ORANGEPL RS

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POLISH FINANCIAL SUPERVISION AUTHORITY

# Consolidated annual report RS for the year 2018

(year)

(according to par. 60 s. 2 of the Decree on current and periodic information)
for the issuers in sectors of production, construction, trade or services

for the **year 2018**, i.e. from **1 January 2018 to 31 December 2018**

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

date of issuance: **20 February 2019**

**ORANGE POLSKA SA**
(full name of issuer)

**ORANGEPL** (abbreviated name of the issuer)

**Telecommunication (tel)** (classification according to WSE/sector)

**02-326** (post code)

**Warsaw** (location)

**Al. Jerozolimskie** (street)

**160** (number)

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**22 527 23 41** (fax)

**investors@orange.com** (e-mail)

**www.orange.pl** (www)

**526-02-50-995** (NIP)

**012100784** (REGON)

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

| SELECTED FINANCIAL DATA | PLN '000 | | EUR '000 | |
|---|---|---|---|---|
| | year / 2018 | year / 2017 | year / 2018 | year / 2017 |
| I. Revenue | 11 101 000 | 11 381 000 | 2 601 655 | 2 681 226 |
| II. Operating income | 345 000 | 229 000 | 80 855 | 53 950 |
| III. Profit/(loss) before income tax | 40 000 | (75 000) | 9 374 | (17 669) |
| IV. Consolidated net income/(loss) | 10 000 | (60 000) | 2 344 | (14 135) |
| V. Net income/(loss) attributable to owners of Orange Polska S.A. | 10 000 | (60 000) | 2 344 | (14 135) |
| VI. Earnings/(loss) per share (in PLN/EUR) | 0.01 | (0.05) | - | (0.01) |
| VII. Weighted average number of shares (in millions) | 1 312 | 1 312 | 1 312 | 1 312 |
| VIII. Total comprehensive loss | (3 000) | (71 000) | (703) | (16 727) |
| IX. Total comprehensive loss attributable to owners of Orange Polska S.A. | (3 000) | (71 000) | (703) | (16 727) |
| X. Net cash provided by operating activities | 1 812 000 | 2 064 000 | 424 664 | 486 254 |
| XI. Net cash used in investing activities | (2 066 000) | (1 687 000) | (484 192) | (397 437) |
| XII. Net cash provided by financing activities | 219 000 | 7 000 | 51 325 | 1 649 |
| XIII. Net change in cash and cash equivalents | (35 000) | 384 000 | (8 203) | 90 466 |
| | Balance as at 31/12/2018 | Balance as at 31/12/2017 | Balance as at 31/12/2018 | Balance as at 31/12/2017 |
| XIV. Total current assets | 3 969 000 | 3 273 000 | 923 023 | 784 723 |
| XV. Total non-current assets | 19 326 000 | 19 660 000 | 4 494 419 | 4 713 611 |
| XVI. Total assets | 23 295 000 | 22 933 000 | 5 417 442 | 5 498 334 |
| XVII. Total current liabilities | 5 946 000 | 6 043 000 | 1 382 791 | 1 448 848 |
| XVIII. Total non-current liabilities | 6 846 000 | 6 952 000 | 1 592 093 | 1 666 787 |
| XIX. Total equity | 10 503 000 | 9 938 000 | 2 442 558 | 2 382 699 |
| XX. Equity attributable to owners of Orange Polska S.A. | 10 501 000 | 9 936 000 | 2 442 093 | 2 382 220 |
| XXI. Share capital | 3 937 000 | 3 937 000 | 915 581 | 943 921 |

The consolidated statement of financial position data as at 31 December 2018 and 2017 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 consolidated income statement data, together with the consolidated statement of comprehensive income and consolidated statement of cash flows data for the years ended 31 December 2018 and 2017, 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 2018 and 2017.

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

| 1 EUR | 31 December 2018 | 31 December 2017 |
|---|---|---|
| Consolidated statement of financial position | 4.3000 PLN | 4.1709 PLN |
| Consolidated income statement, consolidated statement of comprehensive income, consolidated statement of cash flows | 4.2669 PLN | 4.2447 PLN |

**Dear Shareholders,**
2018 was the first full year of implementation of our Orange.one strategy, which will lead us through to the end of 2020. The financial results we achieved last year make us confident that even though the competitive environment remains challenging, we are on the right track to return to sustainable growth.

**Growth of adjusted EBITDA as a result of well-executed strategy**
In 2018 our adjusted EBITDA (the measure that, in our view, most adequately reflects our financial performance) was up 3% year-on-year – outperforming the stabilisation that we promised to investors when announcing our plans last year. The significance of this achievement is huge: it is the first growth after 12 successive years of decline. This is compelling evidence that the strategy that we adopted in 2017 is working, and is being executed well in a challenging environment and with constant pressure on our legacy business. We continue to pursue convergence as the main commercial formula for mass-market customers, supported by the roll-out of our fibre network. We are also conducting a comprehensive transformation of the business to boost our efficiency. All our actions are driven by value creation, and our customer propositions are guided by simplicity and consistency.

**Convergence: the bedrock of our strategy**
Our Orange Love convergent offer continued to be our flagship proposal for Polish households in 2018. We signed up the 1 millionth Orange Love customer in October, just 19 months after launch. The total number of convergent customers increased almost 20% last year to more than 1.2 million. Already 57% of our fixed broadband customers also use our mobile services. These customers are significantly more loyal and, according to our research, more satisfied than users of single services. Each convergent customer uses on average four services, spending more than PLN 100 a month. We are especially pleased that this average revenue per customer has now stabilised, thanks to effective upsell (each customer accounts for almost 2 SIM cards) and the value-oriented changes we made to the Orange Love offer. The significance of convergence is underlined by the fact that in 2018 we started to report revenues from convergent customers separately.

**Fibre: Drives our competitive advantage and supports convergence**
At the end of 2018 our fibre network was available to almost 3.4 million Polish households in 117 cities. Our customer base increased 70% year-on-year to reach 366 thousand. That represents a service adoption rate of almost 11% - and it keeps on increasing every quarter. It is important to note that more than 80% of the customers we acquired in 2018 were new to Orange Polska, which is evidence that we are winning market share from the competition. Last year our network roll-out shifted more to smaller cities, including connections for single-family houses. On the one hand our build costs are higher, but on the other hand the demand is also much higher, and we apply higher service prices for single-family houses. Fibre technology enables customers to fully meet their demand for data: in 4Q2018 average monthly per customer data transfer in our fibre network exceeded 110 GB and increased more than 20% year-on-year. Fibre is the key driver of the rapid transformation and growth in our total fixed broadband customer base: in 2018 it increased 5%, and the proportion of customers using the less competitive ADSL technology dropped to 45% from 54% a year earlier. In 2018 we also signed an agreement with T-Mobile on wholesale access to our fibre network. This deal will escalate convergence on fibre technology in Poland and will enable faster monetisation of our investments.

**Efficiency boost: Indirect costs down 10% year-on-year in 2018**
In the face of high levels of competition and the still significant burden of our legacy, our strategy puts a lot of emphasis on improving our efficiency on the cost side. In 2018 our achievements in this area were spectacular: we cut our indirect costs of business by 10%, or almost PLN 400 million. This was a much higher pace of cost optimisation versus previous years. An important contribution to this result came in the form of record high gains on sale of real estate. Even excluding this factor, the savings were 45% higher than in 2017, with more than 50% coming out of non-labour areas. This was driven by a comprehensive transformation of business processes in all areas of operations (e.g. network, commercial activity, distribution network and customer service), implemented within the framework of our Orange.one strategy. As one of our Orange.one financial ambitions, we committed to a 12—15% reduction of the indirect cost pool between 2016 and 2020. We hit this target 2 years ahead of schedule, with a 14% reduction between 2016 and 2018 – and we expect more savings to come in the years ahead.

**Transformation of internal culture**
As a part of the comprehensive transformation of our Company throughout 2018, we pursued a programme of culture change among Orange Polska employees, with individual empowerment at its heart. We also aimed at improving the work environment so that our employees at all levels can identify more closely with our strategy, goals and values, and gain confidence in their future careers with Orange. We will continue this approach in 2019.

**Focus for 2019: On the way to reach 2020 strategic goals**
We are committed to reaching our 2020 financial ambition, which is a return to sustainable growth of revenues and profits. We are confident that the 2018 results confirm we are on the right track. In 2019 we want to sustain this growth, sticking to the priorities set in our strategy. We are aware that it will be challenging. We will face headwinds on the regulatory front and from the inflation of certain costs. But we also see a number of opportunities. Poland's macroeconomic situation is very favourable, while Polish society is very open to new technologies. We plan to benefit from these trends. Our commercial approach in 2019 will continue to reflect our focus on value generation, and we plan to emphasise our digital skills. We will press on with our ambitious commercial plans and explore new business opportunities. Further business transformation and efficiency increases will be necessary to reach our goals.

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

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# INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

## Audit report on the annual consolidated financial statements

### Opinion

We have audited the annual consolidated financial statements of Orange Polska Group (the 'Group'), for which the holding company is Orange Polska S.A. (the 'Company') located in Warsaw at Al. Jerozolimskie 160, containing: the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity, the consolidated statement of cash flows for the period from 1 January 2018 to 31 December 2018 and additional information to the consolidated financial statements, including a summary of significant accounting policies (the 'consolidated financial statements').

In our opinion, the consolidated financial statements:

- give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and its consolidated financial performance and its consolidated cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, 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 Group and the Company's Statute.

The opinion is consistent with the additional report to the Audit Committee issued on 20 February 2019.

### 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 Group in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), 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 Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Group 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 consolidated 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 consolidated 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><br><br>The balance of goodwill in the consolidated financial statements of the Group amounts to PLN 2,147m.<br><br>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.<br><br>Furthermore, the impairment test is based on significant assumptions in respect to future revenues, costs and operating cash flows, which are | In the course of the audit of the consolidated financial statements we have performed, among others, the following audit procedures in response to the goodwill impairment analysis prepared by the Company's Management:<br><br>• understanding of the goodwill impairment testing process and evaluation of the identification of the Cash Generation Units made by the Company's Management;<br>• 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 |

| | |
|---|---|
| dependent on the Group's strategy, as well as, estimates such as weighted average cost of capital (WACC) and perpetuity growth rate (PGR), which are affected by expected future market or economic conditions.<br><br>Considering the significance to the consolidated financial statements as well as complexity of the required judgments and assumptions we have considered goodwill impairment analysis as a key audit matter.<br><br>*Reference to related disclosures in the consolidated financial statements*<br><br>The disclosure about the adopted accounting policy in respect to the goodwill impairment test is included in Note 31.15 "Impairment tests and Cash Generating Units" of the consolidated financial statements.<br><br>The disclosures about the identification of the Cash Generation Unit and goodwill impairment test are included in Note 8 "Impairment" of the consolidated financial statements, which specifically explains the key judgments, estimates and results of the test together with a sensitivity analysis. | margin trends, capital expenditure on network assets and spectrum, market share, customer churn and discount rates, against external data;<br>• analyzing the Company's Management's forecast through a review of actual performance against previous forecasts;<br>• review of the mathematical accuracy of the cash flow model and agreeing relevant underlying data to forecasts approved by the Company's Management;<br>• assessing the applied levels of the WACC and PGR;<br>• assessing of the sensitivity analysis prepared by the Company's Management and performing further sensitivity analysis, primarily focused on changes in operating cash flows;<br>• assessing the existence of impairment indicators as at the reporting date;<br>• assessing the adequacy of the disclosures made in respect to the impairment test and sensitivity analysis. |
| <u>**Deferred tax assets recoverability**</u><br><br>The balance of deferred tax assets in the consolidated financial statements of the Group amounts to PLN 834m.<br><br>In accordance with International Accounting Standard 12 "Income Tax", the Company's Management performed a | In the course of the audit of the consolidated 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: |

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| | |
|---|---|
| detailed analysis of the deferred tax assets recoverability as at 31 December 2018.<br><br>This matter was a key audit matter because the balance of the deferred tax assets was significant to the consolidated financial statements.<br><br>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.<br><br>*Reference to related disclosures in the consolidated financial statements*<br><br>The disclosure about deferred tax are included in Note 24.2 "Deferred Tax" of the consolidated financial statements. | • understanding of the deferred tax calculation process and evaluation of the Group's key controls in this respect;<br>• performing tests of selected controls;<br>• assessing of the deferred tax asset utilization model;<br>• analysis of the assumptions underlying the recognition and measurement of deferred tax assets, which have been aligned with our analysis of the goodwill impairment test, as the deferred tax assets recoverability depends mainly on successful realization of the forecasts approved by the Company's Management;<br>• assessing the adequacy of the disclosures made in respect to the recoverability of deferred tax assets. |
| <u>Accuracy of revenue recognition</u><br><br>The revenues of the Group in the consolidated financial statements for the year ended 31 December 2018 amounted to PLN 11,101m.<br><br>The accuracy of revenue recognition was considered as a key audit matter because it is an inherent industry risk. This is because telecoms billing systems are complex and process large volumes of data with a combination of different products sold and price changes in the year, through a number of different systems. | In the course of the audit of the consolidated 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.<br><br>Furthermore, our audit procedures included also among others:<br><br>• understanding of the process and assessment of the Group's key controls in respect to revenue recognition;<br>• performing tests of selected controls;<br>• evaluation of IT systems relevant to revenue recognition; |

| | |
|---|---|
| The Group also enters into significant sales contracts with other telecommunications operators in respect to access to telecommunications infrastructure and wholesale, which due to complex contractual terms require application of professional judgment into how they are accounted for.<br><br>Furthermore, the accuracy of revenue recognition in accordance with International Financial Reporting Standard 15 "Revenue from Contracts with Customers" ("IFRS 15") requires the Company's Management to undertake significant judgments in relation to sales contracts, such as e.g. identification of performance obligations and allocation of the transaction price towards them.<br><br>*Reference to related disclosures in the consolidated financial statements*<br><br>The disclosure about the adopted accounting policies and significant judgments in respect to revenue recognition is included in Note 31.8 "Revenue" of the consolidated financial statements.<br><br>The disclosures about revenue are included in Note 5 "Revenue" of the consolidated financial statements.<br><br>The disclosure about the adoption of IFRS 15 including transition method and the impact of the adoption is included in Note 2.1 "Adoption of IFRS 15 "Revenue from Contracts with Customers"" of the consolidated financial statements. | • assessment of the applied methods of revenue recognition in respect to significant sales contacts and offers;<br>• analysis of monthly data and trends for significant revenue streams versus budgets and forecasts;<br>• testing of significant balances of contract assets, contract costs and contract liabilities;<br>• comparison of revenue accruals to actual sales.<br><br>We have assessed the completeness of adoption of IFRS 15 performed by the Company's Management in relation to significant revenue streams and analyzed the impact of the adoption as at 1 January 2018.<br><br>Furthermore, we have assessed the adequacy of the disclosures made in respect to revenue recognition and presentation of revenues in the consolidated financial statements. |

| Adoption of IFRS 16 "Leases" | |
|---|---|
| Adoption of IFRS 16 "Leases" ("IFRS 16") was considered as a key audit matter due to the amount, nature and complexity of lease arrangements entered into by the Group, as well as, the estimated impact of the adoption of the new standard on leases on the Group's consolidated financial statements.<br><br>Furthermore, the application of the new leasing accounting standard is complex and involves a significant number of key judgements and estimates.<br><br>*Reference to related disclosures in the consolidated financial statements*<br><br>The disclosure about the key judgments related to the application of IFRS 16, as well as the estimated impact of the adoption of IFRS 16 is included in Note 31.2 "Standards and interpretations issued but not yet adopted" of the consolidated financial statements. | In the course of the audit of the consolidated financial statements we have assessed the appropriateness of the planned accounting policies and related judgments and estimates in respect to leases and their adherence to IFRS 16.<br><br>Furthermore, our audit procedures included also among others:<br>• understanding of the process and assessment of the Group's key controls in respect to accounting for lease arrangements under IFRS 16;<br>• performing tests of selected controls in relation to accounting for lease arrangements under IFRS 16;<br>• performing tests of details for a sample of lease contracts in order to verify the accuracy of parameters used in the calculation of the lease liability and the right of use asset;<br>• analysis of the completeness of identification of lease arrangements.<br><br>Furthermore, we have assessed the adequacy of the disclosures made in the consolidated financial statements in respect to key judgments in relation to the application of IFRS 16 and the estimated impact of the adoption of the new accounting standard on leases on the Group's consolidated financial statements. |

**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, the consolidated financial statements that give a true and fair view of the consolidated financial position and the consolidated financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies and 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, The Company's Management is responsible for assessing the Group's (the holding company and significant components') 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 Group (the holding company or significant components) 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 consolidated financial statements meet the requirements of the Accounting Act dated 29 September 1994 (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 consolidated financial statements**

Our objectives are to obtain reasonable assurance about whether the consolidated 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 guarantee 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 consolidated 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 Group 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 consolidated 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 Group's internal control,

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,

- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the consolidated 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 Group to cease to continue as a going concern,

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation,

- we obtain sufficient appropriate audit evidence regarding the financial information of entities and business activities within the Group for the purpose of expressing an opinion on the consolidated financial statements. We are solely responsible for the direction, supervision and performance of the audit of the Group and we remain solely responsible for our audit opinion.

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

We provide the members of the Company's Supervisory Board 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, related safeguards.

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

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

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 55, section 2b of the Accounting Act as a separate element of the Directors' Report and the Annual Report for the period from 1 January 2018 to 31 December 2018 (the 'Annual 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 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 consolidated financial statements does not include the Other Information.
In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the consolidated 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 consolidated 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 the article 49 of the Accounting Act and paragraph 71 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 consolidated financial statements.

Moreover, based on our knowledge of the Group 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 Group 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 consolidated 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 55, section 2b 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 have been provided to the Group, 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 Group in the audited period, have been disclosed in the Directors' Report.

**Appointment of the audit firm**

We were appointed for the audit of the Group's consolidated financial statements initially based on the resolution of the Company's Supervisory Board from 15 June 2015 and reappointed based on the resolution from 5 July 2018. The consolidated financial statements of the Group have been audited by us uninterruptedly starting from the financial year ended on 31 December 2015, i.e. for the past 4 consecutive years.

Warsaw, 20 February 2019

Key Certified Auditor

Łukasz Piotrowski
certified auditor
no in the register: 12390

Partner

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 GROUP

# IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

February 20, 2019

# Contents

## Financial instruments excluding trade receivables and payables



## Income tax



## Equity and management of capital



## Other explanatory notes

## CONSOLIDATED INCOME STATEMENT

| *(in PLN millions, except for earnings/loss per share)* | | *12 months ended* | |
|---|---|---|---|
| | | *31 December 2018* | *31 December 2017* |
| | | *IFRS 15 basis* | *IAS 18 basis* |
| | *Note* | | *(see Note 2.2)* |
| **Revenue** | **5** | **11,101** | **11,381** |
| External purchases | 6.1 | (6,449) | (6,416) |
| Labour expense | 6.2 | (1,582) | (1,690) |
| Other operating expense | 6.3 | (472) | (473) |
| Other operating income | 6.3 | 253 | 218 |
| Impairment of receivables and contract assets | 6.3,16 | (162) | (86) |
| Gains on disposal of assets | 7 | 192 | 81 |
| Employment termination expense | 13 | 5 | (208) |
| Depreciation and amortisation | 10,11 | (2,544) | (2,572) |
| (Impairment)/reversal of impairment of fixed assets | 8 | 3 | (6) |
| **Operating income** | | **345** | **229** |
| Interest income | 16 | 39 | 32 |
| Interest expense and other financial charges | 16 | (261) | (279) |
| Discounting expense | 16 | (83) | (57) |
| **Finance costs, net** | | **(305)** | **(304)** |
| Income tax | 24.1 | (30) | 15 |
| **Consolidated net income/(loss)** | | **10** | **(60)** |
| Net income/(loss) attributable to owners of Orange Polska S.A. | | 10 | (60) |
| Net income/(loss) attributable to non-controlling interests | | - | - |
| **Earnings/(loss) per share (in PLN)** | **31.4** | **0.01** | **(0.05)** |
| Weighted average number of shares (in millions) | 31.4 | 1,312 | 1,312 |

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| *(in PLN millions)* | | *12 months ended* | |
|---|---|---|---|
| | | *31 December 2018* | *31 December 2017* |
| | *Note* | *IFRS 15 basis* | *IAS 18 basis* |
| **Consolidated net income/(loss)** | | **10** | **(60)** |
| **Items that will not be reclassified to profit or loss** | | | |
| Actuarial losses on post-employment benefits | 15 | (4) | (3) |
| Income tax relating to items not to be reclassified | | 1 | 1 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Losses on cash flow hedges | 21 | (13) | (11) |
| Income tax relating to items that may be reclassified | | 3 | 2 |
| **Other comprehensive loss, net of tax** | | **(13)** | **(11)** |
| **Total comprehensive loss** | | **(3)** | **(71)** |
| Total comprehensive loss attributable to owners of Orange Polska S.A. | | (3) | (71) |
| Total comprehensive loss attributable to non-controlling interests | | - | - |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *(in PLN millions)* | *Note* | *At 31 December 2018 IFRS 15 basis* | *At 31 December 2017 IAS 18 basis* |
|---|---|---|---|
| ASSETS | | | |
| Goodwill | 9 | 2,147 | 2,147 |
| Other intangible assets | 10 | 4,871 | 5,256 |
| Property, plant and equipment | 11 | 10,738 | 10,666 |
| Trade receivables | 12.1 | 552 | 532 |
| Contract assets | 12.2 | 27 | - |
| Contract costs | 12.3 | 56 | - |
| Derivatives | 21 | 48 | 37 |
| Other assets | | 53 | 72 |
| Deferred tax assets | 24.2 | 834 | 950 |
| **Total non-current assets** | | **19,326** | **19,660** |
| Inventories | | 240 | 217 |
| Trade receivables | 12.1 | 2,371 | 2,266 |
| Contract assets | 12.2 | 138 | - |
| Contract costs | 12.3 | 297 | - |
| Derivatives | 21 | 52 | - |
| Other assets | 7 | 214 | 78 |
| Prepaid expenses | | 46 | 66 |
| Cash and cash equivalents | 20 | 611 | 646 |
| **Total current assets** | | **3,969** | **3,273** |
| **TOTAL ASSETS** | | **23,295** | **22,933** |
| EQUITY AND LIABILITIES | | | |
| Share capital | 25.1 | 3,937 | 3,937 |
| Share premium | | 832 | 832 |
| Other reserves | | (58) | (40) |
| Retained earnings | | 5,790 | 5,207 |
| **Equity attributable to owners of Orange Polska S.A.** | | **10,501** | **9,936** |
| Non-controlling interests | | 2 | 2 |
| **Total equity** | | **10,503** | **9,938** |
| Trade payables | 14.1 | 473 | 550 |
| Loans from related party | 18.1 | 5,258 | 5,485 |
| Other financial liabilities at amortised cost | 18.2 | 123 | 68 |
| Derivatives | 21 | 31 | 58 |
| Provisions | 13 | 468 | 553 |
| Contract liabilities | 12.4 | 331 | - |
| Employee benefits | 15 | 136 | 139 |
| Other liabilities | 14.2 | 26 | 16 |
| Deferred income | 14.3 | - | 83 |
| **Total non-current liabilities** | | **6,846** | **6,952** |
| Trade payables | 14.1 | 2,469 | 2,421 |
| Loans from related party | 18.1 | 2,074 | 1,484 |
| Other financial liabilities at amortised cost | 18.2 | 76 | 45 |
| Derivatives | 21 | 19 | 42 |
| Provisions | 13 | 217 | 854 |
| Contract liabilities | 12.4 | 460 | - |
| Employee benefits | 15 | 201 | 221 |
| Income tax liabilities | | 54 | 19 |
| Other liabilities | 14.2 | 376 | 479 |
| Deferred income | 14.3 | - | 478 |
| **Total current liabilities** | | **5,946** | **6,043** |
| **TOTAL EQUITY AND LIABILITIES** | | **23,295** | **22,933** |

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*(in PLN millions)*

| | Share capital | Share premium | Other reserves | | | Retained earnings | Equity attributable to owners of OPL S.A. | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | | | Cash flow hedge reserve | Actuarial losses on post-employment benefits | Deferred tax | | | | |
| **Balance at 1 January 2018** | **3,937** | **832** | **(2)** | **(47)** | **9** | **5,207** | **9,936** | **2** | **9,938** |
| The effect of adoption of IFRS 15 (see Note 2.1) | - | - | - | - | - | 583 | 583 | - | 583 |
| The effect of adoption of IFRS 9 (see Note 2.2) | - | - | - | - | - | (11) | (11) | - | (11) |
| **Balance at 1 January 2018 after adoption of IFRS 15 and IFRS 9** | **3,937** | **832** | **(2)** | **(47)** | **9** | **5,779** | **10,508** | **2** | **10,510** |
| Total comprehensive loss for the 12 months ended 31 December 2018 | - | - | (13) | (4) | 4 | 10 | (3) | - | (3) |
| Share-based payments (see Note 25.3) | - | - | - | - | - | 1 | 1 | - | 1 |
| Transfer to inventories | - | - | (5) | - | - | - | (5) | - | (5) |
| **Balance at 31 December 2018** | **3,937** | **832** | **(20)** | **(51)** | **13** | **5,790** | **10,501** | **2** | **10,503** |
| **Balance at 1 January 2017** | **3,937** | **832** | **9** | **(44)** | **6** | **5,267** | **10,007** | **2** | **10,009** |
| Total comprehensive loss for the 12 months ended 31 December 2017 | - | - | (11) | (3) | 3 | (60) | (71) | - | (71) |
| **Balance at 31 December 2017** | **3,937** | **832** | **(2)** | **(47)** | **9** | **5,207** | **9,936** | **2** | **9,938** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| *(in PLN millions)* | | *12 months ended* | |
|---|---|---|---|
| | | *31 December 2018* | *31 December 2017* |
| | *Note* | *IFRS 15 basis* | *IAS 18 basis* |
| OPERATING ACTIVITIES | | | |
| Consolidated net income/(loss) | | 10 | (60) |
| *Adjustments to reconcile net income/loss to cash from operating activities* | | | |
| Gains on disposal of assets | 7 | (192) | (81) |
| Depreciation and amortisation | 10,11 | 2,544 | 2,572 |
| Impairment/(reversal of impairment) of fixed assets | 8 | (3) | 6 |
| Finance costs, net | | 305 | 304 |
| Income tax | 24.1 | 30 | (15) |
| Change in provisions and allowances | 28.b | (685) | 111 |
| Operational foreign exchange and derivatives (gains)/losses, net | | (3) | 8 |
| *Change in working capital* | | | |
| Increase in inventories, gross | | (25) | (53) |
| Increase in trade receivables, gross | 12.1 | (225) | (334) |
| Decrease in contract assets, gross | 12.2 | 166 | - |
| Decrease in contract costs | 12.3 | 51 | - |
| Decrease in trade payables | | (1) | (106) |
| Increase in contract liabilities | 12.4 | 232 | - |
| Increase in prepaid expenses and other receivables | | (34) | (5) |
| Increase/(decrease) in deferred income and other payables | 14.3 | (22) | 62 |
| Interest received | | 39 | 32 |
| Interest paid and interest rate effect paid on derivatives, net | | (363) | (363) |
| Exchange rate and other effect paid on derivatives, net | | (5) | (6) |
| Income tax paid | | (7) | (8) |
| **Net cash provided by operating activities** | | **1,812** | **2,064** |
| INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment and intangible assets | 10,11 | (2,282) | (1,933) |
| Increase/(decrease) in amounts due to fixed assets suppliers | | 116 | (126) |
| Investment grants received | 14.2 | 5 | 297 |
| Investment grants paid to fixed assets suppliers | 14.2 | (64) | (1) |
| Exchange rate effect received/(paid) on derivatives economically hedging capital expenditures, net | | 5 | (7) |
| Proceeds from sale of property, plant and equipment and intangible assets | | 156 | 113 |
| Cash paid for subsidiaries, net of cash acquired | 4 | (2) | (31) |
| Receipts from other financial instruments | | - | 1 |
| **Net cash used in investing activities** | | **(2,066)** | **(1,687)** |
| FINANCING ACTIVITIES | | | |
| Repayment of long-term debt | 19 | (44) | (31) |
| Increase in revolving credit line and short-term debt | 19 | 263 | 39 |
| Exchange rate effect paid on derivatives hedging debt, net | 19 | - | (1) |
| **Net cash provided by financing activities** | | **219** | **7** |
| **Net change in cash and cash equivalents** | | **(35)** | **384** |
| Cash and cash equivalents at the beginning of the period | 20 | 646 | 262 |
| **Cash and cash equivalents at the end of the period** | 20 | **611** | **646** |

# 1. Corporate information

## 1.1. The Orange Polska Group

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

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

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

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

## 1.2. Entities of the Group

The Group comprises Orange Polska and the following subsidiaries:

| *Entity* | *Location* | *Scope of activities* | *Share capital owned by the Group* | |
|---|---|---|---|---|
| | | | *31 December 2018* | *31 December 2017* |
| Integrated Solutions Sp. z o.o. | Warsaw, Poland | Provision of integrated IT and network services. | 100% | 100% |
| TP TelTech Sp. z o.o. | Łódź, Poland | Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals. | 100% | 100% |
| Telefony Podlaskie S.A. | Sokołów Podlaski, Poland | Local provider of fixed-line, internet and cable TV services. | 89.3% | 89.3% |
| Orange Retail S.A. | Modlnica, Poland | Distributor of OPL S.A. products on mass and business market. | 100% | 100% |
| Orange Energia Sp. z o.o. | Warsaw, Poland | Sale of electrical energy. | 100% | 100% |
| Orange Real Estate Sp. z o.o. (1) | Warsaw, Poland | Facilities management and maintenance. | 100% | 100% |
| Orange Szkolenia Sp. z o.o. | Warsaw, Poland | Training and hotel services, insurance agent. | 100% | 100% |
| Pracownicze Towarzystwo Emerytalne Orange Polska S.A. | Warsaw, Poland | Management of employee pension fund. | 100% | 100% |
| Fundacja Orange | Warsaw, Poland | Charity foundation. | 100% | 100% |
| Telekomunikacja Polska Sp. z o.o. | Warsaw, Poland | No operational activity. | 100% | 100% |

(1) The subsidiary was disposed of in January 2019.

Additionally, the Group and T-Mobile Polska S.A. hold a 50% interest each in NetWorkS! Sp. z o.o., located in Warsaw. This company was classified as a joint operation as its scope of activities comprises management, development and maintenance of networks owned by the Group and T-Mobile Polska S.A. NetWorkS! Sp. z o.o. was incorporated following the agreement on reciprocal use of mobile access networks between both operators.

This agreement was signed in 2011 for 15 years with an option to extend it and is also classified as a joint operation for accounting purpose.

During the 12 months ended 31 December 2018 and 2017, the voting power held by the Group was equal to the Group's interest in the share capital of its subsidiaries.

## 2. Statement of compliance and basis of preparation

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

These Consolidated Financial Statements have been prepared in millions of Polish złoty ("PLN"). Comparative amounts for the year ended 31 December 2017 have been compiled using the same basis of preparation, except for impact of adoption of new standards in 2018 described below (see Notes 2.1 and 2.2).

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

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

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

These Consolidated Financial Statements were authorised for issuance by the Management Board on 20 February 2019 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 2018 are described in Note 31 and are based on:

- all standards and interpretations endorsed by the European Union and applicable to the reporting period beginning 1 January 2018,
- IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2018 but for which the Group has opted for earlier application,
- accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard ("IAS") 8 (Use of judgements).

