risks which are perceived by members of the Management Board or by Executive Directors as most significant for Orange Polska operations are qualified as top risks. In addition to top risks, emerging risks which may become top risks in the longer term are also identified. Review of top risks along with emerging risks and their update is done and reported twice a year.

The Supervisory Board received a report on top and emerging risks in July 2020.

The top risk analysis is taken into account in the preparation of the annual Internal Audit plan. The plan addresses different aspects of top risks. The plan is submitted to the President of the Management Board for his approval and then to the Audit Committee for its review.

### **Compliance**

Matters related to the implementation of the Compliance Management Programme are reported to the Audit Committee in the following areas: ethics, general compliance with laws and regulations, anti-fraud, security and anti-corruption. As part of its periodic reports, the Compliance Management area informs the Audit Committee about activities carried out, including among others the corruption risk map, communication activities and results of inspections initiated by notification of irregularities through dedicated channels. Orange Polska actively cooperates with the Compliance areas within the international Orange Group, sharing good practice and maintaining the Group's anti-corruption standards.

The Compliance Management Programme in Orange Polska embraces the Company's obligations to act in line with the law, applicable standards, regulations, market and industry standards, as well as ethical principles, both in dealings with clients and business partners and between employees. One of the key elements of the Compliance Management Programme is the Anti-Corruption Policy, through which the Company adopts a zero-tolerance approach towards corruption with regard to every aspect of its activities. The correct application of Anti-Corruption Policy rules is supported by internal regulations with detailed guidelines and instructions aiming to identify and effectively prevent irregularities.

Also, in order to prevent potential risks of corruption, non-compliance with economic sanctions, money laundering, terrorism financing and frauds, Orange Polska applies due diligence procedures in relationships with its business partners.

The Compliance Management area provides continuous information and training to build employees' awareness and knowledge. If a problematic situation arises, employees can access ongoing consultation, advice and opinions.

### **Whistleblowing**

The Company provides different channels of communications where all employees and stakeholders can also report their doubts or observed irregularities (such as conflict of interest, cases of corrupt behaviour or other violations of applicable laws) through dedicated channels, either anonymously or openly, without fear of negative consequences. All such notifications are treated confidentially and examined and addressed with due diligence. The whistleblowing system is fully confidential and guarantees anonymity. The Audit Committee reviews the summary of cases reported via the whistleblowing system.

### **Monitoring changes in the legal environment and changes in accounting standards**

Relevant changes in the legal environment, together with updates to accounting standards and recommendations from regulatory bodies, were considered by the Audit Committee, as well as the question of how Orange Polska Group approached and implemented them. The Audit Committee in particular looked also into the Company's preparation for the implementation of the European Single Electronic Format, approach to the General Presentation and Disclosures to be adopted by International Accounting Standards Board as well climate related financial disclosures.

### **Other areas of interest**

The Audit Committee reviewed and issued opinions on significant transactions with related parties, in line with internal regulations and best practices of corporate governance. Orange SA's nominees are excluded from voting at Supervisory Board meetings and Audit Committee meetings on transactions involving Orange SA or its subsidiaries. The Committee reviewed other matters of interest, including but not limited to revenue assurance, hedging, insurance and M&A transactions. Also the Audit Committee issued opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board including financing and granting bank guarantees to OPL's subsidiaries.