<u>Adoption of standards or interpretations in 2018</u>

The following standards and interpretations endorsed by the European Union were adopted by the Group as at 1 January 2018:

- IFRS 15 "Revenue from Contracts with Customers". This standard has been endorsed by the European Union on 22 November 2016 and it is applicable for financial years beginning on or after 1 January 2018.
- IFRS 9 "Financial Instruments". This standard has been endorsed by the European Union on 22 November 2016 and it is applicable for financial years beginning on or after 1 January 2018.
- IFRIC Interpretation 22 "Foreign Currency Transactions and Advance Consideration". This interpretation was issued on 8 December 2016 and is effective for annual periods beginning on or after 1 January 2018. IFRIC 22 clarifies that in the case of receipt or payment of advance consideration in a foreign currency the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or contract liability. There is no impact of the interpretation on the Group's financial statements.

### 2.1. Adoption of IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for reporting the information about the nature, amount, timing and uncertainty of revenue arising from an entity's contracts with customers.

The effects on the Group's accounts primarily relate to the mobile phone market and notably to:

a) the accounting for arrangements which bundle the sale of a handset with a discounted price and with customer subscription to a communication service for a defined period of time: the cumulative revenue does not change but the allocation between the handset sold and the communication service changes (higher equipment revenue up front, with an equivalent decrease in service revenue spread over time due to the subsidy mechanism embedded in the offers);
b) the accelerated recognition of revenue when the equipment is sold, offset by lower revenue from the supply of the service during the enforceable period, leads to the recognition of a contract asset in the statement of financial position which is settled against a receivable as the communication service is provided;
c) recognition of some incremental subscriber acquisition and retention costs (i.e. payments to retailers directly attributable to the contract with customer) over the duration of the contractual relationship;
d) recognition of a contract liability representing the Group's obligation to provide services or equipment to a customer for which consideration has been received or is due (mainly unused pre-paid balances and post-paid subscription previously recognised as deferred income).

The new accounting policy relating to revenue and contract costs applied by the Group from 1 January 2018 is presented in Note 31.8.

IFRS 15 is applied by the Group using the "modified retrospective approach" in which the cumulative effect of initially applying the standard is recognised as an adjustment to retained earnings at the date of initial application.

Adoption of IFRS 15 affected the consolidated statement of financial position as at 1 January 2018 as follows:

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *(in PLN millions)* | *At 1 January 2018* | | |
|---|---|---|---|
| | *Before IFRS 15* | *Impact of IFRS 15 adoption* [(1)] | *After IFRS 15* |
| **ASSETS** | | | |
| Contract assets | - | 69 | 69 |
| Contract costs | - | 53 | 53 |
| Other assets | 72 | (13) | 59 |
| Deferred tax assets | 950 | (137) | 813 |
| **Total non-current assets** | **19,660** | **(28)** | **19,632** |
| Contract assets | - | 256 | 256 |
| Contract costs | - | 351 | 351 |
| Other assets | 78 | (26) | 52 |
| **Total current assets** | **3,273** | **581** | **3,854** |
| **TOTAL ASSETS** | **22,933** | **553** | **23,486** |
| **EQUITY AND LIABILITIES** | | | |
| Retained earnings | 5,207 | 583 | 5,790 |
| **Total equity** | **9,938** | **583** | **10,521** |
| Contract liabilities | - | 71 | 71 |
| Deferred income | 83 | (83) | - |
| **Total non-current liabilities** | **6,952** | **(12)** | **6,940** |
| Trade payables | 2,421 | (28) | 2,393 |
| Contract liabilities | - | 488 | 488 |
| Deferred income | 478 | (478) | - |
| **Total current liabilities** | **6,043** | **(18)** | **6,025** |
| **TOTAL EQUITY AND LIABILITIES** | **22,933** | **553** | **23,486** |

[(1)] Includes a reclassification of balances related to free service periods of PLN 32 million from other assets to contract assets in the fourth quarter of 2018.

To facilitate comparability between periods, the tables below present how the adoption of IFRS 15 affected the consolidated financial statements in the current period:

## CONSOLIDATED INCOME STATEMENT

| *(in PLN millions, except for earnings/loss per share)* | *12 months ended 31 December 2018* | | |
|---|---|---|---|
| | *IAS 18 comparable basis* | *Impact of IFRS 15 adoption* | *IFRS 15 reported* |
| **Revenue** | **11,296** | **(195)** | **11,101** |
| External purchases | (6,400) | (49) | (6,449) |
| Labour expense | (1,574) | (8) | (1,582) |
| Impairment of receivables and contract assets | (191) | 29 | (162) |
| **Operating income** | **568** | **(223)** | **345** |
| Income tax | (73) | 43 | (30) |
| **Consolidated net income/(loss)** | **190** | **(180)** | **10** |
| **Earnings/(loss) per share (in PLN)** | **0.14** | **(0.13)** | **0.01** |
| **Total comprehensive income/(loss)** | **177** | **(180)** | **(3)** |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| *(in PLN millions)* | *At 31 December 2018* | | |
|---|---|---|---|
| | *IAS 18 comparable basis* | *Impact of IFRS 15 adoption* | *IFRS 15 reported* |
| **ASSETS** | | | |
| Contract assets | - | 27 | 27 |
| Contract costs | - | 56 | 56 |
| Other assets | 64 | (11) | 53 |
| Deferred tax assets | 928 | (94) | 834 |
| **Total non-current assets** | **19,348** | **(22)** | **19,326** |
| Contract assets | - | 138 | 138 |
| Contract costs | - | 297 | 297 |
| Other assets | 247 | (33) | 214 |
| **Total current assets** | **3,567** | **402** | **3,969** |
| **TOTAL ASSETS** | **22,915** | **380** | **23,295** |
| **EQUITY AND LIABILITIES** | | | |
| Retained earnings | 5,387 | 403 | 5,790 |
| **Total equity** | **10,100** | **403** | **10,503** |
| Contract liabilities | - | 331 | 331 |
| Deferred income | 340 | (340) | - |
| **Total non-current liabilities** | **6,855** | **(9)** | **6,846** |
| Trade payables | 2,492 | (23) | 2,469 |
| Contract liabilities | - | 460 | 460 |
| Deferred income | 451 | (451) | - |
| **Total current liabilities** | **5,960** | **(14)** | **5,946** |
| **TOTAL EQUITY AND LIABILITIES** | **22,915** | **380** | **23,295** |

## CONSOLIDATED STATEMENT OF CASH FLOWS

| *(in PLN millions)* | *12 months ended 31 December 2018* | | |
|---|---|---|---|
| | *IAS 18 comparable basis* | *Impact of IFRS 15 adoption* | *IFRS 15 reported* |
| **OPERATING ACTIVITIES** | | | |
| Consolidated net income/(loss) | 190 | (180) | 10 |
| *Adjustments to reconcile net income/loss to cash from operating activities* | | | |
| Income tax | 73 | (43) | 30 |
| Change in provisions and allowances | (679) | (6) | (685) |
| *Change in working capital* | | | |
| Decrease in contract assets, gross | - | 166 | 166 |
| Decrease in contract costs | - | 51 | 51 |
| Decrease in trade payables | (6) | 5 | (1) |
| Increase in contract liabilities | - | 232 | 232 |
| Increase in prepaid expenses and other receivables | (39) | 5 | (34) |
| Increase/(decrease) in deferred income and other payables | 208 | (230) | (22) |
| **Net cash provided by operating activities** | **1,812** | **-** | **1,812** |
| **Net change in cash and cash equivalents** | **(35)** | **-** | **(35)** |

### 2.2. Adoption of IFRS 9 "Financial Instruments"

With the exception of hedge accounting, for which the Group has adopted IFRS 9 prospectively, the Group has applied the standard retrospectively, without restating the comparative information. The cumulative effect of initially applying the standard is recognised as an adjustment to retained earnings at 1 January 2018.

IFRS 9 defines three categories of financial assets – depending on the business model in which assets are managed and their contractual 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;
- assets at fair value through profit or loss - all other financial assets.

IFRS 9 does not change the classification of the Group's financial liabilities.

On the date of initial application, 1 January 2018, classification and carrying value of the Group's financial instruments were as follows:

| *(in PLN millions)* | *At 1 January 2018* | | | |
|---|---|---|---|---|
| | *Classification* | | *Carrying value* | |
| | *IAS 39* | *IFRS 9* | *IAS 39* | *IFRS 9* |
| Trade receivables | Loans and receivables | Amortised cost | 2,798 | 2,784 |
| Derivatives | Hedging derivative instruments | Hedging derivative instruments | 35 | 35 |
| Derivatives | Fair value through profit or loss | Fair value through profit or loss | 2 | 2 |
| Cash and cash equivalents | Loans and receivables | Amortised cost | 646 | 646 |
| **Total financial assets** | | | **3,481** | **3,467** |
| Trade payables | Amortised cost | Amortised cost | 2,971 | 2,971 |
| Loans from related party | Amortised cost | Amortised cost | 6,969 | 6,969 |
| Other financial liabilities at amortised cost | Amortised cost | Amortised cost | 113 | 113 |
| Derivatives | Hedging derivative instruments | Hedging derivative instruments | 69 | 69 |
| Derivatives | Fair value through profit or loss | Fair value through profit or loss | 31 | 31 |
| **Total financial liabilities** | | | **10,153** | **10,153** |

IFRS 9 changes the credit risk recognition model from the incurred losses to the expected losses approach. The Group measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, cash and cash equivalents and contract assets. Implementation of IFRS 9 resulted in impairment of non-matured trade receivables. The difference between the previous carrying amount of trade receivables measured according to IAS 39 and the new carrying amount under IFRS 9 as at 1 January 2018 amounted to PLN 14 million. Net effect of PLN 11 million (including deferred tax impact) was recognised as a decrease in the retained earnings as at 1 January 2018.

IFRS 9 made the consequential amendment to IAS 1 "Presentation of financial statements" which requires the Group to present impairment of receivables and contract assets as a separate line item in the consolidated income statement. The comparative amounts in the consolidated income statement for the 12 months ended 31 December 2017 were adjusted accordingly, with no impact on operating income. Previously, the Group presented these costs in other operating expense.

## 3. Segment information

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

Revenue from the Group's activities is adjusted for the impact of changes in the scope of consolidation. There was no adjustment for the 12 months ended 31 December 2018 and 2017.

Since the calculation of EBITDA, organic cash flows, capital expenditures and net financial debt is not defined by IFRS, the methodology adopted by the Group is presented below.

EBITDA is the key measure of operating profitability used by the Management Board and corresponds to operating income before depreciation and amortisation expense and impairment of fixed assets. To give a better representation of underlying performance, EBITDA is adjusted for the impact of changes in the scope of consolidation, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Adjustments for the 12 months ended 31 December 2018 and 2017 are presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board and correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of investments grants received/paid to fixed assets suppliers, impact of net exchange rate effect received/paid on derivatives economically hedging capital expenditures and increased by proceeds from sale of property, plant and equipment and intangible assets. To give a better representation of underlying performance, organic cash flows are adjusted for the payments for acquisition of telecommunications licences and payments relating to significant claims, litigation and other risks as well as for investment grants received/paid to fixed assets suppliers. Adjustments for the 12 months ended 31 December 2018 and 2017 are presented in the table below.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. To give a better representation of underlying performance, capital expenditures are adjusted for the impact of acquisition of telecommunications licences. Adjustments for the 12 months ended 31 December 2018 and 2017 are presented in the table below.

Net financial debt and net financial debt to adjusted EBITDA ratio are the key measures of indebtedness and liquidity used by the Management Board. The calculation of net financial debt is presented in Note 17.

Basic financial data of the operating segment is presented below:

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| Revenue (IFRS 15 basis) (1) | 11,101 | Not applicable |
| Revenue (IAS 18 comparable basis) (1) | 11,296 | 11,381 |
| Adjusted EBITDA (IFRS 15 basis) | 2,881 | Not applicable |
| Adjusted EBITDA (IAS 18 comparable basis) | 3,104 | 3,011 |
| Net income as per consolidated income statement (IFRS 15 basis) | 10 | Not applicable |
| Net income/(loss) as per consolidated income statement (IAS 18 comparable basis) | 190 | (60) |
| Adjusted organic cash flows | 453 | 111 |
| Adjusted capital expenditures | 2,250 | 1,933 |

(1) There was no adjustment for the 12 months ended 31 December 2018 and 2017.

| | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Net financial debt (in PLN millions, see Note 17) | 6,850 | 6,497 |
| Net financial debt/adjusted EBITDA ratio (IFRS 15 basis) | 2.4 | Not applicable |
| Net financial debt/adjusted EBITDA ratio (IAS 18 comparable basis) | 2.2 | 2.2 |

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

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| EBITDA (IFRS 15 basis) | 2,886 | Not applicable |
| - adjustment for the impact of Social Agreement (see Note 13) | (5) | Not applicable |
| Adjusted EBITDA (IFRS 15 basis) | 2,881 | Not applicable |
| | | |
| EBITDA (IAS 18 comparable basis) | 3,109 | 2,807 |
| - adjustment for the impact of Social Agreement, consisting of employment optimisation programme expense, net of resulting curtailment of long-term employee benefits (see Notes 13 and 15) | (5) | 204 |
| Adjusted EBITDA (IAS 18 comparable basis) | 3,104 | 3,011 |
| | | |
| Organic cash flows | (252) | 407 |
| - adjustment for payment of European Commission fine (see Note 28) | 646 | - |
| - adjustment for investments grants received | (5) | (297) |
| - adjustment for investment grants paid to fixed assets suppliers | 64 | 1 |
| Adjusted organic cash flows | 453 | 111 |
| | | |
| Capital expenditures | 2,282 | 1,933 |
| - adjustment for expenditures on acquisition of telecommunications licences (see Note 10) | (32) | - |
| Adjusted capital expenditures | 2,250 | 1,933 |

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

On 5 September 2017, the Group acquired 100% shareholding in Multimedia Polska Energia Sp. z o.o. (“Multimedia Polska Energia”), a company that sells electrical energy. The acquisition price amounted to PLN 44 million payable in cash, of which PLN 40 million was paid in 2017, PLN 2 million in 2018 and the remaining PLN 2 million will be paid in 2019. There was no goodwill or gain on bargain purchase recognised on acquisition of Multimedia Polska Energia. Multimedia Polska Energia was renamed to Orange Energia Sp. z o.o. in September 2017.

## 5. Revenue

New disaggregation of revenue that better reflects current commercial policy of the Group was introduced in 2018 as presented below:

| | |
|---|---|
| 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 and dealers, (ii) revenue from sale of electrical energy, (iii) revenue from infrastructure projects, and (iv) other miscellaneous revenue e.g. from property rentals, research and development activity. |

To facilitate comparability between periods following the modified retrospective approach to adoption of IFRS 15, revenue for the 12 months ended 31 December 2018 is presented also on an “IAS 18 comparable basis”, i.e. calculated under IAS 18 and other standards and interpretations concerning revenue recognition applicable in 2017. More information on IFRS 15 and its application by the Group in 2018 is presented in Notes 2.1 and 31.8.

| *(in PLN millions)* | *12 months ended* | | |
|---|---|---|---|
| | *31 December 2018* | | *31 December 2017* |
| | *IFRS 15 reported* | *IAS 18 comparable basis* | *IAS 18 reported* |
| **Mobile only services** | **2,736** | **2,920** | **3,373** |
| **Fixed only services** | **2,461** | **2,483** | **2,748** |
| Narrowband | 1,084 | 1,086 | 1,257 |
| Broadband | 921 | 941 | 1,033 |
| Network solutions (business market) | 456 | 456 | 458 |
| **Convergent services (consumer market)** | **1,296** | **1,388** | **1,068** |
| **Equipment sales** | **1,404** | **1,301** | **1,256** |
| **IT and integration services** | **589** | **589** | **493** |
| **Wholesale** | **2,308** | **2,308** | **2,140** |
| Mobile wholesale | 1,307 | 1,307 | 1,147 |
| Fixed wholesale | 716 | 716 | 733 |
| Other | 285 | 285 | 260 |
| **Other revenue** | **307** | **307** | **303** |
| **Total revenue** | **11,101** | **11,296** | **11,381** |

Wholesale and other revenue for the 12 months ended 31 December 2018 include PLN 89 million of lease revenue that is outside the scope of IFRS 15 “Revenue from Contracts with Customers”.

Revenue is generated mainly in the territory of Poland. Approximately 4.3% and 3.6% of the total revenue for the 12 months ended 31 December 2018 and 2017, 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 2018* | *31 December 2017* |
| Commercial expenses | (2,433) | (2,545) |
| – *cost of handsets and other equipment sold* | *(1,690)* | *(1,793)* |
| – *commissions, advertising, sponsoring costs and other* | *(743)* | *(752)* |
| Interconnect expenses | (1,849) | (1,778) |
| Network and IT expenses | (610) | (652) |
| Other external purchases | (1,557) | (1,441) |
| **Total external purchases** | **(6,449)** | **(6,416)** |

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

## 6.2. Labour expense

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| Average number of active employees (full time equivalent) | 14,151 | 15,433 |
| Wages and salaries | (1,432) | (1,501) |
| Social security and other charges | (333) | (348) |
| Long-term employee benefits (see Note 15.1) | (14) | 6 |
| Capitalised personnel costs | 234 | 218 |
| Other employee benefits | (37) | (65) |
| **Total labour expense** | **(1,582)** | **(1,690)** |

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

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| | | *(see Note 2.2)* |
| Taxes other than income tax | (303) | (305) |
| Orange brand fee (see Note 29.2) | (113) | (121) |
| Other expense and changes in provisions, net | (56) | (47) |
| **Total other operating expense** | **(472)** | **(473)** |
| **Total other operating income** | **253** | **218** |
| **Total impairment of receivables and contract assets** | **(162)** | **(86)** |

Other operating income includes mainly income from the Orange Group resulting from shared resources, income from scrapped assets, reimbursement of Universal Service Obligation costs and income from compensation.

The increase of total impairment of receivables and contract assets in 2018 relates mainly to deterioration of bad debt recovery due to the macroeconomic situation, i.e. lower level of prices offered for overdue receivables.

## 6.4. Research and development

During the 12 months ended 31 December 2018 and 2017, research and development costs expensed in the consolidated income statement amounted to PLN 54 million and PLN 52 million, respectively.

## 7. Gains on disposal of assets

During the 12 months ended 31 December 2018 and 2017, gains on disposal of assets amounted to PLN 192 million and PLN 81 million, respectively, and included mainly gains on disposal of real estate.

As at 31 December 2018 receivables from disposal of real estate amounted to PLN 92 million and were presented as current other assets in the consolidated statement of financial position. The amount was received by OPL S.A. in January 2019. There were no receivables from disposal of real estate as at 31 December 2017.

## 8. Impairment

### 8.1. Cash Generating Unit

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

As at 30 June 2018 and 31 December 2017 the Group performed impairment tests of the CGU (including goodwill). Additionally, the Group performed an analysis of impairment indicators as at 31 December 2018 and concluded that recalculation of impairment test is not required.

No impairment loss was recognised in the years 2018 and 2017.

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

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

| *Telecom operator CGU* | *At 30 June 2018* | *At 31 December 2017* |
|---|---|---|
| Basis of recoverable amount | Value in use | Value in use |
| Sources used | Business plan | Business plan |
| | 5 years cash flow projections | 5 years cash flow projections |
| Perpetuity growth rate | 1% | 1% |
| Post-tax discount rate | 8.00% | 8.25% |
| Pre-tax discount rate (1) | 9.32% | 9.64% |

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

**Sensitivity of recoverable amount**

The value in use of the telecom operator CGU as at 30 June 2018 exceeded its carrying value by PLN 4.6 billion. Any of the following changes in key assumptions:

- a 25% fall in projected cash flows after fifth year or
- a 1.8 p.p. decrease of growth rate to perpetuity or
- a 1.8 p.p. increase of post-tax discount rate

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

### 8.2. Other property, plant and equipment and intangible assets

During the 12 months ended 31 December 2018 and 2017, the (impairment)/reversal of impairment loss on property, plant and equipment and intangible assets included in the consolidated income statement amounted to PLN 3 million and PLN (6) million, respectively, primarily as a result of a review of certain of the Group's properties.

## 9. Goodwill

| *(in PLN millions)* | *At 31 December 2018* | | | *At 31 December 2017* | | |
|---|---|---|---|---|---|---|
| *CGU* | *Cost* | *Accumulated impairment* | *Net* | *Cost* | *Accumulated impairment* | *Net* |
| Telecom operator | 3,940 | (1,793) | 2,147 | 3,940 | (1,793) | 2,147 |
| **Total goodwill** | **3,940** | **(1,793)** | **2,147** | **3,940** | **(1,793)** | **2,147** |

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. The remaining balance of goodwill of PLN 31 million arose on acquisition of certain subsidiaries.

## 10. Other intangible assets

| *(in PLN millions)* | *At 31 December 2018* | | | |
|---|---|---|---|---|
| | *Cost* | *Accumulated amortisation* | *Accumulated impairment* | *Net* |
| Telecommunications licences | 5,760 | (2,391) | - | 3,369 |
| Software | 6,089 | (4,671) | - | 1,418 |
| Other intangibles | 242 | (147) | (11) | 84 |
| **Total other intangible assets** | **12,091** | **(7,209)** | **(11)** | **4,871** |

| *(in PLN millions)* | *At 31 December 2017* | | | |
|---|---|---|---|---|
| | *Cost* | *Accumulated amortisation* | *Accumulated impairment* | *Net* |
| Telecommunications licences | 5,785 | (2,085) | - | 3,700 |
| Software | 5,736 | (4,270) | - | 1,466 |
| Other intangibles | 250 | (148) | (12) | 90 |
| **Total other intangible assets** | **11,771** | **(6,503)** | **(12)** | **5,256** |

Details of telecommunications licences are as follows:

| *(in PLN millions)* | *Acquisition date* | *Years to expiration [2]* | *Net book value* | |
|---|---|---|---|---|
| | | | *At 31 December 2018* | *At 31 December 2017* |
| 800 MHz | 2016 | 12.1 | 2,471 | 2,676 |
| 900 MHz | 2014 | 10.5 | 252 | 276 |
| 900 MHz [1] | 2013 | - | - | 7 |
| 900 MHz [1] | 2018 | 2.0 | 24 | - |
| 1800 MHz [1] | 2013 | 9.0 | 143 | 159 |
| 1800 MHz | 1997 | 8.6 | - | - |
| 2100 MHz | 2000 | 4.0 | 384 | 479 |
| 2600 MHz | 2016 | 12.1 | 95 | 103 |
| **Total telecommunications licences** | | | **3,369** | **3,700** |

[1] Licences held under agreements with T-Mobile Polska S.A.
[2] Remaining useful life in years as at 31 December 2018.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2018 were as follows:

| *(in PLN millions)* | *Telecommunications licences* | *Software* | *Other intangibles* | *Total other intangible assets* |
|---|---|---|---|---|
| **Opening balance net of accumulated amortisation and impairment** | **3,700** | **1,466** | **90** | **5,256** |
| Acquisitions of intangible assets | 32 | 441 | 15 | 488 |
| Amortisation | (363) | (497) | (14) | (874) |
| Impairment, net | - | - | 1 | 1 |
| Reclassifications and other, net | - | 8 | (8) | - |
| **Closing balance** | **3,369** | **1,418** | **84** | **4,871** |

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2017 were as follows:

| *(in PLN millions)* | *Telecommunications licences* | *Software* | *Other intangibles* | *Total other intangible assets* |
|---|---|---|---|---|
| **Opening balance net of accumulated amortisation and impairment** | **4,060** | **1,599** | **63** | **5,722** |
| Acquisitions of intangible assets | - | 412 | 16 | 428 |
| Amortisation | (360) | (546) | (15) | (921) |
| Reclassifications and other, net | - | 1 | 26 | 27 |
| **Closing balance** | **3,700** | **1,466** | **90** | **5,256** |

## 11. Property, plant and equipment

| *(in PLN millions)* | *At 31 December 2018* | | | |
|---|---|---|---|---|
| | *Cost* | *Accumulated depreciation* | *Accumulated impairment* | *Net* |
| Land and buildings | 2,865 | (1,884) | (27) | 954 |
| Network | 38,972 | (30,050) | - | 8,922 |
| Terminals | 2,066 | (1,527) | - | 539 |
| Other IT equipment | 1,332 | (1,082) | - | 250 |
| Other | 277 | (202) | (2) | 73 |
| **Total property, plant and equipment** | **45,512** | **(34,745)** | **(29)** | **10,738** |

| *(in PLN millions)* | At 31 December 2017 | | | |
|---|---|---|---|---|
| | *Cost* | *Accumulated depreciation* | *Accumulated impairment* | *Net* |
| Land and buildings | 2,991 | (1,887) | (30) | 1,074 |
| Network | 38,218 | (29,458) | - | 8,760 |
| Terminals | 2,097 | (1,622) | - | 475 |
| Other IT equipment | 1,439 | (1,162) | - | 277 |
| Other | 278 | (196) | (2) | 80 |
| **Total property, plant and equipment** | **45,023** | **(34,325)** | **(32)** | **10,666** |

As at 31 December 2018 and 2017, 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 1,276 million and PLN 1,045 million, respectively.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2018 were as follows:

| *(in PLN millions)* | *Land and buildings* | *Network* | *Terminals* | *Other IT equipment* | *Other* | *Total property, plant and equipment* |
|---|---|---|---|---|---|---|
| **Opening balance net of accumulated amortisation and impairment** | **1,074** | **8,760** | **475** | **277** | **80** | **10,666** |
| Acquisitions of property, plant and equipment | 32 | 1,418 | 251 | 66 | 27 | 1,794 |
| Disposals and liquidations | (54) | (2) | - | - | (1) | (57) |
| Depreciation | (100) | (1,260) | (188) | (94) | (28) | (1,670) |
| Impairment, net | 2 | - | - | - | - | 2 |
| Dismantling costs, reclassifications and other, net | - | 6 | 1 | 1 | (5) | 3 |
| **Closing balance** | **954** | **8,922** | **539** | **250** | **73** | **10,738** |

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2017 were as follows:

| *(in PLN millions)* | *Land and buildings* | *Network* | *Terminals* | *Other IT equipment* | *Other* | *Total property, plant and equipment* |
|---|---|---|---|---|---|---|
| **Opening balance net of accumulated amortisation and impairment** | **1,196** | **8,616** | **432** | **337** | **97** | **10,678** |
| Acquisitions of property, plant and equipment | 24 | 1,190 | 222 | 51 | 18 | 1,505 |
| Disposals and liquidations | (31) | (2) | - | (1) | - | (34) |
| Depreciation | (111) | (1,227) | (180) | (104) | (29) | (1,651) |
| Impairment, net | (6) | - | - | - | - | (6) |
| Dismantling costs, reclassifications and other, net | 2 | 183 | 1 | (6) | (6) | 174 |
| **Closing balance** | **1,074** | **8,760** | **475** | **277** | **80** | **10,666** |

The carrying value of equipment held under finance leases as at 31 December 2018 and 2017 amounted to PLN 175 million and PLN 86 million, respectively. During the 12 months ended 31 December 2018 and 2017, acquisitions of equipment financed through finance leases amounted to PLN 136 million and PLN 46 million, respectively. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

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

### 12.1. Trade receivables

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Non-current trade receivables | 552 | 532 |
| Current trade receivables | 2,371 | 2,266 |
| **Total trade receivables** | **2,923** | **2,798** |

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.

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

On 1 January 2018 the Group implemented IFRS 9 and changed the credit risk recognition model from the incurred losses to the expected losses approach, which resulted in impairment of non-matured trade receivables. The difference between the previous carrying amount of trade receivables measured according to IAS 39 and the new carrying amount under IFRS 9 as at 1 January 2018 amounted to PLN 14 million (see Note 2.2).

Movement in the impairment of trade receivables during the 12 months ended 31 December 2018 and 2017 is presented below:

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| **Beginning of period** | **181** | **159** |
| Impact of adoption of IFRS 9 (see Note 2.2) | 14 | - |
| Impairment losses, net | 165 | 80 |
| Utilisation of impairment for receivables sold or written-off | (75) | (58) |
| **End of period** | **285** | **181** |

Information about the credit risk exposure on the Group's trade receivables as at 31 December 2018 is as follows:

| *(in PLN millions)* | | *Days past due* | | | |
|---|---|---|---|---|---|
| | *Not past due* | *< 180 days* | *180-360 days* | *>360 days* | *Total* |
| Expected credit loss rate | 4.4% | 13.3% | 62.5% | 84.9% | |
| Total trade receivables, gross | 2,708 | 346 | 48 | 106 | 3,208 |
| Accumulated impairment loss | (119) | (46) | (30) | (90) | (285) |
| **Total trade receivables, net** | **2,589** | **300** | **18** | **16** | **2,923** |

The analysis of the age of trade receivables as at 31 December 2017 was as follows:

| *(in PLN millions)* | | *Days past due* | | | |
|---|---|---|---|---|---|
| | *Not past due* | *< 180 days* | *180-360 days* | *>360 days* | *Total* |
| Total trade receivables, gross | 2,519 | 329 | 36 | 95 | 2,979 |
| Accumulated impairment loss | (58) | (26) | (19) | (78) | (181) |
| **Total trade receivables, net** | **2,461** | **303** | **17** | **17** | **2,798** |

### 12.2. Contract assets

Contract assets were recognised by the Group on 1 January 2018 following the modified retrospective approach to adoption of IFRS 15 (see Note 2.1). Contract assets represent mainly consideration allocated to subsidised mobile handsets sold in bundled offers. See Note 31.8 for more information on recognition of separable components of bundled offers.

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Non-current contract assets | 27 | - |
| Current contract assets | 138 | - |
| **Total contract assets** | **165** | **-** |

The Group 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 Group's maximum exposure to credit risk at the reporting date is represented by the carrying amounts of contract assets recognised in the consolidated statement of financial position.

Movements in the contract assets balance for the 12 months ended 31 December 2018 were as follows:

| *(in PLN millions)* | *12 months ended 31 December 2018* |
|---|---|
| **Beginning of period** | **-** |
| Impact of adoption of IFRS 15 (see Note 2.1) | 325 |
| Additions | 144 |
| Invoiced amounts transferred to trade receivables | (310) |
| Impairment, net | 6 |
| **End of period** | **165** |

Decrease of the contract assets balance during the 12 months ended 31 December 2018 results from lower subsidies granted for mobile handsets sold in bundled offers in comparison to the previous years.

Expected credit loss rate for contract assets as at 31 December 2018 amounted to 2.8%.

### 12.3. Contract costs

Contract costs were recognised as assets by the Group as at 1 January 2018 following the modified retrospective approach to adoption of IFRS 15 (see Note 2.1). Contract costs represent incremental acquisition and retention costs (e.g. commissions paid to retailers for acquisition or retention of contracts) that are expensed over the enforceable period of contracts (see Note 31.9).

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Non-current incremental customer acquisition and retention costs | 56 | - |
| Current incremental customer acquisition and retention costs | 297 | - |
| **Total contract costs** | **353** | **-** |

Movements in the contract costs balance for the 12 months ended 31 December 2018 were as follows:

| *(in PLN millions)* | *12 months ended 31 December 2018* |
|---|---|
| **Beginning of period** | **-** |
| Impact of adoption of IFRS 15 (see Note 2.1) | 404 |
| Contract costs recognised as assets | 473 |
| Contract costs expensed | (518) |
| Impairment, net | (6) |
| **End of period** | **353** |

### 12.4. Contract liabilities

Contract liabilities are presented since 1 January 2018 following the modified retrospective approach to adoption of IFRS 15 (see Note 2.1). Contract liabilities represent the Group's obligations to provide services or equipment to a customer for which consideration has been received or is due. They include balances previously presented as deferred income (see Note 14.3).

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Upfront fee for wholesale access to fibre network | 275 | - |
| Subscription (including unused post-paid balances) | 181 | - |
| Unused pre-paid balances | 175 | - |
| Connection fees | 48 | - |
| Other | 112 | - |
| **Total contract liabilities** | **791** | **-** |
| Current | 460 | - |
| Non-current | 331 | - |

Approximately PLN 480 million of the contract liabilities balance as at 1 January 2018 was recognised as revenue in the 12 months ended 31 December 2018.

On 23 July 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 ("BSA"). Orange Polska will provide wholesale access to its network in order to provide BSA service on the Company's own fiber infrastructure for T-Mobile's clients in multi-family houses in deregulated areas. The fees under the contract comprise PLN 275 million of upfront fee and a monthly fee for each customer. The consolidated statement of cash flows from operating activities for the 12 months ended 31 December 2018 include a receipt of upfront fee amounting to PLN 275 million and a refund of costs related to integration of IT systems which is presented as contract liabilities in the consolidated statement of financial position.

### 12.5. Performance obligations

As at 31 December 2018, the transaction price allocated to unsatisfied performance obligations resulting from contracts with customers amounted to PLN 3,857 million. The following table presents the time bands in which the Group 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 the Note 31.8.

| *(in PLN millions)* | *At 31 December 2018* |
|---|---|
| Within one year | 2,398 |
| Between one and two years | 654 |
| Between two and three years | 221 |
| Between three and four years | 120 |
| Between four and five years | 100 |
| More than five years | 364 |
| **Total unsatisfied performance obligations** | **3,857** |

## 13. Provisions

Movements of provisions for the 12 months ended 31 December 2018 were as follows:

| *(in PLN millions)* | *Provisions for claims and litigation, risks and other charges* | *Provisions for employment termination expense* | *Dismantling provisions* | *Total provisions* |
|---|---|---|---|---|
| **At 1 January 2018** | **757** | **201** | **449** | **1,407** |
| Increases | 26 | 2 | 13 | 41 |
| Reversals (utilisations) | (670) | (102) | (9) | (781) |
| Reversals (releases) | (6) | (7) | (12) | (25) |
| Foreign exchange effect | 12 | - | - | 12 |
| Discounting effect | 13 | 3 | 15 | 31 |
| **At 31 December 2018** | **132** | **97** | **456** | **685** |
| Current | 112 | 97 | 8 | 217 |
| Non-current | 20 | - | 448 | 468 |

Movements of provisions for the 12 months ended 31 December 2017 were as follows:

| *(in PLN millions)* | *Provisions for claims and litigation, risks and other charges* | *Provisions for employment termination expense* | *Dismantling provisions* | *Total provisions* |
|---|---|---|---|---|
| **At 1 January 2017** | **793** | **62** | **275** | **1,130** |
| Increases | 38 | 209 | 183 | 430 |
| Reversals (utilisations) | (10) | (70) | (8) | (88) |
| Reversals (releases) | (42) | (1) | (10) | (53) |
| Foreign exchange effect | (32) | - | - | (32) |
| Discounting effect | 10 | 1 | 9 | 20 |
| **At 31 December 2017** | **757** | **201** | **449** | **1,407** |
| Current | 736 | 110 | 8 | 854 |
| Non-current | 21 | 91 | 441 | 553 |

Provisions for claims and litigation, risks and other charges

These provisions relate mainly to claims and litigation described in Note 28. 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. The discount rate used to calculate the present value of provision for EC fine (see Note 28.b) amounted to 2.75%.

Provisions for employment termination expense

Provisions for employment termination expense as at 31 December 2018 and 2017 consisted of the estimated amount of termination benefits for Group employees scheduled to terminate employment under the 2018 - 2019 Social Agreement.

On 5 December 2017, OPL S.A. concluded with Trade Unions the Social Agreement under which up to 2,680 employees are entitled to take advantage of the voluntary departure package in years 2018 - 2019. 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 2019. Other commitments made by OPL S.A. in the Social Agreement are described in Note 15.

The discount rate used to calculate the present value of provisions for employment termination expense amounted to 1.60% as at 31 December 2018 and 1.77% as at 31 December 2017.

Dismantling provisions

The dismantling provisions relate to dismantling or removal of items of property, plant and equipment (mainly telecommunications poles and items of mobile access network) and restoring the site on which they are located.

Based on environmental regulations in Poland, items of property, plant and equipment which may contain hazardous materials should be dismantled and utilised by the end of their useful lives by entities licensed by the State for this purpose.

The amount of dismantling provisions is based on the estimated number of items that should be utilised/sites to be restored, time to their liquidation/restoration, current utilisation/restoration cost and inflation. The discount rate used to calculate the present value of provisions for dismantling amounted to 3.28% as at 31 December 2018 and 3.54% as at 31 December 2017.

## 14. Trade payables, other liabilities and deferred income

### 14.1. Trade payables

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Trade payables | 1,522 | 1,547 |
| Fixed assets payables | 796 | 730 |
| Telecommunications licence payables | 624 | 694 |
| **Total trade payables** | **2,942** | **2,971** |
| Current | 2,469 | 2,421 |
| Non-current [1] | 473 | 550 |

[1] Includes telecommunications licence payables only.

As at 31 December 2018 and 2017, trade payables subject to reverse factoring amounted to PLN 232 million and PLN 224 million, respectively. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Group indicates they have retained their trade nature.

### 14.2. Other liabilities

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Investment grants received | 204 | 301 |
| VAT payables | 90 | 90 |
| Other taxes payables | 22 | 22 |
| Other | 86 | 82 |
| **Total other liabilities** | **402** | **495** |
| Current | 376 | 479 |
| Non-current | 26 | 16 |

<u>Operational Programme “Digital Poland”</u>

The Group 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 Group 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 2018 and 2017, Orange Polska received PLN 5 million and PLN 297 million of advances for investment grants under the Programme, respectively. Received advances are presented as cash and cash equivalents and other liabilities in the consolidated statement of financial position. In the 12 months ended 31 December 2018 and 2017, PLN 108 million and PLN 4 million was deducted from the cost of related assets as a result of the Programme, of which PLN 64 million and PLN 1 million, respectively, was paid to fixed assets suppliers. Investment grants are presented separately within investing activities in the consolidated statement of cash flows.

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 Group assesses that it is reasonably assured that grants will be received and they will not become repayable.

### 14.3. Deferred income

As a result of the modified retrospective approach to adoption of IFRS 15 (see Note 2.1), amounts presented as deferred income as at 31 December 2017 are now included in the contract liabilities (see Note 12.4).

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Subscription (including unused post-paid balances) | - | 191 |
| Unused pre-paid balances | - | 203 |
| Connection fees | - | 62 |
| Other | - | 105 |
| **Total deferred income** | **-** | **561** |
| Current | - | 478 |
| Non-current | - | 83 |

## 15. Employee benefits

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Jubilee awards | 95 | 94 |
| Retirement bonuses | 49 | 44 |
| Salaries and other employee-related payables | 193 | 222 |
| **Total employee benefits** | **337** | **360** |
| Current | 201 | 221 |
| Non-current | 136 | 139 |

On 5 December 2017, OPL S.A. concluded with Trade Unions the Social Agreement for years 2018 - 2019 (see Note 13) in which the Company, as a part of the negotiated employment optimisation programme, committed to make additional contributions in the fixed amount totalling PLN 21 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 2017 and labour expense in the 12 months ended 31 December 2017. As at 31 December 2018, the liability amounted to PLN 18 million.

### 15.1. Jubilee awards and retirement bonuses

Certain employees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 31.20). 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 2018 and 2017 are detailed below:

| *(in PLN millions)* | *12 months ended 31 December 2018* | | |
|---|---|---|---|
| | *Jubilee awards* | *Retirement bonuses* | *Total* |
| **Present/carrying value of obligation at the beginning of the period** | **94** | **44** | **138** |
| Current service cost [1] | 8 | 2 | 10 |
| Interest cost [2] | 3 | 3 | 6 |
| Benefits paid | (14) | (4) | (18) |
| Actuarial losses for the period | 4 [1] | 4 [3] | 8 |
| **Present/carrying value of obligation at the end of the period** | **95** | **49** | **144** |
| Weighted average duration (in years) | 7 | 13 | 9 |

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

| *(in PLN millions)* | *12 months ended 31 December 2017* | | |
|---|---|---|---|
| | *Jubilee awards* | *Retirement bonuses* | *Total* |
| **Present/carrying value of obligation at the beginning of the period** | **104** | **52** | **156** |
| Current service cost [1] | 6 | 3 | 9 |
| Past service cost [1] [2] | (13) | (12) | (25) |
| Interest cost [3] | 3 | 2 | 5 |
| Benefits paid | (16) | (4) | (20) |
| Actuarial losses for the period | 10 [1] | 3 [4] | 13 |
| **Present/carrying value of obligation at the end of the period** | **94** | **44** | **138** |
| Weighted average duration (in years) | 6 | 13 | 8 |

[1] Recognised under labour expense in the consolidated income statement.
[2] Curtailment resulting from the Social Agreement concluded on 5 December 2017 (see Note 13).
[3] Recognised under discounting expense in the consolidated income statement.
[4] Recognised under actuarial losses on post-employment benefits in the consolidated statement of comprehensive income.

The valuation of obligations as at 31 December 2018 and 2017 was performed using the following assumptions:

| | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Discount rate | 2.9% | 3.1% |
| Wage increase rate | 2.5% | 2.5% |

A change of the discount rate by 0.5 p.p. would increase by PLN 6 million or decrease by PLN 6 million the present/carrying value of obligations related to long-term employee benefits as at 31 December 2018.

### 15.2. 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 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:

a. Participation in the programme is voluntary.
b. The participants can 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.
c. In case of meeting certain criteria regarding the average price of Orange Polska shares and NPS (Net Promoter Score), the participants shall 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.
d. 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)* | | *Options for additional phantom shares* | |
|---|---|---|---|
| | *Phantom shares - basic pool* | *NPS condition* | *Share price condition* |
| **Outstanding at 1 January 2018** | **2,000,000** | **549,000** | **1,281,000** |
| Granted during the year | 15,000 | 4,500 | 10,500 |
| Forfeited during the year | (35,000) | (40,500) | (94,500) |
| **Outstanding at 31 December 2018** | **1,980,000** | **513,000** | **1,197,000** |
| **Average fair value per unit (in PLN) at 31 December 2018** | **2.01** | **2.01** | **0.36** |

| *(number)* | | *Options for additional phantom shares* | |
|---|---|---|---|
| | *Phantom shares - basic pool* | *NPS condition* | *Share price condition* |
| **Outstanding at 1 January 2017** | **-** | **-** | **-** |
| Granted during the year | 2,000,000 | 558,000 | 1,302,000 |
| Forfeited during the year | - | (9,000) | (21,000) |
| **Outstanding at 31 December 2017** | **2,000,000** | **549,000** | **1,281,000** |
| **Average fair value per unit (in PLN) at 31 December 2017** | **1.33** | **1.33** | **0.79** |

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 2018 and 2017:

| *At 31 December 2018* | | *Options for additional phantom shares* | |
|---|---|---|---|
| | *Phantom shares - basic pool* | *NPS condition* | *Share price condition* |
| Exercise price (in PLN) | 1.00 | 1.00 | 1.00 |
| Barrier (in PLN) | 5.46 | 5.46 | 7.50 – 13.00 |
| Expected volatility | 30% | 30% | 30% |
| Risk-free interest rate | 1.81% | 1.81% | 1.81% |
| Dividend yield (1) | 0.93% | 0.93% | 0.93% |
| 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 |

(1) Dividend yield assumes dividend payment of PLN 0.10 per share in 2020, 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 2017* | | *Options for additional phantom shares* | |
|---|---|---|---|
| | *Phantom shares - basic pool* | *NPS condition* | *Share price condition* |
| Exercise price (in PLN) | 1.00 | 1.00 | 1.00 |
| Barrier (in PLN) | 5.46 | 5.46 | 7.50 – 13.00 |
| Expected volatility | 30% | 30% | 30% |
| Risk-free interest rate | 2.25% | 2.25% | 2.25% |
| Dividend yield (1) | 1.44% | 1.44% | 1.44% |
| Expiry date | 1st quarter 2021 | 4th quarter 2020 | 4th quarter 2020 |
| Model used | Black-Scholes | Black-Scholes | Black-Scholes |
| Vesting period | 2 years | 3 years | 3 years |

(1) Dividend yield assumes dividend payment of PLN 0.25 per share in 2020, which reflects mean expectation of market consensus and does not constitute any guidance or commitment from the Company regarding future dividend payments.

The fair value of services received recognised in labour expense in the 12 months ended 31 December 2018 and 2017 amounted to PLN 2.5 million and PLN 0.5 million, respectively. The carrying amount of liabilities recognised as employee benefits as at 31 December 2018 and 2017 amounted to PLN 3 million and PLN 0.5 million, respectively.

## 16. Finance income and expense

| *(in PLN millions)* | *12 months ended 31 December 2018* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Financial assets at amortised cost* | | | *Derivatives* | | | |
| | *Trade receivables* | *Other* | *Financial liabilities at amortised cost* | *Hedging* | *Held for trading* [(1)] | *Non-financial items* [(2)] | *Total* |
| Interest income | 36 | 3 | - | - | - | - | 39 |
| Interest expense and other financial charges, including: | - | - | (231) | (16) | (14) | - | (261) |
| – *interest expense* | - | - | *(144)* [(3)] | *(116)* | *(15)* | - | *(275)* |
| – *foreign exchange gains/(losses)* | - | - | *(87)* | *86* | *1* | - | - |
| – *ineffectiveness on derivatives hedging interest rate risk* [(4)] | - | - | - | *14* | - | - | *14* |
| Discounting expense | - | - | (50) | - | 2 | (35) | (83) |
| – *including foreign exchange gains/(losses)* | - | - | *(9)* | - | *2* | *(2)* | *(9)* |
| **Total finance costs, net** | **36** | **3** | **(281)** | **(16)** | **(12)** | **(35)** | **(305)** |
| Interest income | 12 [(5)] | - | - | - | - | - | 12 |
| Impairment losses | (165) | 3 | - | - | - | - | (162) |
| Foreign exchange gains/(losses) | 4 | - | (10) | - | 23 | (12) | 5 |
| **Items recognised under operating income** | **(149)** | **3** | **(10)** | **-** | **23** | **(12)** | **(145)** |

[(1)] Derivatives economically hedging commercial or financial transactions.
[(2)] Includes mainly provisions and employee benefits.
[(3)] Includes mainly interest expense on loans from related party.
[(4)] Hedging ineffectiveness results mainly from designation of non-zero fair value derivatives in hedge relationships.
[(5)] Late payment interest on trade receivables.

| *(in PLN millions)* | *12 months ended 31 December 2017* | | | | | | |
|---|---|---|---|---|---|---|---|
| | *Financial assets at amortised cost* | | | *Derivatives* | | | |
| | *Trade receivables* | *Other* | *Financial liabilities at amortised cost* | *Hedging* | *Held for trading* [(1)] | *Non-financial items* [(2)] | *Total* |
| Interest income | 28 | 4 | - | - | - | - | 32 |
| Interest expense and other financial charges, including: | - | (1) | 35 | (284) | (29) | - | (279) |
| – *interest expense* | - | - | *(138)* [(3)] | *(120)* | *(24)* | - | *(282)* |
| – *foreign exchange gains/(losses)* | - | *(1)* | *173* | *(169)* | *(5)* | - | *(2)* |
| – *ineffectiveness on derivatives hedging interest rate risk* [(4)] | - | - | - | *5* | - | - | *5* |
| Discounting expense | - | - | (27) | - | (5) | (25) | (57) |
| – *including foreign exchange gains/(losses)* | - | - | *20* | - | *(5)* | *5* | *20* |
| **Total finance costs, net** | **28** | **3** | **8** | **(284)** | **(34)** | **(25)** | **(304)** |
| Interest income/(expense) | 12 [(5)] | - | (1) | - | - | - | 11 |
| Impairment losses | (80) | (6) | - | - | - | - | (86) |
| Foreign exchange gains/(losses) | (6) | - | 23 | - | (57) | 32 | (8) |
| **Items recognised under operating income** | **(74)** | **(6)** | **22** | **-** | **(57)** | **32** | **(83)** |

[(1)] Derivatives economically hedging commercial or financial transactions.
[(2)] Includes mainly provisions and employee benefits.
[(3)] Includes mainly interest expense on loans from related party.
[(4)] Hedging ineffectiveness results mainly from designation of non-zero fair value derivatives in hedge relationships.
[(5)] Late payment interest on trade receivables.

## 17. Net financial debt

Net financial debt is a measure of indebtedness used by the Management Board. Calculation of this aggregate is not defined by IFRS. According to methodology adopted by the Group, net financial debt corresponds to the total gross financial debt (converted at the period-end exchange rate), after net derivative instruments (liabilities less assets), less cash and cash equivalents and including the impact of the cash flow hedge reserve.

The table below provides an analysis of net financial debt:

| *(in PLN millions)* | *Note* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|---|
| Loans from related party | 18.1 | 7,332 | 6,969 |
| Other financial liabilities at amortised cost | 18.2 | 199 | 113 |
| Derivatives – net (liabilities less assets) | 21 | (50) | 63 |
| **Gross financial debt after derivatives** | | **7,481** | **7,145** |
| Cash and cash equivalents | 20 | (611) | (646) |
| Cash flow hedge reserve | | (20) | (2) |
| **Net financial debt** | | **6,850** | **6,497** |

## 18. Financial liabilities at amortised cost excluding trade payables

### 18.1. Loans from related party

| *(in millions of currency)* | | *Amount outstanding at [1]* | | | |
|---|---|---|---|---|---|
| | | *31 December 2018* | | *31 December 2017* | |
| *Creditor* | *Repayment date* | *Currency* | *PLN* | *Currency* | *PLN* |
| **Floating rate** | | | | | |
| Atlas Services Belgium S.A. (EUR) | 20 May 2019 | 480 | 2,065 | 480 | 2,000 |
| Atlas Services Belgium S.A. (EUR) | 20 May 2021 | 190 | 817 | 190 | 792 |
| Atlas Services Belgium S.A. (PLN) [2] | 30 March 2018 | - | - | 1,480 | 1,480 |
| Atlas Services Belgium S.A. (PLN) | 20 June 2021 | 2,698 | 2,698 | 2,697 | 2,697 |
| Atlas Services Belgium S.A. (PLN) [2] | 25 March 2022 | 997 | 997 | - | - |
| **Fixed rate** | | | | | |
| Atlas Services Belgium S.A. (PLN) | 27 March 2023 | 755 | 755 | - | - |
| **Total loans from related party** | | | **7,332** | | **6,969** |
| Current | | | 2,074 | | 1,484 |
| Non-current | | | 5,258 | | 5,485 |

[1] Includes accrued interest and arrangement fees.
[2] Revolving credit lines.

On 14 February 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million with repayment date in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million with repayment date in March 2022. The purpose of these new financing agreements was non-cash refinancing of the Revolving Credit Facility (granted by Atlas Services Belgium S.A.), which expired on 30 March 2018.

The weighted average effective interest rate on loans from related party, before and after swaps, amounted respectively to 1.94% and 3.46% as at 31 December 2018 (1.87% and 3.40% as at 31 December 2017).

### 18.2. Other financial liabilities at amortised cost

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Finance lease liabilities | 178 | 83 |
| Bank borrowings and other | 21 | 30 |
| **Total other financial liabilities at amortised cost** | **199** | **113** |
| Current | 76 | 45 |
| Non-current | 123 | 68 |

## 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 consolidated statement of cash flows as cash flows from financing activities.

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

| *(in PLN millions)* | *Loans from related party* | *Other financial liabilities at amortised cost* | *Derivatives hedging liabilities from financing activities* [(1)] | *Total liabilities from financing activities* |
|---|---|---|---|---|
| *Note* | *18.1* | *18.2* | *21* | |
| **Amount outstanding as at 1 January 2018** | **6,969** | **113** | **26** | **7,108** |
| Net cash flows provided by: | 139 | (55) | (108) | (24) |
| – *financing activities* | *270* | *(51)* | - | *219* |
| – *operating activities* [(2)] | *(131)* | *(4)* | *(108)* | *(243)* |
| Non-cash changes: | 224 | 141 | 32 | 397 |
| – *foreign exchange (gains)/losses* | *86* | *1* | *(87)* | - |
| – *fair value change, excluding foreign exchange gains* | - | - | *119* | *119* |
| – *other changes* | *138* [(3)] | *140* | - | *278* |
| **Amount outstanding as at 31 December 2018** | **7,332** | **199** | **(50)** | **7,481** |

(1) Includes derivatives economically hedging liabilities from financing activities.
(2) Includes interest paid.
(3) Includes accrued interest and arrangement fees.

| *(in PLN millions)* | *Loans from related party* | *Other financial liabilities at amortised cost* | *Derivatives hedging liabilities from financing activities* [(1)] | *Total liabilities from financing activities* |
|---|---|---|---|---|
| *Note* | *18.1* | *18.2* | *21* | |
| **Amount outstanding as at 1 January 2017** | **7,092** | **102** | **(131)** | **7,063** |
| Net cash flows provided by: | (88) | (34) | (105) | (227) |
| – *financing activities* | *40* | *(32)* | *(1)* | *7* |
| – *operating activities* [(2)] | *(128)* | *(2)* | *(104)* | *(234)* |
| Non-cash changes: | (35) | 45 | 262 | 272 |
| – *foreign exchange (gains)/losses* | *(170)* | *(4)* | *172* | *(2)* |
| – *fair value change, excluding foreign exchange losses* | - | - | *90* | *90* |
| – *other changes* | *135* [(3)] | *49* | - | *184* |
| **Amount outstanding as at 31 December 2017** | **6,969** | **113** | **26** | **7,108** |

(1) Includes derivatives economically hedging liabilities from financing activities.
(2) Includes interest paid.
(3) Includes accrued interest and arrangement fees.

## 20. Cash and cash equivalents

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Current bank accounts, overnight deposits and cash on hand | 159 | 175 |
| Bank accounts dedicated for investment grants (see Note 14.2) | 245 | 304 |
| Deposits with Orange S.A. | 203 | 166 |
| Bank deposits up to 3 months | 4 | 1 |
| **Total cash and cash equivalents** | **611** | **646** |

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

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

## 21. Derivatives

As at 31 December 2018 and 2017, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives), mainly interest rate swaps, currency swaps, non-deliverable forwards and stock options. To price these instruments the Group 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 Group are presented below:

| *(in PLN millions)* | | | | | *Fair value* | |
|---|---|---|---|---|---|---|
| *Type of instrument [1]* | *Hedged item* | *Nominal amount (in millions)* | *Maturity* | *Weighted average price or rate* | *Financial asset* | *Financial liability* |
| | | *At 31 December 2018* | | | | |
| **Derivative instruments - cash flow hedge** | | | | | | |
| *Currency and interest rate risk* | | | | | | |
| CCIRS | Loans from related party | 667 EUR | 2019-2021 | 4.15 | 97 | - |
| | | | | EURIB 6M + 0.91%-> WIBOR 6M + 0.93% | | |
| *Interest rate risk* | | | | | | |
| IRS | Loans from related party | 5,950 PLN | 2019-2022 | WIBOR 1/3/6M -> 2.6% | - | (48) |
| *Currency risk* | | | | | | |
| NDF | Purchase of inventories | 95 EUR | 2019 | 4.33 | - | (1) |
| NDF | Purchase of inventories | 2 USD | 2019 | 3.65 | - | - |
| *Share price risk* | | | | | | |
| Stock option | Share-based payment plan (see Note 15.2) | 2 shares | 2021 | 5.22 | 1 | - |
| Total cash flow hedges | | | | | 98 | (49) |
| **Derivative instruments - held for trading [2]** | | | | | | |
| *Currency and interest rate risk* | | | | | | |
| CCIRS | Loans from related party | 3 EUR | 2021 | 4.05 | 1 | - |
| | | | | EURIB 6M + 0.28%-> WIBOR 6M + 0.53% | | |
| *Currency risk* | | | | | | |
| NDF | 2100 MHz licence payable | 28 EUR | 2019 | 4.36 | - | (1) |
| NDF | Commercial transactions | 20 EUR | 2019 | 4.32 | - | - |
| NDF | Bank borrowing | 4 USD | 2019 | 3.68 | - | - |
| NDF | Commercial transactions | 2 USD | 2019 | 3.65 | - | - |
| *Share price risk* | | | | | | |
| Stock option | Share-based payment plan (see Note 15.2) | 2 shares | 2020-2021 | 5.13 | 1 | - |
| Total derivatives held for trading | | | | | 2 | (1) |
| **Total derivative instruments** | | | | | **100** | **(50)** |
| Current | | | | | 52 | (19) |
| Non–current | | | | | 48 | (31) |

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

| *(in PLN millions)* | | | | | *Fair value* | |
|---|---|---|---|---|---|---|
| *Type of instrument* [1] | *Hedged item* | *Nominal amount (in millions)* | *Maturity* | *Weighted average price or rate* | *Financial asset* | *Financial liability* |
| | | *At 31 December 2017* | | | | |
| **Derivative instruments - cash flow hedge** | | | | | | |
| *Currency and interest rate risk* | | | | | | |
| CCIRS | Loans from related party | 667 EUR | 2019-2021 | 4.15<br>EURIB 6M + 0.91%-> WIBOR 6M + 0.93% | 20 | (7) |
| *Interest rate risk* | | | | | | |
| IRS | Loans from related party | 5,450 PLN | 2019-2021 | WIBOR 3/6M ->2.64% | 11 | (51) |
| IRS | Forecast loan from related party | 500 PLN | 2022 | WIBOR 1M -> 2.19% | 2 | - |
| *Currency risk* | | | | | | |
| NDF | Purchase of inventories | 105 EUR | 2018 | 4.29 | - | (10) |
| NDF | Purchase of inventories | 6 USD | 2018 | 3.60 | - | (1) |
| *Share price risk* | | | | | | |
| Stock option | Share-based payment plan (see Note 15.2) | 2 shares | 2021 | 5.22 | 2 | - |
| Total cash flow hedges | | | | | 35 | (69) |
| **Derivative instruments - held for trading** [2] | | | | | | |
| *Currency and interest rate risk* | | | | | | |
| CCIRS | Loans from related party | 3 EUR | 2021 | 4.05<br>EURIB 6M + 0.28%-> WIBOR 6M + 0.53% | - | - |
| *Currency risk* | | | | | | |
| NDF | 2100 MHz licence payable | 50 EUR | 2018 | 4.34 | - | (7) |
| NDF | Commercial transactions | 30 EUR | 2018 | 4.30 | - | (3) |
| NDF | EC proceedings provision | 125 EUR | 2018 | 4.33 | - | (19) |
| NDF | Bank borrowing | 6 USD | 2018 | 3.68 | - | (1) |
| NDF | Commercial transactions | 13 USD | 2018 | 3.55 | - | (1) |
| *Share price risk* | | | | | | |
| Stock option | Share-based payment plan (see Note 15.2) | 2 shares | 2020-2021 | 5.13 | 2 | - |
| Total derivatives held for trading | | | | | 2 | (31) |
| **Total derivative instruments** | | | | | **37** | **(100)** |
| Current | | | | | - | (42) |
| Non–current | | | | | 37 | (58) |

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

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

The change in cash flow hedge reserve is presented below:

| *(in PLN millions)* | *12 months ended 31 December 2018* | | | *12 months ended 31 December 2017* | | |
|---|---|---|---|---|---|---|
| | *Before tax* | *Tax* | *After tax* | *Before tax* | *Tax* | *After tax* |
| **Total cash flow hedge reserve – beginning of period** | **(2)** | **-** | **(2)** | **9** | **(2)** | **7** |
| - *interest rate risk* | *5* | *(1)* | *4* | *(6)* | *1* | *(5)* |
| - *currency risk* | *(7)* | *1* | *(6)* | *15* | *(3)* | *12* |
| Effective part of gains/(losses) on hedging instrument: [(1)] | (34) | 7 | (27) | (301) | 57 | (244) |
| - *interest rate risk* | *(132)* | *25* | *(107)* | *(93)* | *18* | *(75)* |
| - *currency risk* | *99* | *(18)* | *81* | *(208)* | *39* | *(169)* |
| - *share price risk* | *(1)* | *-* | *(1)* | *-* | *-* | *-* |
| Reclassification to the income statement, adjusting: [(1)] | 21 | (4) | 17 | 273 | (52) | 221 |
| *- interest expense presented in finance costs, net* | *107* | *(20)* | *87* | *104* | *(20)* | *84* |
| *- foreign exchange (gains)/losses presented in finance costs, net* | *(86)* | *16* | *(70)* | *169* | *(32)* | *137* |
| Foreign exchange (gains)/losses transferred to inventories | (5) | 1 | (4) | 17 [(1)] | (3) | 14 |
| **Total cash flow hedge reserve – end of period** | **(20)** | **4** | **(16)** | **(2)** | **-** | **(2)** |
| - *interest rate risk* | *(20)* | *4* | *(16)* | *5* | *(1)* | *4* |
| - *currency risk* | *1* | *-* | *1* | *(7)* | *1* | *(6)* |
| - *share price risk* | *(1)* | *-* | *(1)* | *-* | *-* | *-* |

[(1)] Recognised under gains/losses on cash flow hedges in the consolidated statement of comprehensive income.

Gains/losses on cash flow hedges cumulated in cash flow hedge reserve as at 31 December 2018 are expected to mature and affect the consolidated income statement in years 2019 - 2022.

## 22. Fair value of financial instruments

### 22.1. Fair value measurements

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

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

The Group's financial assets and liabilities that are measured subsequent to their initial recognition at fair value comprise derivative instruments presented in Note 21. The Group classifies derivatives to Level 2 fair value measurements.

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

As at 31 December 2018 and 2017, the carrying amount of cash and cash equivalents, trade receivables, current trade payables and financial liabilities at amortised cost approximated their fair value due to relatively short term maturity of those instruments, cash nature or immaterial difference between the original effective interest rates and current market rates. Additionally, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximated their fair value.

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

| *(in PLN millions)* | | *At 31 December 2018* | | *At 31 December 2017* | |
|---|---|---|---|---|---|
| | *Note* | *Carrying amount* | *Estimated fair value Level 2* | *Carrying amount* | *Estimated fair value Level 2* |
| Telecommunications licence payables | 14.1 | 624 | 708 | 694 | 807 |

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.

## 23. Objectives and policies of financial risk management

### 23.1. Principles of financial risk management

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

The principles of the Group Financial Risk Management Policy have been approved by the Management Board. Financial risk management is conducted according to 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 Group concludes hedging transactions.

### 23.2. Hedge accounting

The Group 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 Group 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 Group applies hedge accounting principles as stated in IFRS 9 (see Note 31.16). 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 consolidated income statement. The terms of the hedging instruments match the terms of the hedged items. The Group 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 Group's policy that derivative financial instruments are not used for trading (speculative) purposes. However, certain derivatives held by the Group are not designated as hedging instruments as set out in IFRS 9 and hedge accounting principles are not applied to those instruments. The Group considers those derivatives as economic hedges because they, in substance, protect the Group against currency risk, interest rate risk and OPL S.A. share price risk.

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 21.

### 23.3. Currency risk

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

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

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

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 Group's major currency exposures. The rate compares the hedged value of a currency exposure to the total value of the exposure.

| | *Hedge rate* | |
|---|---|---|
| *Currency exposure* | *At 31 December 2018* | *At 31 December 2017* |
| Loans from related party and bank borrowings | 99.9% | 100.0% |
| 2100 MHz licence payable | 27.8% | 41.0% |
| EC proceedings provision (see Note 28.b) | n/a | 83.6% |

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

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

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

| *(in millions of currency)* | *Effective exposure after hedging* | | | | *Sensitivity to a change of the PLN against other currencies impacting consolidated income statement* | | | |
|---|---|---|---|---|---|---|---|---|
| | *At 31 December 2018* | | *At 31 December 2017* | | *At 31 December 2018* | | *At 31 December 2017* | |
| | | | | | *+10%* | *-10%* | *+10%* | *-10%* |
| *Currency exposure* | *Currency* | *PLN* | *Currency* | *PLN* | *PLN* | | *PLN* | |
| 2100 MHz licence payable (EUR) | 73 | 313 | 72 | 300 | 31 | (31) | 30 | (30) |
| EC proceedings provision (EUR) (see Note 28.b) | - | - | 25 | 102 | - | - | 10 | (10) |
| Bank borrowing (EUR) | 1 | 3 | - | - | - | - | - | - |
| Bank borrowing (USD) | - | 1 | - | - | - | - | - | - |
| **Total** | | **317** | | **402** | **31** | **(31)** | **40** | **(40)** |

The sensitivity analysis presented above is based on the following principles:
– unhedged portion of the discounted amount of liabilities is exposed to foreign exchange risk (effective exposure),
– derivatives designated as hedging instruments and those classified as economic hedges are treated as risk-mitigation transactions,
– cash and cash equivalents are excluded from the analysis.

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect other reserves. The sensitivity analysis prepared by the Group indicated that the potential gains/(losses) impacting cash flow hedge reserve resulting from a hypothetical 10% depreciation/appreciation of the PLN against other currencies would amount to PLN 42/(42) million and PLN 46/(46) million as at 31 December 2018 and 2017, respectively.

### 23.4. Interest rate risk

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

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

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

As at 31 December 2018 and 2017, the Group's proportion between fixed/floating rate debt (after hedging activities) was 93/7% and 78/22%, 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 Group uses the sensitivity analysis described below to measure interest rate risk.

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

| *(in PLN millions)* | *Sensitivity to 1 p.p. change of interest rates* | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *At 31 December 2018* | | | | *At 31 December 2017* | | | |
| | *WIBOR* | | *EURIBOR* | | *WIBOR* | | *EURIBOR* | |
| | *+1 p.p.* | *-1 p.p.* | *+1 p.p.* | *-1 p.p.* | *+1 p.p.* | *-1 p.p.* | *+1 p.p.* | *-1 p.p.* |
| Finance costs, net | (4) | 4 | (1) | 1 | (12) | 12 | (3) | 3 |
| Other reserves | 99 | (101) | (12) | 12 | 153 | (158) | (12) | 12 |

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 21),
- other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 21),
- as at 31 December 2018, the gross financial debt based on floating rate (after hedging) amounted to PLN 530 million (as at 31 December 2017, PLN 1,514 million).

### 23.5. Share price risk

The Group is exposed to share price risk arising from cash-settled share-based payment plan (see Note 15.2). The Group hedges its exposure entering into stock options, under which the Group 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 2018 and 2017, 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 item, various types of hedged and hedging instruments and a difference between counterparty credit risk and own credit risk.

The sensitivity analysis prepared by the Group 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 consolidated income statement and other reserves as at 31 December 2018 and 2017.

### 23.6. Liquidity risk

The liquidity risk is a risk of encountering difficulties in meeting obligations associated with financial liabilities. The Group's liquidity risk management involves forecasting future cash flows, analysing the level of liquid assets in relation to cash flows, monitoring 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 Group, as liquid asset surpluses generated by the Group entities are invested and managed by the central treasury. The Group's cash surplus is invested into short-term highly-liquid financial instruments – mainly bank deposits. Additionally, the Cash Management Treasury Agreement with Orange S.A. enables the Group to deposit its cash surpluses with Orange S.A.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. The above-mentioned Cash Management Treasury Agreement with Orange S.A. gives the Group access to back-up liquidity funding with headroom of up to PLN 1,750 million. No drawdown was made on this facility as at 31 December 2018. The Group 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 195 million, of which

PLN 1,000 million was used as at 31 December 2018. Therefore, as at 31 December 2018, the Group had unused credit facilities amounting to PLN 2,445 million (as at 31 December 2017, PLN 2,289 million).

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

The liquidity ratio (representing the relation between available financing sources, i.e. cash and 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 2018* | *At 31 December 2017* |
| Liquidity ratio (incl. derivatives) - next 12 months | 129% | 169% |
| Unused credit facilities (excluding short term) | 2,255 | 2,289 |
| Cash and cash equivalents | 611 | 646 |
| Debt repayments [(1)] | 2,201 | 1,587 |
| Derivatives repayments [(2)] | 20 | 154 |
| Liquidity ratio (incl. derivatives) - next 18 months | 124% | 76% |
| Unused credit facilities (excluding short term) | 2,255 | 2,289 |
| Cash and cash equivalents | 611 | 646 |
| Debt repayments [(1)] | 2,268 | 3,643 |
| Derivatives repayments [(2)] | 36 | 208 |
| Current liquidity ratio (incl. unused credit facilities) | 105% | 92% |
| Unused credit facilities (excluding short term) | 2,255 | 2,289 |
| Total current assets | 3,969 | 3,273 |
| Total current liabilities | 5,946 | 6,043 |

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

The maturity analysis for the contractual undiscounted cash flows resulting from the Group's financial liabilities as at 31 December 2018 and 2017 is presented below.

As at 31 December 2018 and 2017, 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 2018 and 2017, respectively.

| *(in PLN millions)* | *At 31 December 2018* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | *Undiscounted contractual cash flows [(1)]* | | | | | | | | |
| | | | | *Non-current* | | | | | | | |
| | *Note* | *Carrying amount* | *Within 1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *More than 5 years* | *Total non-current* | *Total* |
| Loans from related party | 18.1 | 7,332 | 2,194 | 128 | 3,613 | 1,032 | 762 | - | 5,535 | 7,729 |
| Other financial liabilities at amortised cost | 18.2 | 199 | 79 | 50 | 38 | 29 | 11 | - | 128 | 207 |
| – *including finance lease liabilities* | | *178* | *71* | *43* | *35* | *29* | *11* | - | *118* | *189* |
| Derivative assets | 21 | (100) | (18) | 17 | (40) | - | - | - | (23) | (41) |
| Derivative liabilities | 21 | 50 | 38 | 14 | 2 | - | - | - | 16 | 54 |
| **Gross financial debt after derivatives** | | **7,481** | **2,293** | **209** | **3,613** | **1,061** | **773** | **-** | **5,656** | **7,949** |
| Trade payables | 14.1 | 2,942 | 2,475 | 157 | 145 | 157 | 24 | 97 | 580 | 3,055 |
| **Total financial liabilities (including derivative assets)** | | **10,423** | **4,768** | **366** | **3,758** | **1,218** | **797** | **97** | **6,236** | **11,004** |

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

| *(in PLN millions)* | | At 31 December 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Undiscounted contractual cash flows [1] | | | | | | | |
| | | | | Non-current | | | | | | |
| | *Note* | *Carrying amount* | *Within 1 year* | *1-2 years* | *2-3 years* | *3-4 years* | *4-5 years* | *More than 5 years* | *Total non-current* | *Total* |
| Loans from related party | 18.1 | 6,969 | 1,578 | 2,097 | 96 | 3,547 | - | - | 5,740 | 7,318 |
| Other financial liabilities at amortised cost | 18.2 | 113 | 47 | 31 | 20 | 13 | 7 | - | 71 | 118 |
| – *including finance lease liabilities* | | *83* | *32* | *25* | *14* | *10* | *7* | - | *56* | *88* |
| Derivative assets | 21 | (37) | 26 | 18 | 11 | (28) | (1) | - | - | 26 |
| Derivative liabilities | 21 | 100 | 128 | 45 | (2) | (3) | - | - | 40 | 168 |
| **Gross financial debt after derivatives** | | **7,145** | **1,779** | **2,191** | **125** | **3,529** | **6** | **-** | **5,851** | **7,630** |
| Trade payables | 14.1 | 2,971 | 2,427 | 140 | 140 | 140 | 153 | 121 | 694 | 3,121 |
| **Total financial liabilities (including derivative assets)** | | **10,116** | **4,206** | **2,331** | **265** | **3,669** | **159** | **121** | **6,545** | **10,751** |

[1] Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2018 and 2017 was 2.2 years.

### 23.7. Credit risk

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

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

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

There is no significant concentration of credit risk within the Group.
Further information on credit risk is discussed in Notes 12.1, 12.2, 20, 21.

## 24. Income tax

### 24.1. Income tax

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| Current income tax | (44) | (7) |
| Deferred tax | 14 | 22 |
| **Total income tax** | **(30)** | **15** |

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

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| **Consolidated net income/(loss) before tax** | **40** | **(75)** |
| Statutory tax rate | 19% | 19% |
| **Theoretical tax** | **(8)** | **14** |
| Unrecognised deferred tax asset on tax capital losses | (5) | - |
| Income not subject to/(expenses not deductible for) tax purposes | (17) | 1 |
| **Total income tax** | **(30)** | **15** |

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

### 24.2. Deferred tax

| *(in PLN millions)* | *Consolidated statement of financial position* | | *Consolidated income statement* | |
|---|---|---|---|---|
| | | | *12 months ended* | |
| | *At 31 December 2018* | *At 31 December 2017* | *31 December 2018* | *31 December 2017* |
| Property, plant and equipment and intangible assets | 423 | 400 | 23 | (59) |
| Unused tax losses | 87 | 163 | (76) | 39 |
| Receivables and payables | 102 | 87 | 10 | (28) |
| Contract assets and contract costs | (96) | - | 43 | - |
| Contract liabilities | 138 | - | 43 | - |
| Deferred income | - | 95 | - | 1 |
| Employee benefits | 53 | 58 | (6) | 4 |
| Provisions | 119 | 141 | (22) | 57 |
| Net financial debt | 12 | 16 | (7) | 9 |
| Other | (4) | (10) | 6 | (1) |
| **Deferred tax assets, net** [(1)] | **834** | **950** | | |
| **Total deferred tax** | | | **14** | **22** |
| Amount expected to be recovered within 12 months after the end of the reporting period | 158 | 239 | | |

[(1)] As at 1 January 2018, deferred tax assets, net were decreased by PLN 134 million as a result of adoption of IFRS 15 and IFRS 9 (see Notes 2.1 and 2.2). During the 12 months ended 31 December 2018 and 2017, PLN 4 million and PLN 3 million of change in deferred tax assets was recognised in the consolidated statement of comprehensive income, respectively.

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

Unrecognised deferred tax assets relate to temporary differences, which based on the Group's management assessment could not be utilised for tax purposes. As at 31 December 2018 and 2017, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 76 million and PLN 42 million gross, of which PLN 50 million and PLN 15 million, respectively, related to tax losses, which are expected to expire rather than to be realised.

## 25. Equity

### 25.1. Share capital

As at 31 December 2018 and 2017, 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 2018 and 2017 was as follows:

| *(in PLN millions)* | *At 31 December 2018* | | | *At 31 December 2017* | | |
|---|---|---|---|---|---|---|
| | *% of votes* | *% of shares* | *Nominal value* | *% of votes* | *% of shares* | *Nominal value* |
| Orange S.A. | 50.67 | 50.67 | 1,995 | 50.67 | 50.67 | 1,995 |
| Other shareholders | 49.33 | 49.33 | 1,942 | 49.33 | 49.33 | 1,942 |
| **Total** | **100.00** | **100.00** | **3,937** | **100.00** | **100.00** | **3,937** |

### 25.2. Dividend

In accordance with the recommendation of the Management Board of the Company there was no dividend paid in 2018.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 3.9 billion as at 31 December 2018. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.1 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2018 was available for dividend payments by subsidiaries to OPL S.A.

On 20 February 2019, the Management Board of Orange Polska S.A. adopted a resolution not to recommend payment of any dividend in 2019.

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

Orange S.A. operates a long term incentive plan ("LTIP"), under which key managers of Orange Polska Group 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 2018 amounted to PLN 1 million. More information on LTIP can be found in the Remuneration Report contained in Section 10.3 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 2018.

## 26. Management of capital

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

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

In order to combine these factors the Group periodically establishes a framework for the financial structure. The Group regards capital as the total of equity and net financial debt. The Group monitors capital on the basis of net financial debt and net financial debt to adjusted EBITDA ratio (see Note 3).

## 27. Unrecognised contractual obligations

### 27.1. Commitments related to operating leases

When considering the Group as a lessee, operating lease commitments relate mainly to the lease of buildings and land. Lease costs recognised in the consolidated income statement for the years ended 31 December 2018 and 2017 amounted to PLN 381 million and PLN 378 million, respectively. 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 can be extended.

Future minimum lease payments under non-cancellable operating leases as at 31 December 2018 and 2017, were as follows:

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Within one year | 255 | 286 |
| After one year but not more than five years | 581 | 686 |
| More than five years | 234 | 314 |
| **Total minimum future lease payments** | **1,070** | **1,286** |

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2018 and 2017 amounted to PLN 97 million and PLN 105 million, respectively, and related mainly to the lease of buildings and land.

### 27.2. Investment commitments

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

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| Property, plant and equipment | 943 | 413 |
| Intangibles | 82 | 94 |
| **Total investment commitments** | **1,025** | **507** |
| Amounts contracted to be payable within 12 months after the end of the reporting period | 781 | 480 |

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

In 2018, OPL S.A. concluded investment agreements with subcontractors related to the development of the broadband telecommunications network under the second contest of the Operational Programme “Digital Poland” (see Note 14.2) for a total amount of PLN 1,045 million, of which PLN 511 million will be indirectly executed by one of its subsidiaries. The subsidiary concluded agreements with external subcontractors for PLN 270 million. As at 31 December 2018, the Group’s commitments for the purchase of fixed assets under the Programme, contracted for at the end of the reporting period but not recognised in the consolidated financial statements amounted to PLN 698 million.

## 28. Litigation, claims and contingent liabilities

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*

On 18 March 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 Sp. z o.o. ("P4"), operator Play, were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.

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 capitalised interest) relating to the retail mobile prices for a period between July 2009 and March 2012. P4 claims jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.

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.

*Proceedings by UOKiK related to tenders for mobile services*

On 20 December 2013, UOKiK commenced competition proceedings against Orange Polska and two other offerors in tenders for mobile services of data transmission conducted in 2012. UOKiK's proceedings relate to the assertion that the offerors agreed the terms of offers they made. On 21 December 2018, UOKiK discontinued the competition proceedings. UOKiK stated that there was no basis to determine that the offerors agreed the terms of offers they made.

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

In 2011, UOKiK determined that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. concluded an agreement restricting competition on the domestic retail and wholesale market for mobile television based on DVB-H technology. By its decision, UOKiK also imposed fines on the four companies (on Orange Polska PLN 35 million). Orange Polska appealed the decision of UOKiK. SOKiK repealed the decision and UOKiK appealed SOKiK verdict to the Appeal Court. In connection with the decision of UOKiK, Magna Polonia S.A. filed, in December 2013, a motion with a court for calling the four operators to conclude amicable settlements. Magna Polonia S.A. is the former owner of Info TV FM Sp. z o.o., a telecommunications operator that offered provision of wholesale services of mobile television DVB-H to Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. None of them decided to introduce mobile television services to its customers.

Magna Polonia demanded that Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. pay jointly and severally PLN 618 million to it. Magna Polonia asserted that its claim resulted from lost profits of Magna Polonia because DVB-H television was not launched (including lower value of its shares in Info TV FM) and costs of financing Info TV FM. In the Orange Polska Management's opinion, Magna Polonia's motion did not constitute any reasonable grounds on which to assess whether or not Magna Polonia suffered any damage. On 11 December 2013, at the session held at the Court the parties did not reach an agreement.

On 26 November 2016, Magna Polonia filed with the court a statement of claim against the four operators based in principle on the same grounds as the action of 2013 and for payment of the same amount. Magna Polonia applied to the court for staying of the proceedings until the proceedings regarding PLN 35 million fine imposed by UOKiK are concluded. On 15 March 2017, the Court of Appeal maintained the verdict of SOKiK repealing UOKiK's decision. On 13 October 2017, Orange Polska was served with the cassation claim that UOKiK lodged to the Supreme Court. On 9 February 2018, the court, which examines Magna Polonia S.A.'s claim, decided to stay the proceedings until the Supreme Court issues its verdict in the competition proceedings.

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

*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. UOKiK informed the Company that it prolonged the proceedings until 30 June 2019.
In the opinion of the Management, Orange Polska did not violate the law and offers are in line with rules which are applied also by other sectors having pre-paid offers.

*Other proceedings by UOKiK and UKE*
As at 31 December 2018, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UOKiK and UKE, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed as, in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

b. Proceedings by the European Commission related to broadband access

On 22 June 2011, the European Commission imposed on Orange Polska a EUR 127.6 million fine for abuse of dominant position on the wholesale broadband access market, before October 2009. Orange Polska has recorded a provision for the whole amount of the fine and accrued interest. In accordance with the decision the fine could have been provisionally paid or secured by a bank guarantee. On 27 September 2011, Orange Polska provided the bank guarantee to the European Commission.
Orange Polska appealed against the decision of the European Commission to the General Court of the European Union on 2 September 2011. On 17 December 2015, the General Court issued a verdict dismissing Orange Polska's appeal from the decision of the European Commission. On 27 February 2016, Orange Polska appealed that verdict of the General Court to the Court of Justice of the European Union.
On 25 July 2018, the Court of Justice dismissed Orange Polska's appeal and maintained the fine in the original amount. On 9 August 2018, Orange Polska paid the fine and the accrued interest in a total amount of PLN 646 million.

c. Tax contingent liability

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

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

d. Proceedings by the tax authorities

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

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. Findings from the audit were summarised in a tax audit protocol delivered to the Company on 1 October 2018. The Company does not agree with the findings of the controllers and believes that the issues raised in the tax audit protocol are without merit and the possibility of ultimate outflow of resources is low.

e. Issues related to the incorporation of Orange Polska

Orange Polska was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon ("PPTiT") into two entities – the Polish Post Office and Orange Polska 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.

f. Other contingent liabilities and provisions

Apart from the above-mentioned, operational activities of the Group are subject to legal, social and administrative regulations a breach of which, even unintentional, may result in sanctions imposed on the Group. In addition to fines which may be imposed by UOKiK and UKE described in Note 28.a also the President of Energy Regulatory Office may impose a penalty of up to a maximum amount of 15% of the revenues gained in the previous tax year among others for an infringement of certain provisions of Energy Law, a failure in fulfilment of obligations determined by the concession, a refusal to provide information.

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

## 29. Related party transactions

### 29.1. 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:

| *(in PLN thousands)* | *12 months ended 31 December 2018* | | |
|---|---|---|---|
| | *Fixed compensation expense* | *Variable compensation expense* | *Total compensation expense* |
| Short-term benefits excluding employer social security payments | 9,909 | 3,900 [1] | 13,809 |
| Post-employment benefits | 1,502 | - | 1,502 |
| Share-based payment plans | - | 809 | 809 |
| **Total** | **11,411** | **4,709** | **16,120** |

[1] Includes bonuses accrued in 2018 to be paid in 2019, excludes bonuses accrued in 2017 and paid in 2018.

| *(in PLN thousands)* | *12 months ended 31 December 2017* | | |
|---|---|---|---|
| | *Fixed compensation expense* | *Variable compensation expense* | *Total compensation expense* |
| Short-term benefits excluding employer social security payments | 11,444 | 4,798 [1] | 16,242 |
| Post-employment benefits | 5,251 | - | 5,251 |
| Share-based payment plans | - | 177 | 177 |
| **Total** | **16,695** | **4,975** | **21,670** |

[1] Includes bonuses accrued in 2017 and paid in 2018, excludes bonuses accrued in 2016 and paid in 2017.

Additionally, Section 10.3 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 2018 includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found.

### 29.2. Related party transactions

As at 31 December 2018, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

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

Orange Polska S.A. operates under the Orange brand pursuant to a licence agreement concluded with Orange S.A. and Orange Brand Services Limited (hereinafter referred to as "OBSL"). The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. In 2018 the parties renewed the existing contract until 31 December 2019 with no changes to the financial terms and conditions.

Until 31 December 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 670 million, PLN 3,450 million and Revolving Credit Facility Agreement for up to PLN 1,500 million (see Note 18.1). Additionally, the Group concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2018 was EUR 670 million and PLN 5,950 million, respectively, with a total fair value of PLN 50 million (as at 31 December 2017, nominal amount of EUR 670 million and PLN 5,950 million with a total negative fair value of PLN 25 million).

Financial receivables, payables, financial costs, net and other comprehensive income/loss concerning transactions with the Orange Group relate mainly to the above-mentioned agreements. Cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 23.6).

| *(in PLN millions)* | *12 months ended* | |
|---|---|---|
| | *31 December 2018* | *31 December 2017* |
| **Sales of goods and services and other income:** | **211** | **204** |
| Orange S.A. (parent) | 119 | 127 |
| Orange Group (excluding parent) | 92 | 77 |
| **Purchases of goods (including inventories, tangible and intangible assets) and services:** | **(249)** | **(260)** |
| Orange S.A. (parent) | (76) | (89) |
| Orange Group (excluding parent) | (173) | (171) |
| *- including Orange Brand Services Limited (brand licence agreement)* | *(113)* | *(121)* |
| **Financial costs, net:** | **(231)** | **(232)** |
| Orange S.A. (parent) | (6) | (267) |
| Orange Group (excluding parent) | (225) | 35 |
| **Other comprehensive income/(loss):** | **(25)** | **11** |
| Orange S.A. (parent) | (25) | 11 |

| *(in PLN millions)* | *At 31 December 2018* | *At 31 December 2017* |
|---|---|---|
| **Receivables:** | **86** | **85** |
| Orange S.A. (parent) | 47 | 50 |
| Orange Group (excluding parent) | 39 | 35 |
| **Liabilities:** | **96** | **99** |
| Orange S.A. (parent) | 47 | 49 |
| Orange Group (excluding parent) | 49 | 50 |
| **Financial receivables:** | **98** | **33** |
| Orange S.A. (parent) | 98 | 33 |
| **Cash and cash equivalents deposited with:** | **203** | **166** |
| Orange S.A. (parent) | 203 | 166 |
| **Financial liabilities:** | **7,380** | **7,027** |
| Orange S.A. (parent) | 48 | 58 |
| Orange Group (excluding parent) | 7,332 | 6,969 |

## 30. Subsequent events

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend useful lives for certain network assets and items of software from 2019. As a result, depreciation and amortisation expense in 2019 relating to these assets is expected to be lower by approximately PLN 192 million.

On 25 January 2019, the Group repaid PLN 240 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

On 11 February 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024, which will refinance the Loan Agreement for EUR 480 million expiring in May 2019.

## 31. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2018.

### 31.1. Use of estimates and judgement

In preparing the Group'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 2018 may be subsequently changed. The main estimates and judgements made are described in the following notes:

| *Note* | | *Estimates and judgements* |
|---|---|---|
| 5, 14.3, 31.8 | Revenue | Allocation of transaction price to each performance obligation based on stand-alone selling price.<br>Estimating stand-alone selling prices of performance obligations.<br>Straight-line recognition of revenue relating to service connection fees.<br>Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent).<br>Estimation of early termination fees charged to customers. |
| 8, 31.15 | Impairment of cash generating unit and individual tangible and intangible assets | Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates. |
| 10, 11, 31.12, 31.13 | Useful lives of tangible and intangible assets | The useful lives and the method of depreciation and amortisation. |
| 11, 14.2, 31.13 | Property, plant and equipment - investment grants | The assumptions underlying the measurement and recognition of investment grants obtained. |
| 12.1, 12.2, 31.16 | 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. |
| 13, 28, 31.19 | Provisions | The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates, number of employees, employment duration, individual salary and other assumptions. |
| 13 | Dismantling costs | The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located. |
| 15, 31.20, 31.21 | 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. |
| 21, 22, 31.16 | Fair value of derivatives and other financial instruments | Model and assumptions underlying the measurement of fair values. |
| 24, 31.18 | Income tax | Assumptions used for recognition of deferred tax assets. Assumptions used to determine taxable results and tax bases for uncertain tax treatments. |
| 31.17 | Allowance for slow moving and obsolete inventories | Methodology used to determine net realisable value of inventories. |

The Group considers that the most significant adjustments to the carrying amounts of assets and liabilities could result from changes in estimates and judgements relating to impairment (see Note 8) and provisions for claims, litigation and risks (see Notes 13 and 28).

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

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

- IFRS 16 "Leases" was issued on 13 January 2016. This standard has been endorsed by the European Union on 31 October 2017.

  The adoption of IFRS 16 has been the subject of a dedicated project within the Group. The Group has qualified a contract as a lease contract as long as it gives the lessee the right to control the use of a particular asset.

  At the end of this analysis phase, the Group 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;
  - other rentals: vehicles, technical equipment, data center.

  From 1 January 2019, the Group, as a lessee, accounts for all of its leases according to a single model in which an asset is recognised in the statement of financial position as an asset for the right to use the leased assets in correspondence with the liability related to the lease obligations. Lease liability comprises discounted future lease payments for the identified lease contracts.

  The accounting presentation of these items in the statement of financial position depends on:
  - the duration adopted for certain types of contracts: this duration corresponds to the non-cancellable period of the lease, periods covered by extension options that the lessee is reasonably certain to exercise and termination options that the lessee is reasonably certain not to exercise. The definition of the contract duration took also into account the laws and practices specific to the Polish jurisdiction and specificity of Group's contracts;
  - the combination of the fixed and variable components of the contractual payments;
  - the determination of the incremental borrowing rate in case where the implicit rate of the contract is not easily determinable. Discount rates adopted by the Group for IFRS 16 purposes 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 above elements impacting presentation of leases under IFRS 16 in financial statements are based on Management Board's estimates and judgments dependent on the current interpretation of the IFRS 16 standard. Management's interpretation, judgements and estimates may be affected if the International Accounting Standards Board provides further clarification on the interpretation of IFRS 16 and/or if further clarity emerges through the evolution of generally accepted accounting practice in this area.

  The Group has chosen to apply two exemptions proposed by the standard on leases and expense 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.

  In addition to changes in the consolidated statement of financial position, the adoption of IFRS 16 impacts:
  a) the income statement as follows:
     - depreciation of the rights of use assets and interest charges related to the lease liability appears, instead of operating lease expenses;
     - recognition of the expense is accelerated, resulting in particular from the interest component; and

  b) the statement of cash flows, as follows:
     - interest payments continue to affect operating cash flows,
     - net cash used in investing activities does not change,
     - repayments of lease liabilities affect cash flows from financing activities.

The Group applied IFRS 16 as of 1 January 2019 using the modified retrospective method without restatement of comparative periods. The Group estimates the impact on the total assets as at 1 January 2019 of approximately PLN 1.3 billion resulting from the recognition of the lease liability and the corresponding right of use assets. No impact on equity is expected as of 1 January 2019, as the Group decided to measure the right of use in the amount equal to the lease liability (effect of prepaid or accrued lease payments was negligible). As a result, no additional deferred tax will be recognised.

The main differences between the off-balance sheet commitments as at 31 December 2018 and the lease liability recognised at the date of initial application result from:

- perpetual usufruct which was included in the scope of lease contracts as of 1 January 2019;
- measurement of easements throughout the expected rather than the minimum lease term;
- excluding short term contracts from IFRS 16 measurement;
- application of different algorithms to include the effect of indexation of the lease payments for the calculation of off-balance sheet commitments and lease liability in accordance with IFRS 16.

- 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 2021. 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 Group does not act as a principal in case of insurance contracts and this standard will have no impact on financial statements.

- IFRIC Interpretation 23 “Uncertainty over Income Tax Treatments”. This interpretation was issued on 7 June 2017 and will be effective for annual periods beginning on or after 1 January 2019. This interpretation has been endorsed by the European Union on 23 October 2018.
  IFRIC 23 clarifies how to recognise and measure both current and deferred tax assets and liabilities, when there is uncertainty as regards tax treatment. This interpretation will have no impact on the Group’s financial statements.

### 31.3. Options available under IFRSs and used by the Group

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

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

### 31.4. Presentation of the financial statements

<u>Presentation of the statement of financial position</u>

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 attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares.

### 31.5. Consolidation rules

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

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

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

Intercompany transactions and balances are eliminated on consolidation.

### 31.6. Investments in joint arrangements

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

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

The functional currency of Orange Polska is the Polish złoty.

*Transactions in foreign currencies*

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

### 31.8. 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 Group 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 Group 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 Group 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 Group is expected to be entitled in exchange for transferring a promised good or service to the customer.
The Group 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 Group's services and to attract customers. Therefore, in case of services sold with subsidised handsets, the Group allocates the subsidy to the service revenues. The Group 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 Group 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 Group 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 Group's observable price should be identified i.e. the price of good or service when the Group 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 Group accounts for contract balances if the right to a payment differs from timing when performance obligation is satisfied. A contract asset corresponds to Group's right to a payment in exchange for goods or services that have been transferred to Group'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 Group 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 Group, the related revenue is recognised when the equipment is sold to the end-customer because the Group 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 Group's role in the transaction, the Group 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 Group is based on the notion of the control and the indicators of the control. The Group is treated as a principal if it controls a good or a service before the good or service is transferred to a customer.
The Group is considered as an agent if the Group'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 Group has not identified any material rights in the contracts with customers which would need to be treated as separate performance obligations.

### 31.9. Subscriber acquisition costs, advertising and related costs

Incremental acquisition and retention costs (e.g. commissions paid to retailers for acquisition or retention of contracts) 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.

### 31.10. Borrowing costs

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

### 31.11. Goodwill

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

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

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

(a) the aggregate of:

(i) the consideration transferred, measured at acquisition-date fair value;

(ii) the amount of any non-controlling interest in the acquiree, measured either at its fair value or at its proportionate interest in the net identifiable assets;

(iii) in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquire.

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

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

### 31.12. 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.

Identifiable intangible assets acquired in a business combination are recognised separately from goodwill at their acquisition date fair values. An intangible asset is identifiable if it is either separable, i.e. capable of being separated or divided from the acquired entity, or arises from contractual or other legal rights. Fair value of an intangible asset is measured using valuation techniques appropriate in the circumstances.

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

*Telecommunications licences*

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

*Research and development costs*

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

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

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

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

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

*Software*

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

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

### 31.13. Property, plant and equipment

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

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

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

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

*Investment grants*

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

*Finance leases*

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

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

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

*Derecognition*

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

*Depreciation*

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

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

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

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

### 31.14. Non-current assets held for sale

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

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

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

### 31.15. Impairment tests and Cash Generating Units

Given the nature of Group's assets and operations, most of its individual assets do not generate cash inflows independently from other assets. As at 31 December 2018 the Group identified a single major CGU (see Note 8.1). For the purpose of impairment testing the Group allocates the whole goodwill to this CGU.

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

*Recoverable amount*

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

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

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

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

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

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

### 31.16. Financial assets and liabilities

From 1 January 2018, 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.

Until 31 December 2017, financial assets were classified as loans and receivables, assets at fair value through profit or loss, hedging derivative instruments and assets available-for-sale.

Financial liabilities are classified as financial liabilities at amortised cost, liabilities at fair value through profit or loss and hedging derivative instruments (classification of the Group's financial liabilities remained unchanged).

Financial assets and liabilities are recognised and measured in accordance with IFRS 9 “Financial Instruments” (until 31 December 2017 they were recognised and measured in accordance with IAS 39 “Financial Instruments: Recognition and Measurement”).

*Recognition and measurement of financial assets*

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

<u>Assets subsequently measured at amortised cost</u>
Assets subsequently measured at amortised cost include “Trade receivables” 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 and on hand, cash deposits with Orange S.A. under the Cash Management Treasury Agreement and other highly-liquid instruments that are readily convertible into known amounts of cash and are subject to insignificant changes in value.

<u>Financial assets at fair value through profit or loss</u>
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 classified in this category are measured at fair value.

<u>Impairment</u>
Until 31 December 2017, the Group assessed at the end of the reporting period whether there was any objective evidence that financial assets were impaired. If any such evidence existed, the asset’s recoverable amount was calculated. If the recoverable amount was less than the asset’s book value, an impairment loss was recognised in the income statement.

From 1 January 2018, the Group measures the loss allowance at an amount equal to lifetime expected credit losses for trade receivables, lease 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 Group 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 Group 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 Group 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 Group considers a financial asset to be in default when internal or external information indicates that the Group 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*

<u>Financial liabilities at amortised cost</u>
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 party” and “Other financial liabilities at amortised cost”.

Trade payables include those that are subject to reverse factoring. The Group 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. Financial liabilities classified in this category are measured at fair value.

*Recognition and measurement of derivative instruments*

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

Derivatives classified as financial assets and liabilities at fair value through profit or loss
Except for gains and losses on hedging instruments (as explained below), gains and losses arising from changes in fair value of derivatives are immediately recognised in the income statement. The 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 interest expense and other 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.

Until 31 December 2017 it was presented as a reclassification adjustment and recognised in other comprehensive income.

### 31.17. Inventories

Inventories are stated at the lower of cost and net realisable value. The Group provides provision for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans.

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

### 31.18. Income tax

The tax expense comprises current and deferred tax.

*Current tax*

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

*Deferred taxes*

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

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

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

### 31.19. Provisions

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

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

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

*Provisions for dismantling and restoring sites*

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

### 31.20. Pensions and other employee benefits

Certain employees of the Group are entitled to jubilee awards and retirement bonuses. Jubilee awards are paid to employees upon completion of a certain number of years of service whereas retirement bonuses represent one-off payments paid upon retirement in accordance with the Group’s remuneration policies. Both items vary according to the employee’s average remuneration and length of service. Jubilee awards and retirement bonuses are not funded.

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

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

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

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

### 31.21. 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 2017 Orange S.A. launched an equity-settled share-based payment plan 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 2018

*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 2018 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 adjustments, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for the 12 months ended 31 December 2018.*

*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.*

*Evolution of business trends is presented under the old IAS 18 accounting standard. The new accounting standard, IFRS 15, has been implemented by Orange Polska without restating data for the comparable periods. In the opinion of the Company, such an approach assures continuity of performance presentation vis- à-vis the strategy announced in 2017 and already known business trends.*

**FEBRUARY 20, 2019**

# CHAPTER I
# HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2018 and for the twelve month period ended thereon

# 1 SUMMARISED FINANCIAL STATEMENTS

## SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

| | For 12 months ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2018 (IFRS15) in PLN mn | 2018 (IFRS15) in EUR[1]mn | **2018 (IAS18) in PLN mn | 2018 (IAS18) in EUR[1]mn | 2017 (IAS18) in PLN mn | 2017 (IAS18) in EUR[2]mn | Change (IAS18) (PLN) |
| **Consolidated Income Statement** | | | | | | | |
| Revenue | 11,101 | 2,602 | 11,296 | 2,647 | 11,381 | 2,681 | -0.7% |
| EBITDA | 2,886 | 676 | 3,109 | 729 | 2,807 | 661 | 10.8% |
| EBITDA margin | 26.0% | | 27.5% | | 24.7% | | 2.8pp |
| EBITDA (adjusted*) | 2,881 | 675 | 3,104 | 727 | 3,011 | 709 | 3.1% |
| EBITDA margin (adjusted*) | 26.0% | | 27.5% | | 26.5% | | 1.0pp |
| Operating income | 345 | 81 | 568 | 133 | 229 | 54 | 148.0% |
| Operating margin | 3.1% | | 5.0% | | 2.0% | | 3.0pp |
| Consolidated net income (loss) | 10 | 2 | 190 | 45 | (60) | (14) | n/a |
| Net income (loss) attributable to owners of Orange Polska S.A.** * | 10 | 2 | 190 | 45 | (60) | (14) | n/a |
| Weighted average number of shares (in millions)*** | 1,312 | | 1,312 | | 1,312 | | |
| Income (loss) per share (in PLN) (basic and diluted) | 0.01 | 0 | 0.14 | 0.03 | (0.05) | (0.01) | n/a |
| **Consolidated Statement of Cash Flows** | | | | | | | |
| Net cash provided by operating activities | 1,812 | 425 | 1,812 | 425 | 2,064 | 486 | -12.2% |
| Net cash used in investing activities | (2,066) | (484) | (2,066) | (484) | (1,687) | (397) | 22.5% |
| Net cash provided by financing activities | 219 | 51 | 219 | 51 | 7 | 2 | 3029% |
| Net change in cash and cash equivalents | (35) | (8) | (35) | (8) | 384 | 90 | n/a |
| Capex | 2,282 | 535 | 2,282 | 535 | 1,933 | 455 | 18.1% |
| Capex (adjusted*) | 2,250 | 527 | 2,250 | 527 | 1,933 | 455 | 16.4% |
| Organic cash flow | (252) | (59) | (252) | (59) | 407 | 96 | n/a |
| Organic cash flow (adjusted*) | 453 | 106 | 453 | 106 | 111 | 26 | 308.1% |
| | As of 31 December | | | | | | |
| | 2018 (IFRS15) in PLN mn | 2018 (IFRS15) in EUR[3]mn | **2018 (IAS18) in PLN mn | 2018 (IAS18) in EUR[3]mn | 2017 (IAS18) in PLN mn | 2017 (IAS18) in EUR[4]mn | Change (IAS18) (PLN) |
| **Consolidated Statement of Financial Position** | | | | | | | |
| Cash and cash equivalents | 611 | 142 | 611 | 142 | 646 | 155 | -5.4% |
| Other intangible assets | 4,871 | 1,133 | 4,871 | 1,133 | 5,256 | 1,260 | -7.3% |
| Property, plant and equipment | 10,738 | 2,497 | 10,738 | 2,497 | 10,666 | 2,557 | 0.7% |
| Total assets | 23,295 | 5,417 | 22,915 | 5,329 | 22,933 | 5,498 | -0.1% |
| Financial liabilities at amortised cost****, of which: | 7,531 | 1,751 | 7,531 | 1,751 | 7,082 | 1,698 | 6.3% |
| Current | 2,150 | 500 | 2,150 | 500 | 1,529 | 367 | 40.6% |
| Non-current | 5,381 | 1,251 | 5,381 | 1,251 | 5,553 | 1,331 | -3.1% |
| Other liabilities, current and non-current | 5,261 | 1,223 | 5,284 | 1,229 | 5,913 | 1,418 | -10.6% |
| Total equity | 10,503 | 2,443 | 10,100 | 2,349 | 9,938 | 2,383 | 1.6% |

*Notes on data conversion:*
*1 – PLN/EUR fx rate of 4.2669 applied* *3 – PLN/EUR fx rate of 4.3000 applied*
*2 – PLN/EUR fx rate of 4.2447 applied* *4 – PLN/EUR fx rate of 4.1709 applied*
**For adjustments of basic financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2018.*
*** For adjustments of selected financial data according to the old accounting standard IAS18 please see Note 2.1 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2018.*
**** Weighted average number of shares in 12 months ended December 31, 2018 and December 31, 2017, respectively.*
***** Excluding trade payables.*

## SUMMARISED STANDALONE FINANCIAL STATEMENTS

| | For 12 months ended 31 December | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2018 (IFRS15) in PLN mn** | **2018 (IFRS15) in EUR[1]mn** | ***2018 (IAS18) in PLN mn** | **2018 (IAS18) in EUR[1]mn** | **2017 (IAS18) in PLN mn** | **2017 (IAS18) in EUR[2]mn** | **Change (IAS18) (PLN)** |
| **Income Statement** | | | | | | | |
| Revenue | 10,579 | 2,479 | 10,774 | 2,525 | 10,962 | 2,583 | -1.7% |
| EBITDA | 2,853 | 669 | 3,096 | 726 | 2,778 | 654 | 11.4% |
| EBITDA margin | 27.0% | | 28.7% | | 25.3% | | 3.4pp |
| Operating income | 305 | 71 | 548 | 128 | 195 | 46 | 181.0% |
| Operating margin | 3.0% | | 5.1% | | 1.8% | | 3.3pp |
| Net income (loss)* | 1 | 0 | 198 | 46 | (69) | (16) | n/a |
| Weighted average number of shares (in millions)** | 1,312 | | | | 1,312 | | |
| Income (loss) per share (in PLN) (basic and diluted) | 0.00 | 0 | 0.15 | 0.04 | (0.05) | (0.01) | n/a |
| **Statement of Cash Flows** | | | | | | | |
| Net cash provided by operating activities | 1,896 | 444 | 1,896 | 444 | 1,991 | 469 | -4.8% |
| Net cash used in investing activities | (2,186) | (512) | (2,186) | (512) | (1,709) | (403) | 27.9% |
| Net cash provided by financing activities | 260 | 61 | 260 | 61 | 63 | 15 | 312.7% |
| Net change in cash and cash equivalents | (30) | (7) | (30) | (7) | 345 | 81 | n/a |
| Capex | 2,298 | 539 | 2,298 | 539 | 1,945 | 458 | 18.1% |
| | **As of 31 December** | | | | | | |
| | **2018 (IFRS15) in PLN mn** | **2018 (IFRS15) in EUR[3]mn** | ***2018 (IAS18) in PLN mn** | **2018 (IAS18) in EUR[3]mn** | **2017 (IAS18) in PLN mn** | **2017 (IAS18) in EUR[4]mn** | **Change (IAS18) (PLN)** |
| **Statement of Financial Position** | | | | | | | |
| Cash and cash equivalents | 538 | 125 | 538 | 125 | 568 | 136 | -5.3% |
| Other intangible assets | 4,837 | 1,125 | 4,837 | 1,125 | 5,224 | 1,252 | -7.4% |
| Property, plant and equipment | 10,838 | 2,520 | 10,838 | 2,520 | 10,753 | 2,578 | 0.8% |
| Total assets | 23,091 | 5,370 | 22,701 | 5,279 | 22,716 | 5,446 | -0.1% |
| Financial liabilities at amortised cost***, of which: | 7,642 | 1,777 | 7,642 | 1,777 | 7,149 | 1,714 | 6.9% |
| Current | 2,261 | 526 | 2,261 | 526 | 1,598 | 383 | 41.5% |
| Non-current | 5,381 | 1,251 | 5,381 | 1,251 | 5,551 | 1,331 | -3.1% |
| Other liabilities, current and non-current | 5,010 | 1,165 | 5,033 | 1,170 | 5,710 | 1,369 | -11.9% |
| Total equity | 10,439 | 2,428 | 10,026 | 2,332 | 9,857 | 2,363 | 1.7% |

*Notes on data conversion:*

*1 – PLN/EUR fx rate of 4.2669 applied*

*2 – PLN/EUR fx rate of 4.2447 applied*

*3 – PLN/EUR fx rate of 4.3000 applied*

*4 – PLN/EUR fx rate of 4.1709 applied*

** For adjustments of selected financial data according to the old accounting standard IAS18 please see Note 2.1 to the IFRS Financial Statements of the Orange Polska S.A. for 2018.*

*** Weighted average number of shares in 12 months ended December 31, 2018 and December 31, 2017, respectively.*

**** Excluding trade payables.*

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

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

Consolidated revenue on an IAS 18 comparable basis amounted to PLN 11,296 million in 2018 and was lower by PLN 85 million compared to 2017. Rapid growth of revenues from convergent services was accompanied by a decline in mobile-only and fixed broadband-only services, mainly due to migration to convergence and market competition. Legacy voice services, both retail and wholesale, continued to deteriorate under the influence of structural trends of fixed-to-mobile substitution. Furthermore, the evolution of revenues was affected by a decrease in equipment sales due to saturation of the customer base with instalment offers as well as implementation of a strategy of a radical reduction of handset subsidies.

Adjusted EBITDA on an IAS 18 comparable basis (adjusted operating income before depreciation and amortisation expense and impairment of fixed assets; please see Note 3 to the IFRS Consolidated Financial Statements for 2018) amounted to PLN 3,104 million and was higher by PLN 93 million compared to 2017. Operating costs decreased year-on-year as a result of the value-driven strategy (much lower commercial expenses) and very significant cost-saving initiatives, mainly with respect to labour expenses and network maintenance and IT expenses.

Operating income (EBIT) on an IAS 18 comparable basis was higher by PLN 339 million year-on-year, mainly due to provision for employment termination expense recognised in 2017 and higher adjusted EBITDA in 2018, as described above.

Net finance costs amounted to PLN 305 million in 2018 and were flat year-on-year.

As a result, consolidated net income on an IAS 18 comparable basis amounted to PLN 190 million in 2018 compared to consolidated net loss of PLN 60 million in 2017.

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

On an IAS 18 comparable basis, net income of Orange Polska S.A. amounted to PLN 198 million in 2018 and was higher by PLN 8 million than the consolidated net income of Orange Polska Group. This difference is attributable mainly to dividends paid by subsidiaries amounting to PLN 23 million, partially offset by the margin earned by subsidiaries on transactions with external parties.

### 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 1,812 million in 2018 and was PLN 252 million lower year-on-year, mainly due to payment of the European Commission fine amounting to PLN 646 million in 2018, which was partially offset by lower working capital requirement.

Net cash used in investing activities amounted to PLN 2,066 million in 2018 compared to PLN 1,687 million in 2017. This change results mainly from a change in cash flows relating to investment grants.

Net cash inflows from financing activities amounted to PLN 219 million compared to PLN 7 million in 2017. This change is mainly attributable to cash flows from related party loans.

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

Net cash outflow in Orange Polska S.A. in 2018 amounted to PLN 30 million and was at a comparable level to the Group.

### 1.3 Capital Expenditures (CAPEX)

In 2018, Group's adjusted capital expenditures amounted to PLN 2,250 million and were higher by PLN 317 million year-on-year .

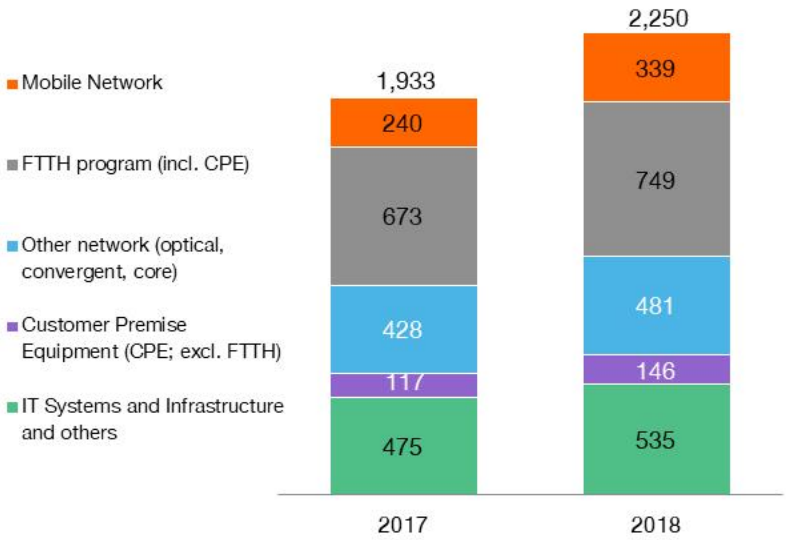
The Group invested mainly in the following areas:

- Roll-out of the fibre access network in the announced investment programme, which covered 0.9 million households in 2018. Including the lines developed in 2014 to 2017, there are now almost 3.4 million households connectable with the fibre network, available in a total of 117 cities compared to 75 cities at the end of 2017.
- Investments to enhance the range of LTE services and the quality of the mobile network, expand the capacity and range of GSM/UMTS services, and adapt the mobile access network to the 4G technology requirements, particularly in the areas not covered by the mobile access network consolidation project (i.e. strategic or underinvested regions);
- Expansion of the mobile transport and core network in order to handle the growing volume of data transmission and ensure the service quality expected by customers;

- Implementation of IT transformation programmes, including a common system for handling fixed-line and mobile service sales to B2C and SOHO customers;
- Investment projects related to the portfolio development and sales and customer service processes as well as the modernisation and enhancement of the IT technical infrastructure.

The break-down of adjusted capital expenditures by main categories is presented in the diagram below.

**Split of adjusted CAPEX**
**(PLN mn)**




### 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 on an IAS 18 comparable basis were lower by PLN 18 million than at December 31, 2017. This change resulted mainly from the decrease in fixed assets as depreciation and amortisation expense exceeded capital expenditures by PLN 262 million. This impact was partially offset by an increase in trade and other receivables.

Total liabilities on an IAS 18 comparable basis decreased by PLN 180 million compared to the end of December 2017. This change resulted from a decrease of provisions following the payment of European Commission fine, partially offset by an increase in debt.

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

On an IAS 18 comparable basis, total assets of Orange Polska S.A. amounted to PLN 22,701 million as at December 31, 2018 and were lower by PLN 214 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.

On an IAS 18 comparable basis, total liabilities of Orange Polska S.A.as at December 31, 2018 amounted to PLN 12,675 million and were lower by PLN 140 million than total liabilities of the Group, mainly owing to lower trade payables.

### 1.5 Related Parties Transactions

Please see Note 29 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 4.3 below for information on significant agreements concluded by the Group in 2018.

## 1.7 Unrecognised contractual obligations

Please see Note 27 to the Consolidated Full-Year Financial Statements for information about unrecognised contractual obligations.

## 1.8 Subsequent Events

Please see Note 30 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, 2018, neither the Company nor its subsidiaries granted guarantees or collateral of loans or borrowings to any entity or its subsidiary with a total value representing the equivalent of at least 10% of Orange Polska S.A.'s shareholders equity. Please see section 1.11.5 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 SA Group and current account overdraft facilities.

In 2018, the Group repaid long-term bank loans of PLN 5 million and revolving loans of PLN 410 million provided by the Orange SA Group. In addition, it refinanced, with no cash flow, a revolving credit facility of PLN 1,550 million, maturing in March 2018, through long-term loan and revolving loan agreements signed with the Orange SA Group in February 2018.

In the reported period, the Group used loans provided by the Orange SA Group, namely PLN 750 million out of a long-term loan, PLN 160 million out of a revolving loan provided in 2013 and PLN 1,320 million out of a revolving loan provided in 2018.

As of December 31, 2018, Group's interest-bearing liabilities (before derivatives) totalled PLN 7,350 million, which is a decrease of PLN 359 million compared to December 31, 2017. Debt to the Orange SA Group accounted for 99.8% thereof.

The value of liabilities under financial lease and other financial liabilities as of December 31, 2018 amounted to PLN 181 million and was PLN 90 million higher compared to December 31, 2017.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 611 million at December 31, 2018, and available credit facilities totalling the equivalent of PLN 2,445 million.

On 11 February 2019, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 1,500 million with repayment date in May 2024, which will refinance the Loan Agreement of EUR 480 million expiring in May 2019.

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 2019.

As at December 31, 2018, Group's liquidity ratios increased as compared to the end of 2017. The Group's higher financial liquidity resulted from an increase of PLN 696 million in current assets, which was partially offset by an increase of PLN 558 million in current liabilities (less contractual liabilities and provisions).
The liquidity ratios for the Group at December 31, 2018and December 31, 2017, respectively, are presented in the table below.

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Current ratio<br>Current assets / current liabilities* | 0.75 | 0.69 |
| Quick ratio<br>Total current assets – inventories / current liabilities* | 0.71 | 0.65 |
| Super-quick ratio<br>Total current assets – inventories – receivables / current liabilities* | 0.26 | 0.17 |

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

Group's net financial debt (after valuation of derivatives) increased to PLN 6,850 million at December 31, 2018(from PLN 6,497million at the end of 2017).

### 1.11.1 Bonds

As part of Group liquidity management, in 2018 Orange Polska S.A. issued and redeemed short-term bonds which were acquired by Orange Polska S.A.'s subsidiaries under a program established in 2002 and totals PLN 2,500 million. Proceeds from the issue were used to ensure current liquidity in the scope of business operations. As at December 31, 2018, Orange Polska's liability on the account of outstanding bonds amounted to PLN 111 million.

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 14 February 2018, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for PLN 750 million maturing in March 2023 and Revolving Credit Facility Agreement for PLN 1,500 million maturing in February 2022, which refinanced the Revolving Loan Agreement of EUR 480 million maturing in March 2018.

In the reported period, the Group effected two current account credit agreements of PLN 95 million each. The first one was concluded on August 10, 2018 with Bank Handlowy w Warszawie S.A. and matures on August 8, 2019, while the second one was concluded on November 6, 2018 with the Polish Branch of Societe Generale S.A. and matures on May 31, 2019.

On July 18, 2018, Orange Polska S.A. and its subsidiary TP Teltech Sp. z o.o. signed a loan agreement for PLN 130 million, maturing in December 2019. The purpose of the agreement was to finance working capital of the subsidiary in connection with the execution by the latter of subcontractor's agreements in the Operational Programme "Digital Poland 2".

On December 20, 2018, Orange Polska S.A. and its subsidiary Orange Retail S.A. signed a loan agreement for PLN 3.5 million, maturing in December 2020. The purpose of the agreement was to finance working capital of the subsidiary and repay its liabilities to Alior Bank S.A.

Furthermore, on August 31, 2018, Integrated Solutions Sp. z o.o., a subsidiary of Orange Polska S.A., concluded four agreements with Dell Bank International d.a.c., totalling EUR 0.8 million, for financing the purchase of IT hardware and software, which matures in September 2021.

### 1.11.3 Unused Credit Facilities

As of December 31, 2018, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 695 million.

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

### 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 adjusted EBITDA (according to IAS 18) was 2.2 on December 31, 2018.

### 1.11.5 Guarantees and Collaterals

In 2018, Orange Polska S.A. requested banks to issue bank guarantees with respect to liabilities of TP Teltech Sp. z o.o., an Orange Polska's wholly-owned subsidiary, towards its business partners, while promising to cover any claims related to payments under the guarantee. As of December 31, 2018, those guarantees totalled PLN 4.1 million.

Furthermore, pursuant to two collateral agreements made in 2018, Orange Polska S.A. granted a collateral of PLN 27.9 million to Bank Handlowy w Warszawie S.A. to secure bank guarantees issued by the latter in favour of TP Teltech Sp. z o.o. with respect to obligations under contracts with Alcatel Lucent Polska Sp. z o.o. related to the implementation of the Operational Programme "Digital Poland 2".

On October 1, 2018, Orange Polska S.A. granted a collateral of PLN 2.4 million to Bank Handlowy w Warszawie S.A., which replaced a collateral granted in December 2015, to secure a bank guarantee issued by the latter upon request of TP Teltech Sp. z o.o. as a proper performance bond.

As of December 31, 2018, a collateral of PLN 20 million granted by Orange Polska S.A. in November 2017 to BZ WBK Faktor Sp z o.o. to secure a facility provided by the latter to TP Teltech Sp. z o.o. under a confirming agreement for payment management was still valid.

As of December 31, 2018, nine bank guarantees, which had been issued upon request of Orange Polska S.A. with respect to liabilities of Orange Energia Sp. z o.o. (formerly Multimedia Polska Energia Sp. z o.o.) towards its business partners in connection with the acquisition of this company by the Group in 2017, remained in force. These guarantees total PLN 20.4 million and Orange Polska S.A. shall indemnify the banks against any claims thereunder.

### 1.11.6 Hedging Transactions

In 2018, 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, 2018 covered:

- 99.9% of debt denominated in foreign currencies; and
- 27.8% of licence payable for the 2100 MHz spectrum (UMTS licence).

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

- EUR 73 million of licence payable for the 2100 MHz spectrum (UMTS licence).

Furthermore, the Group has 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, 2018, the Group's proportion between fixed/floating rate debt (after hedging) was 93/7% as compared to 78/22% on December 31, 2017.

In addition, the Group has hedged the risk of Orange Polska share price increase with options. As of December 31, 2018, 100% of phantom shares for the incentive programme for managers were hedged (see section 3.3.1 below for more information).

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

in 2018

## 2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

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

| Key figures (PLN million) | 2018 (IFRS15) | 2018** (IAS18) | 2017 (IAS18) | Change (IAS18) |
|---|---|---|---|---|
| Revenue | 11,101 | 11,296 | 11,381 | -0.7% |
| | | | | |
| EBITDA | 2,886 | 3,109 | 2,807 | 10.8% |
| EBITDA margin | 26.0% | 27.5% | 24.7% | 2.8pp |
| Adjusted EBITDA* | 2,881 | 3,104 | 3,011 | 3.1% |
| Adjusted EBITDA margin* | 26.0% | 27.5% | 26.5% | 1.0pp |
| | | | | |
| Operating income | 345 | 568 | 229 | 148.0% |
| Net income (loss) | 10 | 190 | (60) | n/a |
| | | | | |
| Capex | 2,282 | 2,282 | 1,933 | 18.1% |
| Adjusted capex* | 2,250 | 2,250 | 1,933 | 16.4% |
| Organic cash flow | -252 | -252 | 407 | n/a |
| Adjusted organic cash flow* | 453 | 453 | 111 | 308.1% |

** For adjustments of basic financial data please see Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2018.*
*** For adjustments of selected financial data according to the old accounting standard IAS 18 please see Note 2.1 to the IFRS Consolidated Financial Statements of the Orange Polska Group for 2018.*

In 2018, we changed the layout of revenue reporting. The new layout better reflects our commercial strategy focused on convergent offer sales. Consequently, we report separately convergent revenues and revenues from mobile-only and fixed-only services, which are used by non-convergent customers.

Revenues(under IAS18 accounting) totalled PLN 11,296 million in 2018 and was down PLN 85 million or -0.7% year-on-year.

The rate of decline was much lower than in 2017 (-1.4%). The trend improvement may be attributed mainly to the following factors:

- strong growth of convergence revenues, driven by customer base expansion and ARPU stabilisation;
- a lower decline in fixed-only services, mainly as a result of stabilisation of revenues from network solutions for business customers; and
- an almost 8% increase in wholesale revenues, benefitting mainly from a national roaming contract with Play and growth in international interconnect.

Convergence is expected to drive a strategic rebound in the revenue trend. In 2018, convergent revenues increased 30% year-on-year, which was similar growth to 2017. This was accompanied by a decrease in mobile-only and fixed broadband-only revenues (13.4% year-on-year) as a result of migration to convergent offers, value focus reflected in service pricing and market competition.

However, it is important to underline that the improving growth rate of convergent service revenues increasingly offsets the decline of mobile-only and fixed broadband-only revenues. Combined revenues of these categories were down 4.1% year-on-year in 2018, as compared to 6.5% year-on-year decline in 2017.

Revenues from IT and integration services maintained a high growth rate (19% year-on-year). This is consistent with the adopted strategy, which sees strong growth potential in this area. The key growth engines are projects involving provision of professional services to the largest companies sector and an increase in public procurement.

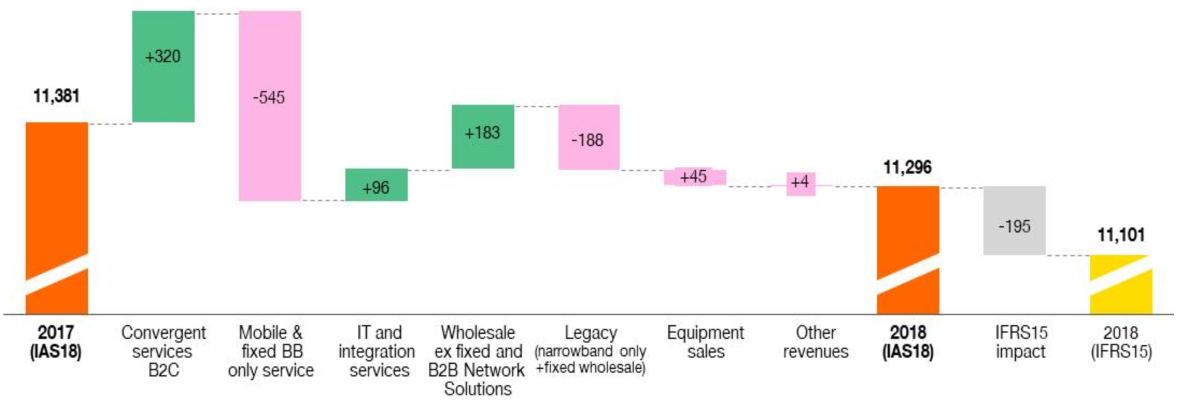
On the other hand, there was a major slowdown in growth of mobile equipment sales. In 2018, this category increased 3.6% as compared to 27% growth rate in 2017. The earlier growth was driven by popularity of instalment schemes for handsets. Currently, the mobile customer base is saturated with instalment offers. Furthermore, the trend was negatively affected by implementation of the value-driven strategy, involving a radical reduction in handset subsidies, which resulted in a considerable rise in unit sales prices accompanied by a decline in sales volume. This strategy led to an improvement in EBITDA, but had a negative impact on mobile equipment sales. However, the growth rate in this revenue line improved in the second half, mainly as a result of introducing an option of instalment sales at any point during the lifetime of the service contract.

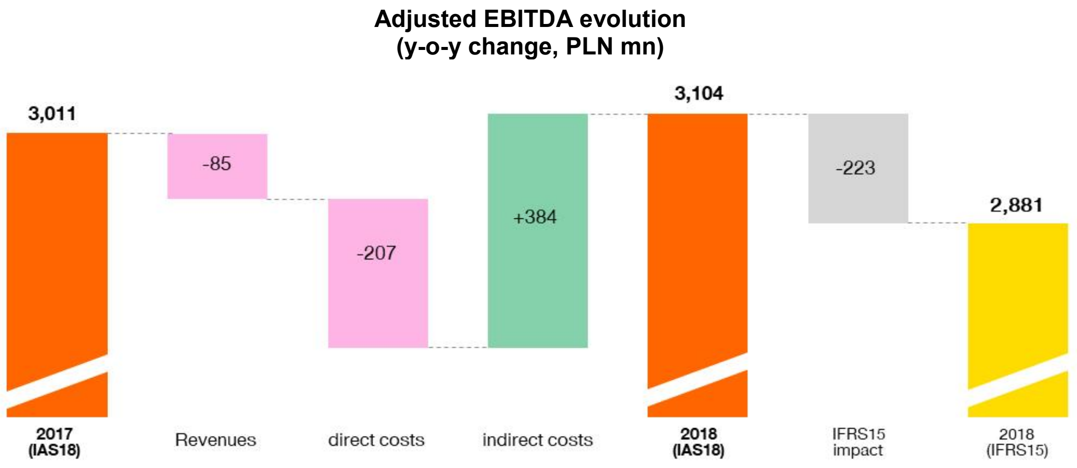
Total operating costs (determined as adjusted EBITDA less revenues) fell by 2.1% year-on-year. As the decrease exceeded revenue erosion, adjusted EBITDA increased by 3.1%. It should be emphasised that the adjusted EBITDA growth was reported by Orange Polska for the first time in twelve years. The adjusted EBITDA margin stood at 27.5% and was up 1.0pp year-on-year. The margin improved despite continued structural pressure on high-margin traditional fixed line services (mainly fixed line voice services), as any decrease in these services is almost entirely reflected in profit erosion. The margin improvement was a result of the convergence strategy implementation, monetisation of fibre investments, focus on value creation, considerable optimisation of operating costs and higher gains on disposal of assets.

Cost evolution can be attributed mainly to the following factors:

- A decrease of 6.3% in commercial expenses, resulting mainly from lower volume of customer acquisition and retention transactions bundled with handsets as well as optimisation of the distribution channel mix and significant savings in advertising and promotion costs;
- A decrease of 7% (year-on-year) in labour costs, mainly owing to workforce optimisation related to the implementation of the new Social Agreement;
- A decrease of approximately 7% in network and IT expenses, resulting from savings in energy consumption, network maintenance and installation costs;
- An increase of 8% in other external purchases, driven by purchase costs of energy for further resale (related to higher revenues in this segment) and content costs (resulting from TV customer base expansion). The increase in these cost items exceeded savings generated mainly in real estate maintenance and general administration costs.

**Revenue evolution breakdown**
**(PLN mn)**






## 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 the 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 our competitors which cannot provide such a comprehensive offer.

In 2018, we continued sales of the Orange Love convergent offer, which is our flagship proposal for Polish households. It was introduced in February 2017 and its basic package includes:

- broadband access in the copper, fibre or wireless for fixed technology;
- a TV package of around 100 channels;
- mobile post-paid service with unlimited calls and SMSs plus a 5 GB data pool; and
- a home phone.

The basic package can be extended to include broader TV packages, additional mobile post-paid services at a discounted price or added-value services, such as Orange TV GO or multiroom. The offer is supplemented by a broad portfolio of smartphones offered in the instalment scheme. Sales remained high, despite very large growth in 2017, which resulted in considerable saturation of our broadband customer base with convergent services. In October, Orange Love customer base exceeded 1 million. The majority of mobile and fixed broadband service sales 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.

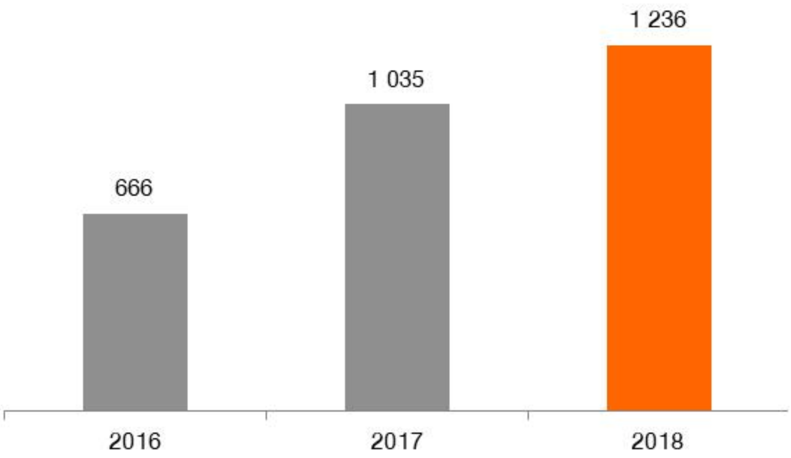
In 2018, our B2C convergent customer base increased by201 thousand (or almost 20%), reaching 1,236 thousand. The total number of services provided in the convergence scheme among B2C customers exceeded 5 million. On average, each convergent individual customer uses over four Orange services, and this ratio is on a stable upward trend owing to upsales of additional mobile and TV services. The share of convergent customers in the aggregate base of residential customers of fixed broadband and mobile voice services is shown in the diagram below. This share has considerably increased owing to the attractiveness of the Orange Love offer and the prioritisation of convergence at Orange Polska. Currently, 57% of B2C fixed broadband customers have convergent bundles.

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.

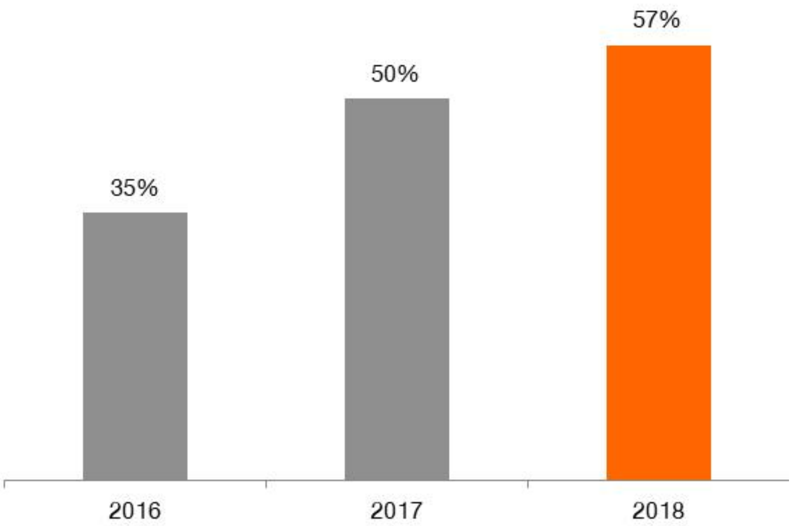
| (IAS18) | 2018 | 2017 | 2016 | Change 2018/2017 | Change 2017/2016 |
|---|---|---|---|---|---|
| Convergent revenues (PLN mn) | 1,388 | 1,068 | 830 | 30.0% | 28.7% |
| Convergent ARPO (PLN) | 102.0 | 105.9 | 120.4 | -3.7% | -12.0% |

In 2018, revenues from convergent services totalled PLN 1,388 million and were up 30% year-on-year. The increase was driven by massive customer base growth. In the same period, average revenue per customer declined by approximately 4% year-on-year. This was attributable to an increase in the take-up of the Orange Love offer, as it generates lower revenue per customer compared to earlier convergent offers, which were based on price discounts for buying additional services. However, the decline rate was much lower than a year earlier.

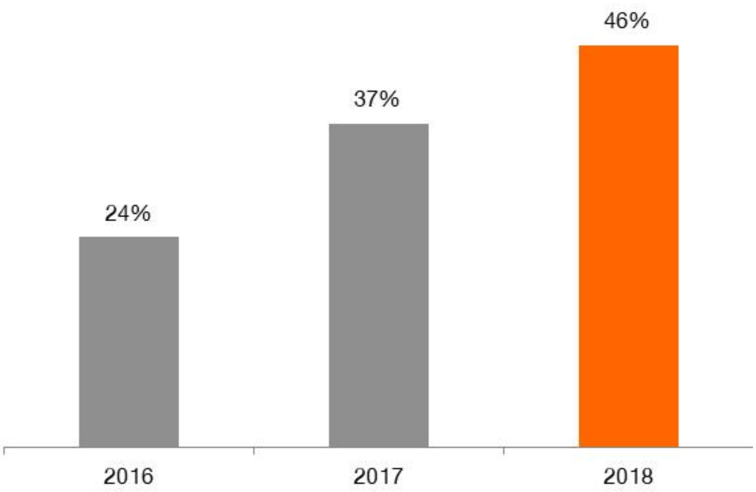
**Orange Polska's B2C convergent customer base (in '000)**




**Convergence penetration in B2C fixed broadband customer base**




**Convergence penetration in B2C mobile handset post-paid customer base**



## 2.2 Mobile-only Services

| Revenues (PLN mn) (IAS18) | 2018 | 2017 | 2016 | Change 2018/2017 | Change 2017/2016 |
|---|---|---|---|---|---|
| Mobile-only services | 2,920 | 3,373 | 3,893 | -13.4% | -13.4% |

| Key performance indicators ('000) | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2016 | Change 31.12.2018/ 31.12.2017 | Change 31.12.2017/ 31.12.2016 |
|---|---|---|---|---|---|
| Post-paid mobile services | 9,922 | 9,726 | 9,262 | 2.0% | 5.0% |
| convergent | 2,369 | 1,959 | 1,198 | 20.9% | 63.5% |
| mobile-only | 7,553 | 7,767 | 8,064 | -2.8% | -3.7% |
| Pre-paid mobile services | 4,883 | 4,698 | 6,537 | 3.9% | -28.1% |
| Total mobile services | 14,805 | 14,424 | 15,799 | 2.6% | -8.7% |

| Key performance indicators (PLN) | 2018 | 2017 | 2016 | Change 2018/2017 | Change 2017/2016 |
|---|---|---|---|---|---|
| Monthly blended retail ARPO from mobile-only services | 21,6 | 23,0 | 22,3 | -6.1% | 3.1% |
| post-paid (excluding M2M) | 28,6 | 31,7 | 36,5 | -9.8% | -13.2% |
| pre-paid | 12,3 | 11,6 | 9,3 | 6.0% | 24.7% |

As at the end of December 2018, Orange Polska had a mobile services base of 14.8 million, which is an increase of nearly 3% vs. the end of 2017.

In the post-paid segment, the number of SIM cards was up 2% year-on-year. Sales of handset offers increased by 3%, that is less than in 2017, which resulted from the consistent implementation of a value-based commercial strategy and concentration on the Orange Love convergent offer in customer acquisition. As we expected, 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 pools for smartphones in mobile voice tariff plans. The number of SIM cards related to M2M services was still growing rapidly.

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. On average, there are almost two SIM cards per convergent customer, and this ratio is on an upward trend. A decrease in non-convergent services can be attributed to migration to convergence, churn, lower migration from pre-paid services (as a result of their higher price attractiveness) and phasing-out of old value-diluting offers.

The pre-paid customer base increased by almost 4% in 2018, after a huge decline in the previous year (mainly due to a slump in new pre-paid activations following the registration obligation). The increase resulted from the market stabilisation, favourable changes in the service portfolio and effective communications attractive to customers.

Blended ARPO (from mobile-only services) amounted to PLN 21.6 in 2018 and was down 6% (year-on-year). The decrease resulted from a combination of an improvement in pre-paid ARPO and an approximately 10% decline in post-paid ARPO.

The post-paid ARPO decline can be attributed to the following factors:

- growing take-up of SIM-only offers;
- popularity of family offers, in which customers get several SIM cards and which involve price discounts;
- substantial decrease in mobile broadband ARPO, resulting from much lower take-up of this service;
- price competition.

### 2.2.1 Market and Competition[1]

The estimated number of SIM cards (53.2 million) increased by 2.3% compared to the end of 2017, driving the mobile penetration rate (among population) to 138% at the end of December 2018. It was a result of a growing post-paid and M2M customer base accompanied by a decline in both pre-paid and mobile broadband (largely due to migration to fixed broadband services). Voice services are the biggest segment in the growing post-paid market.

The mature mobile market in Poland is characterised by low prices. However, evolution of the offer structure (enhancing traditional bundles with value-added services) and the fact that the sector of mobile operators is indebted and involved in large investment programmes seem to indicate that price stabilisation, or even reversal of the downward trend, could be expected. Operators now tend to prioritise financial indicators, such as cash flow. On the other hand, price promotions still play the leading role in marketing strategies in the mobile market. In addition, operators often modify their offers by changing the service provision mode (available from the app level), which in a monthly subscription scheme enables customers to terminate contracts at any time.

The pre-paid market saw a decrease in the volume of services. However, the decline was lower than in 2017, when the market was affected by the pre-paid card registration regulations. Growing competitiveness of pre-paid offers upon the end of the registration period may slow down migration of customers to post-paid services. Due to differences among operators in reporting pre-paid SIM cards, their comparative analysis is still difficult.

According to Orange Polska's own estimates, the four leading operators' aggregated market share remained at 98% as of the end of December 2018, with Orange Polska's estimated market share of 27.9%.

### 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. Currently, the convergent formula accounts for a major share in mobile voice acquisitions. The post-paid mobile-only customer base decreases mainly as a result of migration to convergence but also due to churn.

Following significant modifications of tariff plans in the autumn of 2017 (which involved mainly substantial simplification), the changes introduced in 2018 aimed mainly at increasing the attractiveness of high-end tariffs. In particular, such plans now include unlimited data transfer; namely, once a dedicated data pool is used up, customers can still access the Internet, though the transfer rate is reduced to 1 Mbps. We also added pools of minutes for international calls in these tariff plans. As a result, our high-end tariffs gained an additional differentiator and became more attractive to customers, which raised their share in customer acquisition and retention. In addition, we introduced higher flexibility in combining various tariff plans in family offers.

In line with our value-based strategy, we continued to follow a policy of low handset subsidies, which was introduced in 2017. However, we introduced an option to purchase handsets in an instalment scheme at any time during the lifetime of the service contract. Before, customers could only buy a new smartphone on an instalment basis when concluding or renewing their contracts. Now, they can be much more flexible in this respect, which increases our competitiveness in the smartphone market versus other sales channels. We have thus addressed the needs of customers who either look for novelties or have lost their handset for various reasons and need a new one. As a result, we have significantly increased smartphone sales and enhanced customer loyalty.

In 2018, there were no significant changes versus 2017 in the key trends in the B2C market:

- Households are increasingly the main arena of competitive struggle in contrast to earlier competition for single customers. On the one hand, it resulted in relative stabilisation of prices of single services after years of fierce competition. On the other hand, customers can get price benefits, sometimes significant, for buying a bundle of several services, which contributes to the popularity of multi-SIM family offers, combining mobile voice and data services. A part of this trend is the growing take-up of convergent offers, which combine mobile and fixed-line services.
- With rapidly growing demand for data transfer, the volume of data package has become the key competitive differentiator.
- An attractive portfolio of modern smartphones remains a differentiator in competition for customers. In Orange Polska, the share of customers choosing SIM-only offers stabilised, or even began to slightly decrease, following the growth seen in 2017. Operators now more actively promote sales of smartphones and other accessories independently of a service contract.
- As a product category, mobile broadband has been less and less attractive, mainly due to attractiveness of the wireless broadband for fixed offers as well as growing volumes of data packages in voice offers.
- Looking for other differentiators, in addition to price, operators offer new services, such as access to music services or TV content.

[1] Analysis of the mobile market, excluding wireless for fixed offers.

## 2.3 Fixed-only Services

| Revenues (PLN mn) (IAS18) | 2018 | 2017 | 2016 | Change 2018/2017 | Change 2017/2016 |
|---|---|---|---|---|---|
| Fixed-only services | 2,483 | 2,748 | 3,067 | -9.6% | -10.4% |
| fixed narrowband | 1,086 | 1,257 | 1,457 | -13.6% | -13.7% |
| broadband, TV and VoIP | 941 | 1,033 | 1,130 | -8.9% | -8.6% |
| enterprise solutions and networks | 456 | 458 | 480 | -0.4% | -4.6% |

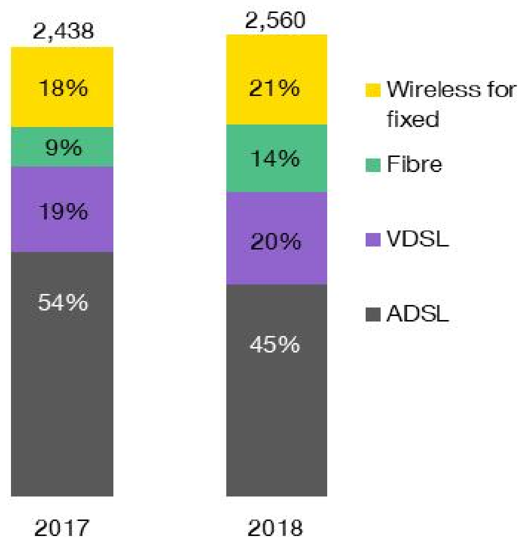
| Key performance indicators ('000) | 31 Dec 2018 | 31 Dec 2017 | 31 Dec 2016 | Change 31.12.2018/ 31.12.2017 | Change 31.12.2017/ 31.12.2016 |
|---|---|---|---|---|---|
| Fixed voice services (retail: PSTN and VoIP) | 3,407 | 3,684 | 3,932 | -7.5% | -6.3% |
| convergent | 755 | 630 | 429 | 19.8% | 46.9% |
| fixed-only | 2,652 | 3,054 | 3,503 | -13.2% | -12.8% |
| Fixed broadband accesses (retail) | 2,560 | 2,438 | 2,206 | 5.0% | 10.5% |
| convergent | 1,236 | 1,035 | 666 | 19.4% | 55.4% |
| fixed broadband-only | 1,324 | 1,403 | 1,540 | -5.6% | -8.9% |

| Key performance indicators (PLN) | 2018 | 2017 | 2016 | Change 2018/2017 | Change 2017/2016 |
|---|---|---|---|---|---|
| ARPO from fixed narrowband-only (PSTN) services | 36.9 | 37.2 | 38.6 | -0.8% | -3.6% |
| ARPO from fixed broadband-only services | 56.6 | 57.7 | 60.3 | -1.9% | -4.3% |

Total fixed broadband customer base increased by 5% in 2018, reaching 2,560 thousand. The trend did not change compared to 2017. The growth is driven by investments in fibre and mobile networks. Decline in the mostly non-competitive ADSL technology was offset by growth in VDSL, fibre and wireless for fixed. The share of these growing technologies in the aggregate customer base increased to 55% at the end of December 2018 (from 46% at the end of 2017). We expect this transformation to continue as a result of the steady implementation of our convergence strategy and further investments in the fibre network.

In connection with a new layout of revenue reporting, since the beginning of 2018 we have separated convergent broadband customers (their number equals to that of convergent customers) from non-convergent broadband customers. The non-convergent broadband customer base shrinks as a result of migration to convergence but also due to churn. As a consequence, revenues in this category decrease. Broadband ARPO also decreases, but its erosion is much lower than before, owing to a growing share of fibre (which generates higher ARPO) and lower decline among business customers.

**Broadband customer base by technology**
**(in thousand)**




Erosion of fixed voice customer base (excluding VoIP) totalled 431 thousand in 2018 and was slightly higher than in 2017. The decline can be attributed mainly to structural demographic factors and attractiveness 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. Revenue erosion was approximately 13.6%, remaining at a similar level to 2017. We expect this downward trend to continue in subsequent periods. A positive trend, however, is the stabilisation of average revenue per user.

### 2.3.1 Market and Competition

*Fixed Voice Market*

The Group estimates that the fixed line penetration rate was at 18% of Poland's population at the end of December 2018, as compared to 19% at the end of 2017. The decline is still attributable mainly to growing popularity of mobile technologies. In countries like Poland, where the fixed line penetration was low at the time of introduction of mobile technology, mobile telephony is largely a substitute to fixed line telephony. The aforementioned downward trend has been also affecting regulated fixed-line wholesale products 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 by 0.4million in 2018 year-on-year. This can be attributed to two factors: intensive roll-out of fibre infrastructure and growing popularity of mobile broadband for fixed-line uses.

Mobile broadband can successfully complement or even substitute for traditional cable lines. Orange Polska's wireless for fixed customer base increased by 0.1million lines in 2018, exceeding 0.5 million at the end of 2018.

At the same time, the high-speed fixed broadband market has been constantly expanding and growing in Poland, especially in urban areas, with Orange Polska contributing greatly to the growth. In 2018, Orange Polska's high-speed broadband customer base increased by 0.19 million. 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 31.5% by volume or 28.5% by value.

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 broadband users by over 0.12 million in 2018.

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

**Fixed broadband market – key performance indicators**

| | 31 Dec 2018 (Estimation) | 31 Dec 2017 |
|---|---|---|
| Market penetration rate – broadband lines (in total population) | 23.5% | 22.4% |
| Total number of broadband lines in Poland ('000) | 9,020 | 8,620 |
| Orange Polska's market share by volume | 28.4% | 28.3% |

**Fixed voice market share in 2018**

| | 31 Dec 2018 (Estimation) | 31 Dec 2017 |
|---|---|---|
| Retail local access[2] | 49.1% | 50.5% |

### 2.3.2 Fixed Line Data Services

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

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

As at the end of 2018, almost 3.4 million households were connectable with the fibre network, which is an increase of over 900,000 compared to the end of 2017. Our fibre services are available in 117 cities compared to 75 cities at the end of 2017. In more than 50 cities, our fibre network reaches over 50% of all households. In 2018, we focused more on developing our network in smaller towns, where some districts are dominated by single-family houses. These accounted for 16% 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 house despite the fact that fibre broadband is more expensive for such customers.

Our fibre customer base reached 366 thousand, growing by over 70% (or 152 thousand) year-on-year. This corresponds to a service adoption rate of almost 11%, which grows steadily (from 8.7% at the end of 2017 and 6.0% at the end of 2016). It should be noted that over 80% 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.

As Poland's fixed broadband market in big cities is highly competitive, price is a very important differentiator of the offer attractiveness. As for portfolio developments, we have been greatly promoting convergence, using our strong position in the mobile market. It is a major competitive advantage over CATV operators, as they provide no or very limited mobile services. The Orange Love offer launched in February 2017 greatly contributes to the achievement of these goals. At the end of 2018, penetration of convergence in our fibre customer base was 57%.

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. In February 2017, the launch of the Orange Love offer was accompanied by the introduction of a new set-top box with expanded functionalities. In addition to improved menu ergonomics, the decoder enables recording up to three programmes simultaneously and watching 4K TV. Thus, Orange Polska became the first nationwide pay TV operator to provide content at 4K resolution.

In rural areas, mobile technologies are the primary broadband access solution and constitute the basis for our wireless for fixed offers. Owing to attractive prices and high quality of our mobile network, such offers are very popular among customers.

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

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 quality.

# 3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

## 3.1 Market Outlook

Orange Polska expects the telecommunications market to rebound in the coming years. In a short-term perspective, the market will be driven by the following factors: rapid expansion of very high-speed broadband access (above 30Mbps),owing to fibre infrastructure investments and an increase in LTE coverage, as well as growing post-paid volume in the mobile segment. At the same time, the telco services market will be under pressure due to continuing fixed-to-mobile substitution, both in terms of 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. This, however, requires support by the State, which should cut red tape on the investment process and, possibly, verify Polish electromagnetic field (EMF) emission standards, which are currently among the most restrictive in Europe.

We expect growing penetration of fixed broadband in the coming years, driven by the on-going digitisation of the society and economy, including development of e-commerce, Internet of Things, e-Administration etc. Growing demand will be satisfied by increased supply of fixed broadband owing to EU-financed investment projects carried out by Orange (with a total of 1.8 million lines to be constructed) and other telecom operators, as well as constant improvements in mobile connectivity. The activity of operators as well as agreements between them on using the constructed infrastructure, such as the one between Orange Polska and T-Mobile to provide access to 1.7 million households in multi-family houses in deregulated areas, will bring Poland closer to meeting the European Digital Agenda objectives. The new infrastructure is largely based on the fibre technology, so it could likely be used for the future 5G network. Also growing popularity of smartphones, tablets and other equipment with mobile Internet access will positively affect the telecommunications market.

As for the mobile services market, we predict competition to shift from simple price cuts towards quality-based competition. We expect the market growth to be driven by bundled and convergent offers. On the B2B market we expect volume growth to continue as a result of an increase in the number of employees and companies 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.

In the first half of 2018, UPC Polska and Multimedia Polska announced withdrawal from the acquisition of the latter as a result of failure to reach an agreement on the value of the transaction which would take into consideration the conditions set by UOKiK. In August 2018, the market's second largest cable operator, Vectra, attempted to acquire Multimedia Polska. Despite reports on withdrawal of both companies from the attempted merger, as announced by UOKiK the process is still formally open and the transaction is being reviewed by the latter. If the transaction were finalised, Vectra would become the largest cable operator in Poland in terms of reach.

Meanwhile, the Cyfrowy Polsat Group acquired a controlling stake in Netia. These developments on one hand confirm Orange Polska's strategy of convergence (i.e. combining fixed and mobile services), but on the other hand may result in increased market competition.

## 3.2 *Orange.one* Strategy

***Orange.one*: A new momentum for Orange Polska**

In September 2017, we announced a new strategic plan for 2017–2020 called *Orange.one*. Our vision is to become Poland's first choice telecommunications operator for consumers and businesses by 2020, while creating a business model that will generate sustainable growth in both sales and profits. We expect to achieve these objectives by developing services and products of unmatched quality, supported by the comprehensive development of our fibre network and digital capabilities, and by significantly increasing our operational efficiency.

*Orange.one* reaffirms the key priorities of the strategy announced at the beginning of 2016, while giving them a new momentum. To achieve the goal of sustainable turnaround, we will need better execution, clearer focus and more agility. All our business decisions will be driven to a greater extent by value creation, and our customer propositions will be driven by simplicity and consistency. Poland's telecommunications market is characterised by very intense competition and even though there are some clear signs of a shift towards value-oriented strategies, we do not expect any significant change in the level of competition.

**We have right assets at hand**

We believe to have adequate assets to implement our strategy, and what we need is better execution to get the proper return and value out of these assets. We have Poland's largest base of mobile and fixed line customers, who have trusted us. For several years we have been heavily investing in our mobile and fixed networks and their connectivity has been appreciated by both retail and wholesale customers. We operate under a global and broadly recognised brand, which is a major source of competitive advantage, as it is considered innovative and enjoys very high awareness. The Company's another strength is highly motivated and skilled employees, in whom we invest to make them contribute to value creation.

**Consumer market strategy driven by convergence**

The key to success in the B2C market is convergence, or sales of mobile and fixed line service bundles. Convergence addresses the household telecommunication needs in a comprehensive manner, increases customer satisfaction and reduces churn. We still see a great potential in convergence for both upselling additional services to the households where we are already present and entering new households with our services. According to our research, about 90% of Polish households still buy telecom services from several suppliers. A fast, modern and reliable network is a critical factor to success in convergence. Our ambition is to have over 5 million households, or about 40% of all households in Poland, connectable to our fibre network by 2020. While implementing our strategy in the mass market, we also account for customers who for some reason do not need or do not want convergence, offering them attractive tariff plans and equipment at competitive prices. In customer acquisition and retention, our guiding principle will be to create value for the Company.

**Business market strategy driven by digital transformation**

In the B2B market, our main ambition is to become the first choice partner for our customers in digitisation. Digitisation is currently the key transformation process in business organisations with respect to both their internal environment and their products and services. This process involves increased demand for data transmission, business migration to the cloud, increased cybersecurity needs and demand for tailor-made and much more flexible ICT solutions. Development in these areas is our priority. We continue to improve connectivity, which provides the basis for digitisation of both corporations and small businesses. Convergence, which is the key growth engine in the B2C market, is also a pillar of our offer to small to medium companies, often supplemented by an ICT component. In the next few years, the Internet of Things will remain a major growth area. We continue development also in this segment, benefiting from the fact that we are currently the market leader in machine-to-machine (M2M) services.

Our common ambition for both B2B and B2C segments is to achieve the number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020.

**Financial goal: Sustainable growth of revenue and EBITDA in 2020**

Proper implementation of the *Orange.one* strategy is to lead to the development of a business model, which will enable us to return to a sustainable and stable growth path. In financial terms, this should result to a gradual improvement in trends, generating revenue and EBITDA growth in 2020.

Sales revenues stabilisation in 2019 and growth afterwards is to be driven by the following factors:

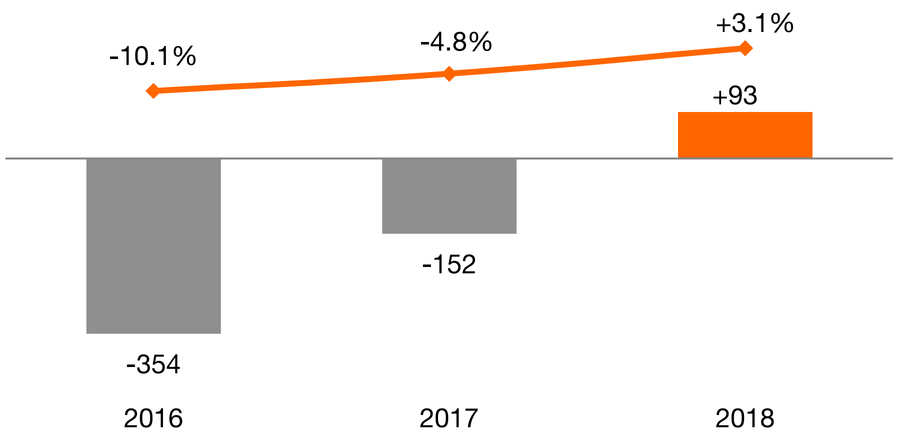
- Significant growth of convergent customer base and convergent services,
- more focus on value generation,
- successful development in adjacent business areas (ICT, Orange Energy, Orange Finance, Orange Smart Care, sales of equipment), and
- a diminishing share of legacy services in total revenues.

The improving revenue trend will contribute to an improvement in the EBITDA trend, which will be also driven by operating leverage and continued cost optimisation. We forecast a reduction of underlying indirect costs by 12–15% by 2020 versus 2016. Savings will be generated across all cost groups, including labour, outsourcing, general & administrative, energy and network maintenance costs. They will result largely from comprehensive transformation of Orange Polska’s processes at each stage of our business model: networks, products and services, distribution and customer care. The process transformation will aim at their simplification, automation and digitisation.

The intended capex will reflect our connectivity programme and business transformation needs. Our capex ambition is to spend at least PLN 2 billion annually by 2020, including ambition to spend ca PLN 2.8 billion on fibre network deployment in 2018–2020 to cover more than 5 million households by the end of 2020.

We believe that our financial performance in both 2017 and 2018 as well as our expectations for 2019 validate our Orange.one strategy. Following a significant decrease in adjusted EBITDA erosion in 2017, it increased 3.1% last year. It was the first improvement in adjusted EBITDA after twelve years of decline. The growth was mainly a result of the implementation of our convergence strategy, monetisation of fibre network investments, steady focus on value generation in our commercial activities, very high cost savings and record gains on disposal of real estate. EBITDA improved despite continued structural pressure on high-margin traditional fixed line services, the erosion of which almost fully filters through to profits. In 2019, we intend to sustain this growth through consistent implementation of our strategy.

**Improving adjusted EBITDA trend (IAS18)**
**(yoy change in PLNmn)**




**Key business objectives by 2020**

Business-to-Consumer

- Increase of convergent customer base by an additional 1 million to 1.5 million by the end of 2020 (vs.858,000 in 1H2017)
- Increase of fibre customer base 5–6 times by the end of 2020 (vs. 140,000 in 1H2017)
- Increase of TV customer base by an additional 300,000 to 600,000 by the end of 2020 (vs. 792,000 in 1H2017)
- Achieving number one position in NPS (Net Promoter Score) ranking on the Polish market by 2020

Business-to-Business

- Reaching 55% of convergent customers in SOHO/SME segment by the end of 2020 (vs. 24% in 1H2017)
- Increase of mobile handset customer base an additional 0.6 million by the end of 2020 (vs. 2.4 million in 1H2017)
- Achieving number one position in NPS (Net Promoters Score) ranking on the Polish market by 2020

**Key financial targets by 2020 (under IFRS18 accounting, valid to 2017)**

- Revenues: stabilisation in 2019 and growth afterwards
- EBITDA: stabilisation in 2018 and growth afterwards
- Capex: PLN 2.0–2.2 billion
- Net debt reduction from 2019

The diagram below illustrates the expected gradual improvement in financial trends as well as our initial Capex expectations:

**Return to growth backed by more focus on value creation**

| | | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| Revenue | Growth areas to increasingly offset pressure on legacy | | stabilisation | growth |
| Adjusted EBITDA | To be supported by better revenue trend, operating leverage and continued cost optimisation | stabilisation | growth | growth |
| CAPEX | Reflects connectivity programme and business transformation needs | PLN2.0-2.2bn | PLN2.0-2.2bn* | PLN~2.0bn* |
| Net debt | Decreasing from 2019 | | | |

* ambitions

under IAS 18 accounting standard, effective until 2017

### 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:

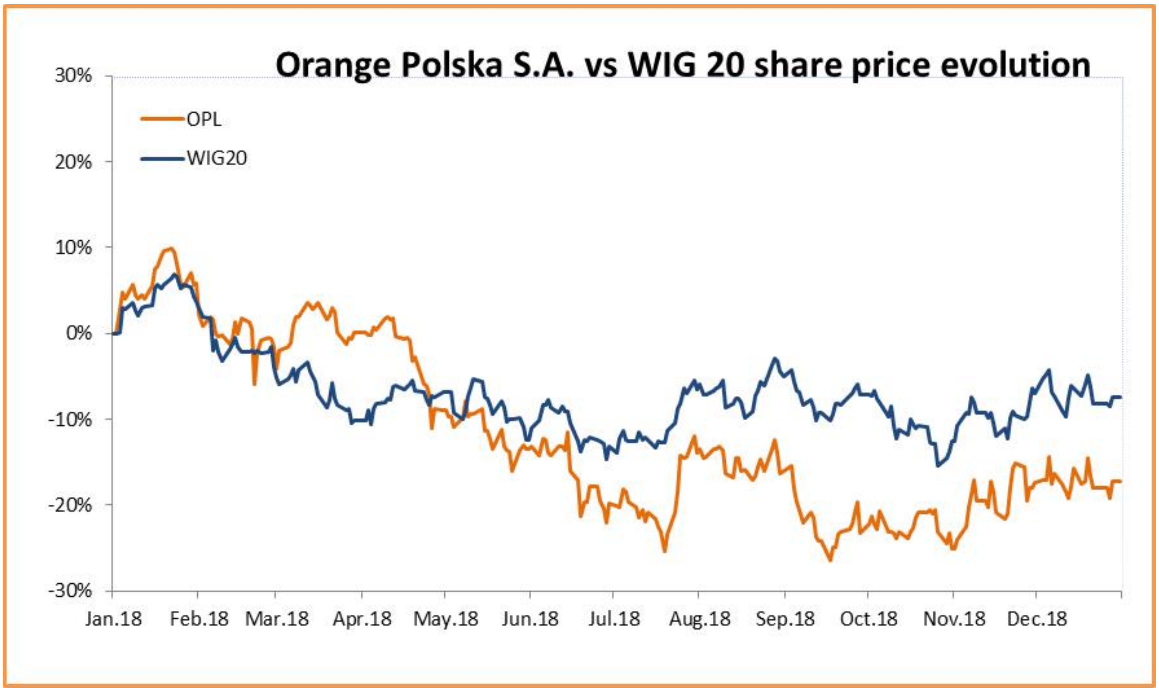
- WIG20 and WIG30 large-cap indices;
- WIG broad-market index;
- WIG-telecommunication industry index; and
- RESPECT Index of socially responsible companies.

In 2018, Orange Polska S.A. was once again included in a prestigious group of listed, socially responsible companies. The new portfolio of the RESPECT Index announced by the Warsaw Stock Exchange comprises 28 companies. Orange Polska S.A. has been present in the index portfolio since its first edition. The RESPECT Index has been increasingly popular among companies and investors, who have noticed a link between consideration for social and environmental impact and financial performance.

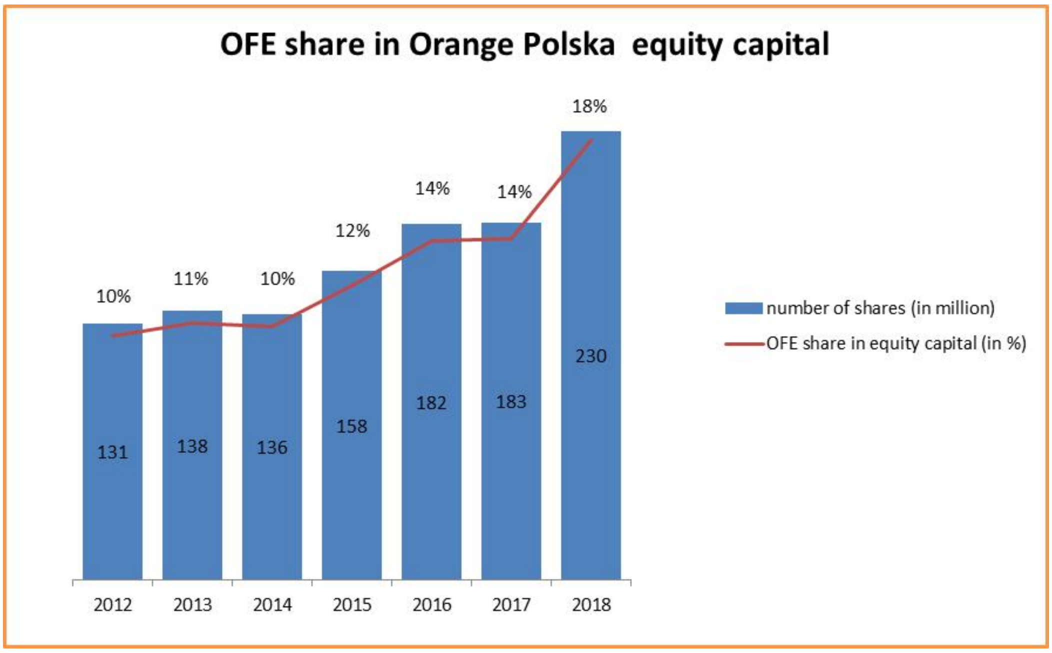
In addition, Orange Polska S.A. has been included in the global FTSE Russell's ESG Ratings, a global index that measures company's performance across environmental, social and governance (ESG) areas.

2018 saw losses in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 17.3%, while the large-cap index, WIG20, lost 7.5% in the period.

ORANGE POLSKA S.A. SHARE PRICE in the period from December 31, 2017 to December 31, 2018




A diagram of Polish Open Pension Funds'("OFE") total shareholding in Orange Polska S.A. as of the end of 2018 and previous years is shown below. The figures indicate that a stake held by these Funds in Orange Polska's share capital has been growing since 2012 and at the end of 2018 was at a historic high. A total of ten Open Pension Funds operated in the Polish capital market in 2018.




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

On September 4, 2017, the Supervisory Board adopted the ("the Programme") for the Management Board Members, Executive Directors and key managers of Orange Polska S.A., including selected members of management boards of subsidiaries of ("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 2018, the Company held four results presentations and about 200 meetings with investors and analysts in Poland and a number of other countries.

Orange Polska's activity and performance are monitored by analysts representing both Polish and international financial institutions on a current basis. In 2018, a dozen or so financial institutions published their reports and recommendations concerning the Company.

On March 1, 2018, CFO of Orange Polska answered retail investors' questions during an investor chat held by the Association of Individual Investors (SII). Several dozen individual investors asked their questions during the chat.

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

In 2018, Orange Polska published its second 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 and environmental impact. The content and layout of the report are based on the International Integrated Reporting Council (IIRC) and Global Reporting Initiative (GRI.G4) guidelines, ISO 26000 and Global Compact Principles.

Orange Polska won an award for the best 2017 integrated report in the 12th CSR Reports Competition. The award was granted for "presenting an approach to management and business in a manner integrating the financial and ESG (Environment, Social, Governance) perspectives, comprehensive presentation of risks, as well as a fair, accurate and reliable report showing both strengths and weaknesses of the organisation and subjected to external verification." In addition, the Company received a special award from the Warsaw Stock Exchange for maintaining high non-financial reporting standards and contributing to the reliability of listed companies among investors. The CSR Reports Competition is organised by the Responsible Business Forum and Deloitte. Its partners are the Ministry of Finance, the Ministry of Investment and Economic Development, Polish Association of Listed Companies, Polish Consumer Federation, Warsaw Stock Exchange and Polish Chamber of Statutory Auditors.

Furthermore, the Orange Polska Integrated Report 2017 received an honourable mention in The Best Annual Report contest organised by the Institute of Accounting and Taxes for the greatest value for users.

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** |
|---|
| 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 |
| Raiffeisenbank AG |
| Trigon Dom Maklerski |
| 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

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

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

## 4.1 Implementation of Orange Polska's Strategy: *Orange.one*

In September 2017, Orange Polska announced *Orange.one*: new strategic plan for the years 2017–2020. According to the Company's strategic vision, Orange Polska aims to become Poland's telecommunications operator of first choice for consumers and businesses, while creating a corporate business model that will generate sustainable sales and profit growth. These objectives are to be achieved by developing unmatched quality of services and products, supported by comprehensive development of its fibre network and digital capabilities, and by increasing significantly its operational effectiveness and efficiency. Orange.one assumes continuation of the key efforts initiated by the action plan announced in February 2016, while giving them a new momentum. The key to success will be better execution, clearer focus and more speed and agility. All decisions will be influenced by long-term value creation and all customer propositions will be driven by simplicity and consistency.

In financial terms, the new strategic plan is to result in a gradual improvement in trends of revenues and EBITDA and their sustainable growth from 2020. This will be supported mainly by concentration on the convergence strategy, monetisation of fibre network investments, development of complimentary business areas, focus on value generation and significant optimisation of underlying indirect costs. The plan provides for considerable capital expenditures to 2020, resulting mainly from intensive roll-out of the fibre network. As part of *Orange.one*, the Company published new business objectives and financial targets, which are presented in detail in section 3.2 above.

## 4.2 '5G for Poland' Strategy

On June 29, 2017, an Agreement for the '5G for Poland' Strategy was signed under the aegis of the Minister of Digital Affairs, with Orange Polska as one of the signatories. Orange Polska has been actively involved in the work of the task forces established pursuant to the Agreement. In January 2018, the Ministry of Digital Affairs released Draft Strategy '5G for Poland' for public consultation. Based on the outcome, a new version of the document is being prepared. It will set the tasks and objectives of the public administration with respect to the 5G implementation in Poland. The Draft Strategy provides for amending a number of regulations to facilitate quick and efficient deployment of the 5G network. Simultaneously, an update of the National Broadband Plan is being prepared, and the draft document incorporates a number of provisions from the draft Strategy. Furthermore, the legislative process has been launched for an amendment to the Telecommunication Law with respect to radio frequencies management and an amendment to the telecommunications 'Mega-Act' with respect to, inter alia, elimination of investment barriers for wireless networks.

It is our ambition to take an active part in the 5G network implementation in Poland and provide our customers with access to the 5G network and modern services based on this technology. We have continued our 5G launch preparations. The on-going intensive roll-out of our fibre network is a precondition of the efficient operation of the 5G mobile network. In September and December 2018, Orange Polska, as the first large mobile operator in Poland, conducted two-phase tests of the new technology using a base station in Gliwice. The station used a 100 MHz channel from the 3400–3600 MHz band and operated in the Non-Stand Alone (NSA) mode, in which the 4G network is used for connection but data transfer is via the 5G network. In 2019, Orange Polska plans further tests of the 5G technology (according to the latest standards) and its practical uses with the equipment provided by various suppliers.

## 4.3 Business Opportunities in the Wholesale Market

In order to benefit from our investments made in mobile and fixed-line networks, we actively seek opportunities to improve return on these investments by establishing wholesale co-operation with other operators.

*Access to Orange Polska's Fibre Network for T-Mobile*

On July 23, 2018, Orange Polska and T-Mobile Polska signed an agreement on telecommunications access to Orange Polska's fibre network in the form of Bitstream Access ("BSA").

This wholesale co-operation will contribute to faster monetization of Orange Polska's investments in the fibre network and promote fibre as superfast broadband technology in Poland. It will also maximise usage of Orange Polska's infrastructure while avoiding fibre network overbuilding by other operators and accelerate convergence of telecom services in the Polish market based on fibre. No exclusivity was granted under the transaction and Orange Polska is open to negotiate wholesale access to its fibre network with other operators.

The key terms and conditions of the agreement were described in the Company's Current Report 19/2018 dated July 23, 2018.

*National Roaming Agreement with P4*

In July 2017, we signed an annex to the national roaming agreement with P4. The annex changed the existing terms of co-operation, particularly by departing from per-minute or per-gigabyte charges in favour of specific service packages in the take-or-pay scheme, which guarantees a minimum income for Orange Polska. The annex provides for a four-year term of co-operation from July 2017. The agreement will enable better monetisation of the network investments carried out by Orange Polska by guaranteeing a minimum revenue of PLN 321 million over the four-year period.

### 4.4 Infrastructure Development

*Fixed Line*

In 2015, the Company commenced massive development of FTTH lines. It has been continued in line with the adopted strategy. At the end of 2018, almost 3.4 million households in 117 Polish cities were connectable with our fibre network. The network roll-out has been maintained at a high rate of 0.9 million households and businesses annually, as it is one of the strategic priorities of the Company.

The number of households connectable to Orange Polska’s VDSL network stood at over5.3 million at the end of 2018. VDSL range increased only 2% as compared to 2017, mainly due to the priority of fibre network investments.

The strategy of development of services based on FTTH lines provides not only for the construction of the Group’s own infrastructure but also for wholesale agreements with other fibre network operators, wherever it is technically possible and economically viable. Such agreements where concluded in 2016, 2017 and 2018. The main benefits include quicker access to the fibre network and more efficient use of the existing fibre infrastructure in the relevant locations. This is in line with the aims of the Cost Directive of the European Commission, which recommends avoiding duplication of the existing facilities. In 2018, Orange Polska signed further such agreements. Under this scheme, we have been already using the infrastructure of 32 operators for nearly 417,000 households. In 2019 and in subsequent years, Orange Polska intends to continue to acquire FTTH range from other operators, including fibre network developed in the Operational Programme “Digital Poland”.

In 2018, a commercial pilot of Business Pack Fiber business services was launched in Warsaw. It offers two options: an asymmetrical connection with download speed of 5 Gbps and upload speed of 1 Gbps or a symmetrical connection with download/upload speed of 2 Gbps.

Orange Polska is Poland’s largest wholesale service provider. Especially lines of capacity of 1 Gbps or more have been in great demand recently. In 2018, we continued to build the nationwide OTN (Optical Transport Network) trunk lines in order to enhance accessibility and reduce time to deliver leased lines services. In 2018, we began to implement new high-capacity nodes which will increase network flexibility. Our nationwide OTN consists of 30 transport nodes in Poland’s biggest cities, providing for the aggregate network capacity of 3.1 Tbps.

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, 999 and 997 (since December 2018), 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 99.49% at the end of 2018. This confirms very high quality of Orange Polska’s fixed-line services.

*Mobile*

Orange Polska has been steadily increasing the number of its base stations and enhancing their capacity. In 2018, our customers got access to further 355 base stations. As data transfer on the Orange mobile network grows rapidly and the biggest increase is reported in 4G LTE traffic (which grew 175% in 2018 year-on-year), the LTE technology remains the top priority in our investments in mobile network. As a result, the 4G coverage for all bands was 99.83% of population on 98.00% of Poland’s territory as of the end of 2018. LTE services were provided by Orange Polska via 10,882 base stations. In 2018, in addition to gradually expanding the network coverage and capacity, Orange Polska focused on increasing the number of sites enabling spectrum aggregation; their number reached6,901 on the end of December 2018 compared to 5,095 on the of June 2018.

Furthermore, Orange Polska concluded an agreement with T-Mobile, effective on May 1, 2018, to allow better use of the available radio band resources and increase the capacity of its LTE 4G network by nearly 40% by 2020.

As a significant portion of the available spectrum was allocated to older technologies, 2G and 3G, Orange Polska decided that in addition to building new stations and expanding its 4G LTE network based on the 800 MHz and 2600 MHz frequencies won in the auction, it will also optimise the use of its frequency resources. The first change involves the conversion of the 15 MHz frequency block in the 1800 MHz band, which is used jointly with T-Mobile, into two independent carriers of 10 MHz each. This enables the Company to increase the capacity of its 4G LTE network within this band by approximately 1/3 in a short time. The second element of the spectrum refarming process will be to launch LTE services in the 2100 MHz band. Orange Polska will use 10 MHz currently allocated to 3G for this purpose. Both changes allow aggregation of up to four carrier bands, which translates into higher network capacity and transfer speed. The total bandwidth allocated to LTE services will increase to 45 MHz. At the same time, in order to maintain the quality of our 3G network, we have also converted the 4.2 MHz frequency block used jointly with T-Mobile for UMTS900 services into two independent carriers of 4.2 MHz each. The change in the spectrum usage in the 900 MHz band has been already effected, while the ones in the 1800 and 2100 MHz bands are introduced gradually, and by the end of 2018 had been completed in 11 cities (Cracow, Toruń, Poznań, Bydgoszcz, Upper Silesian Conurbation, Tricity, Olsztyn, Wrocław, Lublin, Szczecin and Warsaw). The whole refarming project will take three years and will be completed in 2020.

The agreement with T-Mobile does not mean the end of co-operation under NetWorkS!, but only a departure from co-operation in the bandwidth sharing model (Multi-Operator Core Network – MOCN). Both operators will continue to share infrastructure (access to the radio network) in the MORAN (Multi-Operator Radio Access Network) model. Developments of mobile and fibre networks are complementary processes, which aim to provide Orange Polska's customers with the highest quality services regardless of where they use them. It is also the basis for developing a convergent portfolio with its flagship product Orange Love.

### 4.5 Orange Polska’s Participation in the Operational Programme “Digital Poland”

In the EU Financial Framework 2014-2020, funds have been allocated for the Operational Programme “Digital Poland”, which aims to strengthen digital foundations for the national development. According to the Partnership Agreement of May 23, 2014, those foundations include: common access to high-speed Internet, effective and user-friendly public e-services and a continuously rising level of digital competences of the society. In the priority axis I: Common access to high-speed Internet, funds totalling PLN 1.2 billion have been allocated for adding last mile facilities which will meet the European Digital Agenda requirements to the existing infrastructure.

Following the first competition procedure for co-financing of investment projects in the Programme, in September 2016 Orange Polska concluded agreements with the “Digital Poland” Project Centre for co-financing of investment projects in 174 towns in 8 areas, which are located in the Lubuskie, Pomeranian and Lower Silesian Regions of Poland. The funds granted total almost PLN 24 million. The projects were implemented in 2017 and 2018.

The second competition procedure was announced on September 30, 2016. In this procedure, a total of PLN 3 billion was allocated for co-financing projects in 79 NUTS-3 regions (that is areas comprising of several districts each). Ultimately, 18 projects submitted by Orange Polska were selected for co-financing.

Orange Polska has implemented projects in seven regions of Poland, namely: Pomeranian Region (4projects), West Pomeranian Region (4 projects), Lesser Poland Region (3 projects), Lubuskie Region (2 projects), Lower Silesian Region (2 projects), Mazovian Region (2 projects) and Silesian Region (1project). These projects have been granted a total of PLN 741.3 million from the Programme funds, which accounts for about 84% of eligible costs (under co-financing agreements between Orange Polska and the “Digital Poland” Project Centre). Co-financing accounts also for about 70% of the total costs of network construction according to the agreements between Orange Polska and the contractors. Over 363,000 households and 3,752 educational facilities are within the reach of the intended investments. The projects have been scheduled for implementation from 2017 to 2020.

### 4.6 Competition in the Telecommunications Market

Poland’s mobile telecom market, with four infrastructure-based players, is still highly competitive. In addition to price, which is slowly ceasing to be the key offer differentiator, other elements of the operator’s offer, such as value-added services (access to music services or TV content), connectivity and customer care, are gaining importance. Price competition over recent years has led to a relative balance in market shares of the main players and reduced mobile service prices in Poland to one of the lowest levels within the European Union. In 2018, the strongest price pressure was exerted by MVNOs, which have been increasingly adding post-paid services to their service portfolio. The main infrastructure-based operators try to retain proper value proposition for customers, but mainly through various types of promotions they still affect market competitiveness.

Households have become the main arena of competitive struggle in contrast to earlier competition for single customers. Therefore, the service portfolio of both Orange Polska and alternative operators includes a number of dedicated services ‘for home’, including non-core services, such as electricity supply, personal finance, gas supply, insurance or sale of household appliances.

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

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

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

Increase in investments in the fibre infrastructure based on EU funds was another major market development in 2018. Owing to EU co-financing, such projects are possible even in non-urban areas, where investments in the fibre network have not been economically viable hitherto. From Orange Polska's perspective, development of the fibre infrastructure in 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 its retail offer by using the newly constructed networks on wholesale terms.

There are over 1.33 million households in the areas covered by the investments projects carried out in the Operational Programmes "Digital Poland" 1 & 2. These are largely areas out of reach of fixed line telecom networks or areas where provision of high-speed broadband service is not technically possible.

### 4.7 Pay TV Portfolio Development

As for development of Orange TV services, 2018 saw the continuation of the convergence strategy, of which pay TV is a major element, as well as further investments in quality 4K services. The take-up of Orange TV services has seen steady growth, reaching 942 thousand customers (up 94 thousand year-on-year).

In 2017, Orange Polska became the first nationwide operator to provide pay TV content at 4K resolution. Since then, the 4K offer has been constantly expanded. In addition to two TV channels (Festival 4K and Eleven 4K) and 4K content provided by Netflix via Orange set-top boxes, in 2018 the Company introduced TVP 4K and Canal+ 4K channels during the 2018 FIFA World Cup and enhanced its video-on-demand catalogue of films and programmes from such providers as Discovery and Warner.

### 4.8 Development of ICT Services

ICT, as an area of very high growth potential, was one of the priorities in Orange Polska's offer enhancement in 2018. The Group's strategy provides for the gradual expansion of the ICT portfolio by adding new solutions and technologies in both the service-based and project-based model. Our ICT strategy for 2018 provided for both growth in the areas with established market position (ICT infrastructure and cybersecurity) and further competence development in the area of specialist services related to software, data analysis, process automation and business digitisation and provided to the largest companies in Poland. To implement its strategy in the ICT area, the Group uses its infrastructural and technological resources, offering safe end-to-end services to its customers.

In 2018, sales of IT services and products increased by almost 30% year-on-year, mainly as a result of excellent results of Integrated Solutions, an IT integrator focusing on IT projects for medium to large companies and the public sector. Integrated Solutions has become one of the largest IT integrators in Poland, as confirmed in *Computerworld* and *ITWiz* reports. The consistent implementation of the adopted ICT strategy has resulted in an increase in revenues in the areas related to both ICT infrastructure and business software. The main growth engines were projects involving provision of services to the largest companies sector and an increase in public procurement. Integrated Solutions participates in the digital transformation of the Polish market as an end-to-end service integrator, providing advanced technical solutions and setting trends in the IT market in Poland. The company's strategy is based on sustainable organic growth and technological offer developments.

Another major factor positively affecting ICT revenues of Integrated Solutions is strategic partnerships with Oracle, Cisco, Dell-EMC, Microsoft, HP Enterprise, Huawei and Google. As part of the Group's co-operation with Oracle, Integrated Solutions became the first company in Poland to receive the status of Cloud Managed Service Provider in mid-2017 and was declared Oracle's Partner of the Year: Service Provider in the CEE region in 2018.As a result, the company implemented several large projects based on the Oracle technology, which improved its financial results. Integrated Solutions was also awarded for "Legendary achievements as Platinum Partner in CEEMA" by HPE and received an award from VMware for top NSX implementation competency. In 2018, the company signed new partnership agreements with Salesforce on marketing and customer relationship management systems, as well as NICE and UIPath on process automation with RPA technology. In addition, Integrated Solutions became the Premium Business Partner of CIONET, a community of corporations and public institutions which are digital transformation leaders.

At the same time, Orange Polska works on expanding its own portfolio of IT infrastructure services in the SaaS model so as to maximise margins and effectively address customer needs to the greatest extent possible.

## 4.9 Evolution of the Group's Distribution Network

Customer preferences for contact channels evolve over time, but they still use points of sale most frequently. Orange Polska has a chain of 731 POSs all over Poland (vs. 752 at the end of 2017), including 23 Smart Stores – the largest modern flagship showrooms with intuitive and functional space divided into three main zones: home, business and entertainment.

In 2018, Orange Polska opened further nine Smart Stores. As a result, customers gained access to such showrooms in additional cities and towns, including Chorzów, Gliwice, Bydgoszcz, Nowy Sącz and Toruń. In addition, the Company opened the first Smart Store with the Mobile Equipment Repairs Zone (in the Sezam Department Store in Warsaw), which can be used by customers of other operators as well. In 2018, customers interested in buying electronic equipment could also purchase a device together with our service (e.g. a laptop plus mobile broadband service, or fibre service) on Media Markt and Media Expert chains.

On the www.orange.pl website, we develop content customisation based on machine learning and artificial intelligence technologies: customers are presented dedicated content depending on their actions and the services they use. Positive omnichannel experience is created through implementation of innovative customer communication tools, such as bot-messenger, virtual outlet and omnichannel basket – a pilot process enabling customers to continue on-line with the purchase they began at a point of sale.

The 'My Orange' mobile app is increasingly popular among our customers. The number of its active users increased by 12% in 2018. We added several options, such as 'one click payment' with a credit card or BLIK, authentication with a fingerprint or face ID (for Iphone X only) and pre-paid top-ups after code scanning. With the new 'one click' process, customers can extend their agreement directly in the app.

Our infoline consultants are also at customer's disposal. Telesales consultants contact customers whose agreements are about to expire or for whom we have additional offers. The number of contacts through this channel has steadily declined, as customers prefer either on-line customer service or showroom purchases. Furthermore, towards the end of 2018, we implemented an innovative artificial intelligence solution for handling incoming calls: Max, a bot assisting in customer care. As from 2019, Orange Polska will implement e-agreements for customers making purchases via telesales and on-line channels, which will accelerate Orange service activation.

Customers are also offered direct contact with our active sales representatives. Orange Polska uses advanced geomarketing tools for efficient planning of sales territories. Typically, they operate in urban areas of our fibre investments. In connection with a considerable increase in investments in fibre infrastructure in residential districts of single-family houses, we developed the 'oneTeam' project, in which active sales people directly co-operate with technicians in selling fibre services in such areas in order to maximise customer satisfaction (NPS) and saturation.

## 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. 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 (FTRs);
- market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (LLU);
- market for high quality access services at a fixed location, up to 2 Mbps;
- market for call termination on Orange Polska S.A.'s mobile network (MTRs); and
- market for wholesale broadband access (BSA) services, excluding 76 local administrative units (*communes*), where the market was recognised as competitive.

In February 2018, the Court of Appeal decided to repeal the President of UKE's disposition of October 7, 2014, which recognised effective competition on the market for wholesale broadband access services (market

5/2007; BSA) in 76 communes. The Court of Appeal's decision was based exclusively on formal grounds, namely that a disposition rather than an administrative decision had been issued. Other deregulation decisions remain in force, namely a decision recognising Orange Polska as an SMP operator in the remaining territory (excluding 76 communes) and a decision on expiration of the previous decision (issued in 2011) recognising Orange Polska as an SMP operator in almost the entire territory of Poland. The decision of the Court of Appeal does not affect the conditions of Orange Polska's operations in 76 communes.

On October 1, 2018, Orange Polska received the President of UKE's deregulation decision with respect to the wholesale market for call origination on a fixed public telephone network, which encompasses the WLR service. The decision sets a two-year transition period, during which the current regulatory obligations will remain in force. At the same time, UKE obligated Orange Polska to change the WLR rate, which was subsequently reduced from PLN 20.05 to 18.82.

Also on October 1, 2018, Orange Polska received deregulation decision with respect to retail markets for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services. The relevant regulatory obligations were removed as of the date of delivery of the decision.

Each SMP decision of the President of UKE's determines specific Orange Polska's obligations with respect to the given relevant market, particularly an obligation to prepare regulatory accounting statements and costing description (for BSA service only), which are to be verified by independent auditors. In 2018, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k. conducted an audit of Orange Polska S.A. and issued an unqualified opinion.

*International Calls within EU*

In the course of works on the European Electronic Communications Code, it was postulated to regulate international calls. The relevant Regulation, which came into force on December 20, 2018, provides that starting from May 15, 2019, international rates within the European Union should not exceed EUR 0.19 per minute for calls and EUR 0.06 per SMS message. The regulation applies to consumers only and will remain in force for five years.

*Potential Regulatory Changes*

Regulations affecting Orange Polska S.A. are subject to periodical reviews in order to adjust them to the current market needs and the existing competitive environment. At present, the regulator is reviewing the market for call termination on a fixed network with respect to networks operated by Orange Polska S.A. and almost 200 other telecommunication operators, particularly the obligation to charge FTRs set by UKE. The new rate will be determined in a separate decision, but the time limit for its issuance has not been specified.

UKE reviews also the market for wholesale broadband access services (BSA) and wholesale market for provision of access to network infrastructure (LLU). In the beginning of 2019, UKE published the relevant draft decisions, pursuant to which 51 communes are to be deregulated in the LLU market and a total of 151 communes (namely 67 communes already deregulated in 2014 plus 84 additional communes) are to be deregulated in the BSA market.

In addition, UKE has been working on regulations concerning access to outdoor and indoor cable ducts as well as indoor cables. These regulations will cover not only Orange Polska, but also other operators. The regulatory obligations will be imposed also on CATV operators, especially the largest ones, such as UPC, Vectra, Inea and Toya.

In September 2018, the President of UKE issued seven decisions for the largest technical infrastructure operators in Poland (Orange Polska, UPC, Vectra, Inea, Netia, Toya and Multimedia Polska), under which each of them has the obligation to provide access to their outdoor and indoor cable ducts. The terms of access to outdoor and indoor cable ducts are symmetrical, with the exception of monthly rates for outdoor cable duct lease.

In the beginning of 2019, the President of UKE released for public consultation six draft decisions regulating access to indoor cable ducts of the following operators: Netia, UPC, Vectra, Multimedia, Toya and Inea. There is no similar draft decision for Orange Polska, as it has been imposed obligation to provide access to its cable ducts under a regulatory decision for the LLU market. The final decisions are to be issued by UKE in the second quarter of 2019.

*Compensation for Universal Service Costs*

From 2006 to 2011, Orange Polska S.A. was an 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, which is paid pro rata by all operators with revenues of more than PLN 4 million in the calendar year for which the compensation is due.

Orange Polska S.A. also participates in compensating the deficit. Its share is typically about 41%. Furthermore, with respect to some operators, Orange Polska S.A. has reached agreements regulating the issue of mutual settlements on the account of the universal service obligation.

Between 2007 and 2012, the President of UKE issued decisions granting compensation lower than requested by Orange Polska S.A. Therefore, the Company exercised its right to appeal. Courts did not agree with UKE's arguments for partly rejecting compensation to Orange Polska S.A. and obligated UKE to re-examine the case. Following administrative courts' rulings, UKE initiated administrative proceedings regarding additional compensation for the universal service net cost deficit provision in 2006–2010. In September 2017, the President of UKE issued two decisions, granting additional compensation of PLN 45 million for 2006 and PLN 47 million for 2007 to the Company, and in August 2018, it issued decisions granting additional compensation of PLN 70.3 million for 2008 and PLN 18.43 million for 2009. These amounts include a share contributed by Orange Polska S.A. itself. The decisions are final, but have been challenged in an administrative court by other operators, At present, it is difficult to assess when the cases will be decided and what amounts and when will be paid to Orange Polska S.A.

At the same time, procedures to determine the share of individual operators in the compensation of the universal service net cost deficit for 2009–2011 are pending. The President of UKE first determines a list of operators to share in the compensation for particular years, and then their share in the compensation by way of individual decisions. Operators have the right to appeal against such decisions. The majority of individual decisions for 2009–2010 have been issued, and most operators have already paid the relevant amounts to Orange Polska S.A. The proceedings related to individual decisions for 2011 are pending.

In 2018, Orange Polska S.A. collected deficit refinancing in the amount of PLN 0.1 million for 2008, PLN 15.8 million for 2009 and PLN 15.1 million for 2010. Outstanding payments for 2008 and 2009 total PLN 2.1 million. Compensation for 2011 and outstanding amounts for 2008 and 2009 are expected to be collected in the first six months of 2019.

*Major Changes in Legislation*

In 2018, there was a number of changes in legal environment with respect to both general law and provisions specific to the telecom sector. Such modification of legal environment entails constant and diligent monitoring as well as allocating resources to implement new regulations.

The key acts include:

Domestic Law

- On May 25, 2018, new provisions regulating the protection of personal data of Europeans came into force, namely the Regulation (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation – GDPR) and, within the national context, the new Act on personal data protection;
- On June 20, 2018, the amendment to the Act on payment services, implementing the PSD2 Directive, came into force. It has introduced exclusions (with limits) for payment transactions executed by telecom providers on behalf of end users in addition to telecommunications services. These provisions should have been implemented by December 20, 2018;
- On August 28, 2018, the Act on the national cybersecurity system came into force. It implements the Directive of 6 July 2016 concerning measures for a high common level of security of network and information systems across the Union (the NIS Directive) and introduces additional IT security solutions. The purpose of the new act is to establish and regulate the functioning of the national cybersecurity system, particularly determine the rights and obligations of service providers in the ICT market in Poland;
- On December 12, 2018, the Act of May 10, 2018 amending the Telecommunications Law and some other acts came into force. The amendment introduces changes related to some solutions for digitisation of customer service and reporting processes and imposes new restrictions and obligations for premium rate services. In addition, pursuant to amendments to crisis management regulations, operators now have an obligation to distribute warning messages. Furthermore, the 450 MHz spectrum has been allocated for the energy sector;
- On January 1, 2019, an amendment to the Act on tax on goods and services (VAT) came into force. It implements the Directive (EU) 2016/1065 amending Directive 2006/112/EC as regards the treatment of vouchers (for goods and services) and introduces a distinction between single-purpose vouchers (SPV) and multi-purpose vouchers (MPV).

The following bills which may affect Orange Polska are currently at various stages of the legislative process:

- The Ministry of Digital Affairs is working on another amendment to the Telecommunications Law and the Act on TV and radio broadcasting, which will change the spectrum management regulations.

- The Ministry of Digital Affairs launched public consultation regarding draft amendment to the telecommunications 'Mega-Act'. It aims to establish conditions for the development of the 5G network and the underlying fibre networks. In particular, the draft provides for liberalisation of EMF emission limits and a reduction in fees for occupying local roads for new investments. In addition, it cuts red tape on the investment process and introduces a new mechanism for investment financing: the broadband fund.

EU Law

- EU institutions finalised a fundamental revision of the package of telecom directives, i.e. the European Electronic Communications Code, which came into force on December 20, 2018. The Code includes revised regulations on access to infrastructure, radio spectrum management, electronic communications services, universal service and competences of the relevant institutions. It also regulates intra-EU international calls by introducing uniform fixed and mobile termination rates. The Member States should effect the transposition of the EU regulations into national law within two years;
- The discussions between Member States in the EU Council regarding the Regulation on privacy and electronic communications (ePrivacy) are pending.

### 4.11 Claims and Disputes, Fines and Proceedings

Please see Note 28 to the Consolidated Full-Year Financial Statements for 2017 and Note 13 to the Condensed IFRS Interim Consolidated Financial Statements for the first six months of 2018 for detailed information about material proceedings and claims against Group companies and fines imposed thereon, including a fine imposed by the European Commission, as well as issues related to the incorporation of Orange Polska S.A.

# 5 MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

***Research and Development in Orange Labs***

Orange Labs Poland is a member of the international Orange Labs network, which consists of Orange R&D units and laboratories.

Orange Labs Poland is responsible for determining and managing the development of the architecture of fixed and mobile networks and selected IT systems as well as defining network development plans and the relevant technological concepts. Another major element of its operations is a process of development, selection and implementation of innovations, which involves co-operation with external partners and performance of research and development tasks for both Orange Polska and the Orange Group. A part of Orange Labs' structure is the Polish Research and Development Centre (CBR), which consists of Orange Polska's R&D facilities and laboratories.

***Major Achievements of Orange Labs Poland in 2018, Including Projects for Orange SA***

1. Participation of Orange Labs Poland in ten international research projects, including eight for EU, which are 60–100% refinanced, e.g. Virtual Home GateWay – development of a virtual terminal prototype; 5G-EVE – construction of a complex 5G site; ONOS – development of an XMPP protocol for the Software Defined Network (SDN); ONAP – development and implementation of a solution for virtual network function change management.
2. Research on the IoT One M2M service and presentation of the prototype Multi Access Control Management using Dynamic Authorisation System (DAS) during ETSI IoT Week 2018.
3. Construction of the first engine for automatic speech recognition in Polish. The system will be used as an element of voice assistant communications with other services in home environment.
4. Immersive Communication – further development of a prototype service for audio-visual communications between households or businesses, offering high quality of image and voice. An in-house designed spherical microphone, commercial video cameras, proper voice reproduction and large-size screens create an impression of immersion.
5. Launch of doctoral projects in collaboration with the Warsaw University of Technology, PUE and Orange France. The projects will deliver some solutions needed by the Orange Group. The programme is financed by the Polish Ministry of Science and Higher Education.

# CHAPTER III
# ORGANISATION AND CORPORATE STRUCTURE

# 6 ORGANISATIONAL CHANGES IN 2018

## 6.1 Changes in the Corporate Structure of Orange Polska S.A.

In 2018, there were changes in the corporate structure of the following functions: Transformation and Effectiveness, Carriers Market, Business Market, Consumer Market, Customer Excellence, Networks and Technology, Corporate Affairs and IT. The changes aimed at improving the efficiency of these functions and addressing business needs.

### 6.1.1 Management Board of Orange Polska S.A.

On November 1, 2018, the Management Board was expanded by two new Members: Management Board Member in charge of Strategy and Corporate Affairs and Management Board Member in charge of Network and Technology.

As of December 31, 2018, 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;
- Vice President of the Management Board in charge of Consumer Market;
- Management Board Member in charge of Customer Experience.
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resources;
- Management Board Member in charge of Network and Technology; and
- Management Board Member in charge of Strategy and Corporate Affairs

### 6.1.2 Business Units of Orange Polska S.A.

In 2018, the number of business units was reduced from 94 to 80, mainly in the following functions: Consumer Market, Customer Experience and Transformation and Effectiveness.

As of December 31, 2018, Orange Polska had 80 business units, reporting directly to:

1) President of the Management Board: 1 business unit;
2) Vice President of the Management Board in charge of Business Market: 7 business units;
3) Vice President of the Management Board in charge of Consumer Market: 8 business units;
4) Management Board Member in charge of Customer Experience: 8 business units;
5) Management Board Member in charge of Finance: 9 business units;
6) Management Board Member in charge of Networks and Technology: 13 business units;
7) Management Board Member in charge of Strategy and Corporate Affairs: 6 business units;
8) Management Board Member in charge of Human Resources: 12 business units;
9) Executive Officer in charge of IT: 7 business units;
10) Executive Director in charge of Carriers Market: 7 business units; and
11) Executive Director in charge of Transformation and Effectiveness: 2 business units.

### 6.1.3 Changes in the Structure of Subsidiaries of Orange Polska S.A.

Two new positions, Management Board Member in charge of Finance and Management Board Member in charge of Sales, were created in Orange Energia sp. z o.o. Apart from that, there were no major organisational changes in Orange Polska S.A.'s subsidiaries in 2018.

## 6.2 Ownership Changes in the Group in 2018

The Group effected no significant ownership changes in 2018.

### 6.3 Orange Polska Shareholders

As of December 31, 2018, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital based on information available on February 20, 2019 was as follows:

| Shareholder | Number of shares held | Number of votes at the General Assembly of Orange Polska S.A. | Percentage of the total voting power at the General Assembly of Orange Polska S.A. | Nominal value of shares held (in PLN) | Interest in the Share Capital |
|---|---|---|---|---|---|
| Orange SA | 664,999,999 | 664,999,999 | 50.67% | 1,994,999,997 | 50.67% |
| Other shareholders | 647,357,480 | 647,357,480 | 49.33% | 1,942,072,440 | 49.33% |
| **TOTAL** | **1,312,357,479** | **1,312,357,479** | **100.00%** | **3,937,072,437** | **100.00%** |

As of February 20, 2019, Orange SA held a 50.67% stake in the Company. Orange SA has the power to appoint the majority of Orange Polska S.A. Supervisory Board members. The Supervisory Board appoints and dismisses members of the Management Board.

Orange S.A. is one of the world's foremost telecommunications operators, with a turnover of over €41 billion in 2017. Present in 28 countries, the Orange Group serves 261 million customers all over the world (as of the end of Q3 2018), including 201 million mobile customers and 20 million broadband customers. The company is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. Orange S.A. is listed on Euronext Paris (ORA) and on the New York Stock Exchange (ORAN).

As of December 31, 2018, the Company has no information regarding valid agreements or other events that may result in changes in the proportions of shares held by the shareholders.

Orange Polska S.A. did not issue any employee shares in 2018.

# 7 GROUP'S STRUCTURE AS OF DECEMBER 31, 2018

Please see Note 1.2 to the Consolidated Full-Year Financial Statements for the description of the Group's organisation.

## 7.1 Corporate Governance Bodies of the Parent Company

For detailed information about the Management Board and Supervisory Board of Orange Polska please see section 10 below.

### 7.1.1 Orange Polska Shares Held by Persons Who Manage or Supervise Orange Polska

***Managing Persons***

As of February 20, 2019:

- Mr. Jean-François Fallacher, President of the Orange Polska Management Board, held 40,000 shares of Orange Polska S.A.;
- 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 20, 2019.

Shares held in related entities:

| | |
|---|---|
| Jean-François Fallacher | 1 share of Orange Money IFN S.A. of par value of RON 10 |
| Mariusz Gaca | 500 shares of Orange S.A. of par value of EUR 4 each |
| Bożena Leśniewska | 80 shares of Orange S.A. of par value of EUR 4 each |
| Jolanta Dudek | 80 shares of Orange S.A. of par value of EUR 4 each |
| Piotr Jaworski | 250 shares of Orange S.A. of par value of EUR 4 each |
| Jacek Kowalski | 350 shares of Orange S.A. of par value of EUR 4 each |

***Supervising Persons***

As of February 20, 2019, Mr. Maciej Witucki, Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who supervise Orange Polska S.A. held any shares in the Company.

Shares held in related entities:

| | | |
|---|---|---|
| Gervais Pellissier | 34.527 | shares of Orange S.A. of par value of EUR 4 each. |
| Gervais Pellissier | 1 | share of Orange Horizons of par value of EUR 10. |
| Marc Ricau | 10.315 | shares of Orange S.A. of par value of EUR 4 each. |
| Thierry Bonhomme | 7.692 | shares of Orange S.A. of par value of EUR 4 each |
| Federico Colom Artola | 4.121 | shares of Orange S.A. of par value of EUR 4 each |
| Eric Debroeck | 5.533 | shares of Orange S.A. of par value of EUR 4 each |
| Ramon Fernandez | 1.524 | shares of Orange S.A. of par value of EUR 4 each |

### 7.1.2 General Assembly

On April 20, 2018, 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 2017;
- approved Orange Polska S.A. financial statements for the financial year 2017;
- approved the consolidated financial statements for the financial year 2017;
- granted approval of the performance of their duties by members of Orange Polska S.A.'s governing bodies in the financial year 2017;
- amended the Company's Articles of Association;
- decided not to pay dividend in 2018, prioritising investment in long-term value creation and taking into account potential payment of EC fine.

## 7.2 Workforce

As of December 31, 2018, Orange Polska employed 13,545 people (in full-time equivalents), which is a decrease of 9.3% compared to the end of December 2017.

Orange Polska's workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2018–2019 in Orange Polska S.A. Pursuant to the Social Agreement, 1,450 employees left the Company in 2018. In 2018, severance pay in Orange Polska S.A. averaged PLN 80.1 thousand per employee.

In 2018, external recruitment in Orange Polska totalled 482 positions. External recruitment was mainly related to sale positions and customer service staff.

### 7.2.1 Social Agreement

On December 5, 2017, the Management Board of Orange Polska concluded negotiations with the Social Partners on the terms of a new Social Agreement. This will remain in force in the 2018–2019 period. In parallel to negotiating the Social Agreement, Orange Polska completed negotiations on a Settlement for 2018 under the Act of 13 March 2003 on special rules on termination of employment for reasons not attributable to employees (Journal of Law of 2016, item 1474).

In particular, the Social Agreement for 2018–2019 sets the number of voluntary departures over two years at 2,680 people and determines a financial package for employees leaving Orange Polska under the voluntary departure scheme. It also provides for potential basic salary rises (2.5% in 2018 and 2019) and additional compensation for employees reaching retirement age, 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 2018–2019 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 in 2018 at 1,450 and determined the conditions of voluntary departures in 2018 as well as the amount of severance pay and additional compensation for employees departing in 2018. The Settlement also specified the rules and selection criteria to be applied to people whose employment would be terminated by the employer for reasons not attributable to employees.

In 2018, the amount of compensation package per departing employee depended on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement and increased by PLN 5,000 for employees with seniority of 10 to 15 years, PLN 10,000 for employees with seniority of 15 to 20 years or PLN 26,000 for employees with seniority of more than 20 years.

On December 5, 2018, Orange Polska signed another separate Settlement with trade unions. It specifies that up to 1,230 employees of Orange Polska S.A. will be eligible for the voluntary departure package in 2019 and determines the conditions of voluntary departures in 2019 as well as the amount of severance pay and additional compensation for employees departing Orange Polska in 2019. The Settlement also specifies the rules and selection criteria to be applied to people whose employment would be terminated by the employer for reasons not attributable to employees.

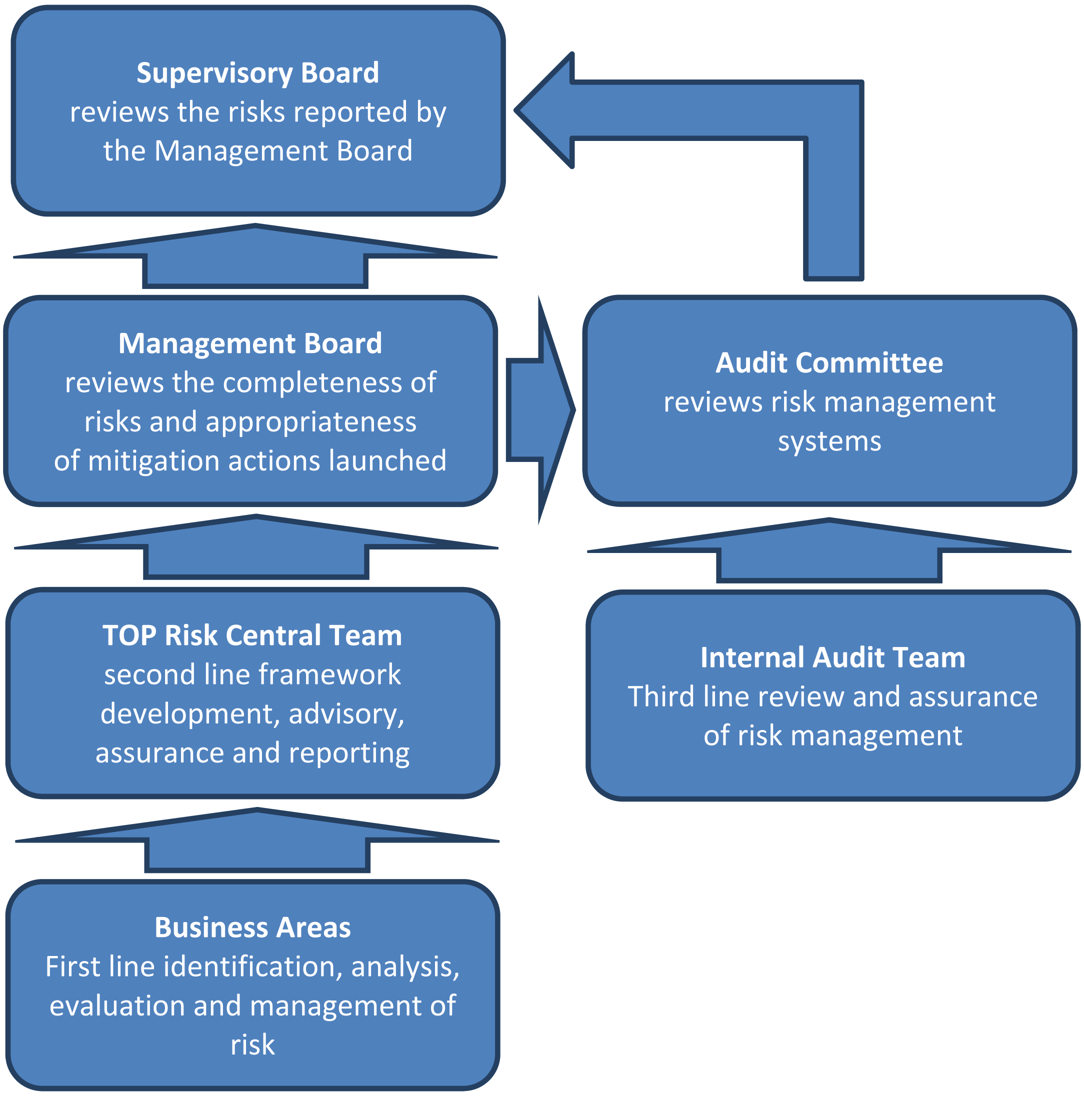
In 2019, the amount of compensation package per departing employee will depend on their seniority in the Group in accordance with the Intragroup Collective Labour Agreement and will increase by PLN 5,000 for employees with seniority of 10 to 15 years, PLN 8,000 for employees with seniority of 15 to 20 years or PLN 24,000 for employees with seniority of more than 20 years.

# CHAPTER IV
# KEY RISK FACTORS

## 8 RISK MANAGEMENT FRAMEWORK IN ORANGE POLSKA

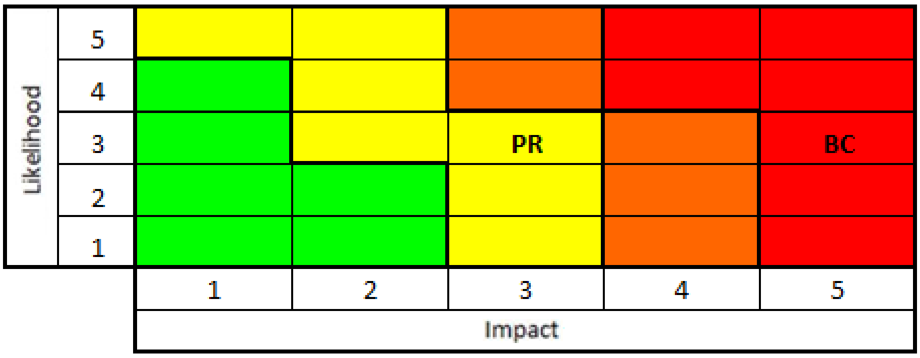
Orange Polska is exposed to a range of external and internal risks of varying types which can impact the achievement of its objectives. Therefore, the Group maintains a risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard. Leaders within the Group's individual business areas and functions are responsible for the assessment and management of risks including the identification and escalation of new/emerging circumstances 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.

Orange Polska's governance and reporting structure for risk management.




Event-based risks are subject to assessment based on their likelihood and impact in terms of financial, reputational, business continuity and human loss. If risk consequences are e.g. both financial and reputational, the risk is assessed according to the most negative consequence. 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. Indicative heat maps are used to report and evaluate risks. Results of assessment of top risks are reported to the Supervisory Board annually. In 2018, the Supervisory Board received such a report in October.

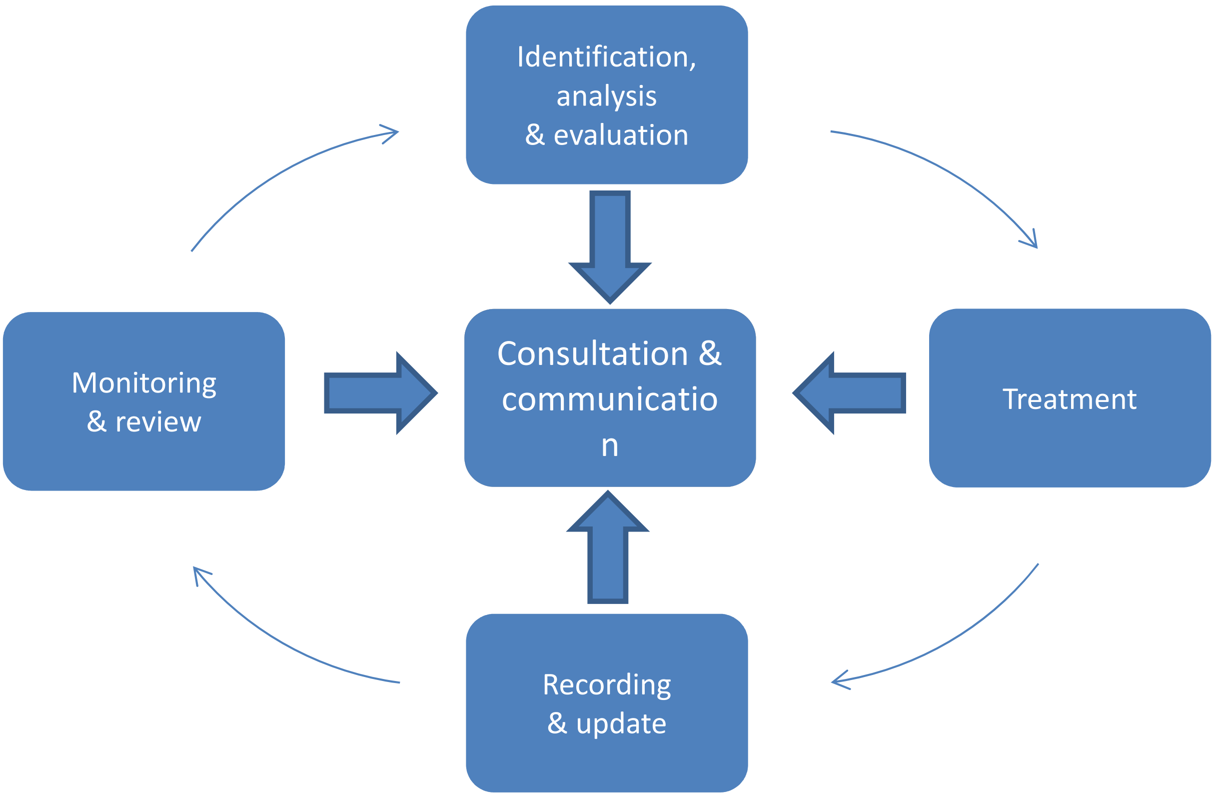
Sample heat map used as one of communication tools




FN - financial;
HR - human resources;
PR - reputational;
BC - business continuity;

This 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.

The risk management process at Orange Polska is shown in the diagram below.



## 8.1 RISK FACTORS AFFECTING THE OPERATING ACTIVITIES OF ORANGE POLSKA

### 8.1.1 Implementation of Orange Polska's New Strategy: *Orange.one*

Our strategic plan for the years 2017–2020, which was announced in September 2017, provides in financial terms for a gradual improvement in trends of revenues and EBITDA and their sustainable growth from 2020. These objectives are to be achieved by developing unmatched quality of services and products, supported by comprehensive development of the Company's fibre and mobile networks, digitisation and a significant improvement in operational efficiency. The key to success will be better execution, clearer focus, more speed and agility as well as long-term value creation.

*Orange.one* has set very ambitious objectives. Their achievement is a major challenge for the Company and is a subject to a number of risks. The Group may fail to achieve its goals due to strong market competition. The macroeconomic environment in Poland is currently favourable; however, both Poland's macroeconomic environment and the internal mood of consumers and businesses may change in the medium term. The regulatory environment may also add to pressure on the Group's operations and, consequently, its revenue and income levels as well as its general financial standing.

### 8.1.2 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. 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, see section 8.3 below.

### 8.1.3 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 providers (OTT) such as providers of special services (VoIP, video services/TV). Competition with these players to control customer relations is growing and could erode the operators' market position. This direct relationship with customers is a source of value for operators and to lose part or all of it to new entrants could affect revenues, margins, the financial position and outlook of telecommunications operators like Orange Polska.

### 8.1.4 Breach of Security of Information, Including Personal Data

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers' personal data and information constituting telecommunications secrets. The Company holds a certificate of compliance of its Information Security Management System with ISO/IEC 27001:2013 for the scope of the following 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 27018:2014 *Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors* for the scope of 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 a 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) rapid implementation of new services or new applications, for example those related to billing and customer relationship management, (ii) launch of new initiatives, especially in the field of Internet of Things (IoT), (iii) malicious acts (including cyber-attacks), particularly aimed at theft of personal data, or (iv) potential negligence within the Group or its external 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.

### 8.1.5 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 or 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 steps taken by Orange Polska to protect its network, the growing frequency of attempted attacks increases the risk of interruption to its services. 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 network and IT systems development planning, 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 has become the first telecom operator in Poland to obtain the ISO 22301:2012 Certificate for its Business Continuity Management System in the scope of provision of telecommunication, ICT and cybersecurity services.

### 8.1.6 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 telecommunication 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 the 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 performed. 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.

### 8.1.7 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. As all 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.

### 8.1.8 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, even though the Polish EMF limit is much more restrictive than in most other countries, where the limit set in the Council Recommendation 1999/519/EC applies.

If the above-mentioned 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.

Furthermore, legislative works on a bill extending the obligations related to electromagnetic fields from telecommunications equipment were initiated in Poland in 2016. The process has not progressed beyond draft stage, but the issue of EMF exposure will gain relevance once again in connection with the intended legislation on the 5G network deployment. Although Orange Polska has made all efforts to test 5G technology, even ensuring the strictest environmental standards may not be sufficient to prevent increased anxiety of the social partner.

Furthermore, the Ministry of Digital Affairs has launched a legislative initiative to facilitate the implementation of 5G solutions (particularly through liberalisation of national EMF limits). The Ministry is aware that both EMF emissions and the 5G network development may negatively influence public sentiment.

#### 8.1.9 Human Resources Risks and Alignment of Organisation Structure

Orange Polska and its managers continue transforming its internal culture in order to motivate the employees and drive the performance culture as well as streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Orange Polska has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant.

## 8.2 REGULATORY, LEGAL AND TAX RISKS

#### 8.2.1 Regulatory Risks

The Group must comply with various regulatory obligations governing the provision of services and products, particularly related to obtaining and renewing licences. The regulatory obligations result from legislation changes and administrative decisions. Regulatory decisions and changes in the regulatory environment may have an adverse effect on the Group.

#### 8.2.2 Risk Related to Repealing of Deregulation Decision on the Market for Wholesale Broadband Access Services

On February 14, 2018, Orange Polska S.A. received a decision of the Court of Appeal repealing a decision of the President of the Office of Electronic Communication dated 7 October 2014 that had declared effective competition in 76 communes on the market for wholesale broadband access services. The Court of Appeal repealed the decision exclusively on formal grounds and not on its merits. In addition, the remaining decisions relating to deregulation remain in force. Even though the Court of Appeal's decision does not change the conditions of operations of Orange Polska in 76 communes, there is a risk that these may change if the remaining decisions relating to deregulation will also be repealed.

#### 8.2.3 Fixed Termination Rate (FTR) Cuts

On May 30, 2018, the President of UKE, having completed a review of the market for call termination on a fixed network, released for public consultation draft decisions for Orange Polska and 74 other operators, reducing FTRs to PLN 0.32 per minute, which had been calculated using the LRIC pure bottom-up methodology. Following numerous doubts and reservations raised by the whole market, UKE declared that public consultation of its draft decisions would be repeated. As a result, both the proposed FTR level and the initially intended implementation date (i.e. January 1, 2019) are not likely. Potential changes in FTRs should not be expected earlier than in the second half of 2019.

#### 8.2.4 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.

One of uncertainty areas 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). According to the *National Plan for 700 MHz Spectrum Reallocation in Poland* published by the Ministry of Digital Affairs, the Polish administration intends to meet the deadline of June 30, 2020, although this may be delayed if international agreements are not negotiated in time. In December 2018, Poland applied to the Commission for extending the deadline for releasing the 700 MHz band until June 2022.

Another risk is related to very high fragmentation of the 3.5 GHz and 3.7 GHz bands. Lack of comprehensive approach to the use of the both bands and unavailability of wide frequency blocks may pose a major obstacle to quick introduction of 5G services in Poland. Orange Polska supports regulatory actions aimed at refarming of these bands and their quick allocation to operators intending to develop 5G services in Poland.

#### 8.2.5 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.

#### 8.2.6 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. An example of such actions is the introduction 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 an increase in tax burden.

Furthermore, owing to the implemented IT solutions, such as the Standard Audit File-Tax, a large portion of Orange Polska's business transactions are controlled in an automated manner. As a result of such control methods, there are few errors in records of business operations. However, sometimes such errors may necessitate corrections of tax returns.

#### 8.2.7 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 belonging to third parties, and in some cases the Company does not possess or has difficulties to identify evidence that such third parties agreed to the infrastructure being located on their land. In particular, this is the case in relation to old infrastructure used for fixed line services. In principle, the Company has the right to demand that its infrastructure remains where it was originally located, though it has to pay for this. Also new investments are done on third parties' land and the Company has to acquire the right to use that land against payment. The Company cannot exclude that the payments for the use of land of third parties may increase.

### 8.3 COMPETITIVE RISKS

#### 8.3.1 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. The Company makes every effort to execute its contracts with the Digital Poland Project Centre with due diligence. Furthermore, investments by other operators, either financed with their own funds or co-financed in the POPC framework, may result in a loss of a market share in the broadband market, on which the Company provides services based on the ADSL technology.

#### 8.3.2 Marginalisation of the Role of Mobile Network Operators Due to Implementation of the eSIM Technology

Last year, Orange Polska became the first operator in the Polish market to support devices with GSMA's embedded SIM (eSIM) cards, thus enabling a fully-digital process of providing a mobile user profile. This new technology is gradually implemented in flagship devices of the leading handset suppliers.

In the long run, we expect a positive effect of the new technology implementation on the growth rate of the broadly-understood market for smart devices. However, we also see a risk related to the potential market activity of global players for which telecommunications services are not a core business, particularly in scenarios based on direct marketing relationship with end users, marginalising their relationship with the telecom operator.

#### 8.3.3 Increased Competition from CATV Operators 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, the Orange Polska S.A.'s FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

#### 8.3.4 Threat to Convergence Strategy Due to Acquisition of Netia by the Cyfrowy Polsat Group

In 2018, the Cyfrowy Polsat Group concluded the acquisition of Netia, the second largest fixed line operator in Poland. Also in 2018, the Cyfrowy Polsat Group purchased a majority stake in Eleven Sports Network and secured the television rights to the Champions League.

The acquisition of Netia supplements the missing fixed line arm in a service portfolio of the Cyfrowy Polsat Group and enhances its sales potential in middle to big cities, that is areas dominated by CATV operators. So far, Cyfrowy Polsat Group's services have been most popular in rural areas and small towns. And additional TV content strengthens the operator's competitive advantage in terms of attractiveness of its offer, including its flagship convergent bundle, SmartDOM. The increased attractiveness of this bundle poses an additional threat to the implementation of convergent sales plans by Orange Polska.

#### 8.3.5 Loss of Retail Market Share with Expansion of T-Mobile

After a period of active efforts in the business market (resulting directly from the merger with GTS Polska), T-Mobile announced that it would strengthen its presence in the mass market (particularly in terms of convergent offers, on the basis of the fixed line infrastructure of other operators, including Orange Polska, obtained in the wholesale scheme). Pursuant to an agreement with Orange Polska, T-Mobile has obtained access to the Company's FTTH network. The agreement should result in an increase in sales of Orange Polska's wholesale services, but may also affect sales of its retail services.

#### 8.3.6 Continued 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 scale than in the majority of West European countries and the ratio of 'only-mobile' users is generally higher.

Offers in which a fixed voice service is an added value to a broadband or mobile service as the equivalent of a 'traditional' fixed line have been clearly gaining popularity. Such services dedicated to fixed applications (at home or office) but based on mobile infrastructure are generally offered by mobile operators; yet, the mobile virtual network operator (MVNO) model has been increasingly used for this purpose, recently. Such operators as Netia, Novum or Telestrada gradually migrate their fixed-line customers to a mobile network.

## 8.4 RISKS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

### Macroeconomic Factors

#### 8.4.1 Risk of Lower Than Expected Economic Growth Due to Negative Internal and External Factors

In 2018, the Polish economy grew at a considerably faster pace than in 2017 (5.1% of real GDP growth in 2018, according to the initial estimation by the Central Statistical Office (GUS) comparing to 4.8% in 2017). The good condition of the economy resulted mainly from private consumption (4.5% of real growth in 2018), which was significantly supported by accelerated investments (7.3% higher in real terms) and exports. In 2018, household consumption expenditure remained under inflationary pressure, which was only slightly lower than in 2017 (the annual average Consumer Price Index was 1.6% in 2018 vs. 2% in 2017), and was stimulated mainly by falling unemployment, growing wages, continued impact of the '500+' welfare programme and low interest rates. Subsequent GUS research confirmed continued of optimistic consumer sentiment, though moods, which, however, after the best period in the last 25 years (between May 2017 and November 2018) it significantly deteriorated in December 2018. The current Consumer Confidence Index fell to level 1,1 points, while earlier in the year it remained well above 5 points (reaching 7.8 points in April 2018), while the Leading Indicator dropped to -1.8 points (earlier in the year it only once dropped below 2 points, and in April 2018 it was even 5.7 points).These GDP growth engines will face difficult challenges in subsequent years, mainly due to labour shortages and wage pressure.

In subsequent years, continued high inflationary pressure (stimulated mainly by growing electricity prices) may result in a decrease in household expenditure, particularly on telecommunication services. Poland's economic outlook depends on the condition of other European economies and the economic climate in global markets. Owing to strong ties between the Polish economy and economies of other European countries, especially Germany, a potential negative scenario for European economies may have adverse effects on Poland's GDP growth rate. In this respect, the key uncertainty factors include escalation of trade disputes and the spread of protectionism in world trade as well as the conditions of the withdrawal of the United Kingdom from the European Union. Due to international commercial and financial links, another risk factor is related to further developments in emerging economies, which have experienced strong depreciation of local currencies lately. Furthermore, Poland's economic growth rate is subject to uncertainty related to foreign labour force supply (mainly immigrants from Ukraine).

### 8.4.2 Reduced Profitability of the Telecommunications Sector Due to Growing Inflationary Pressure and Falling Service Prices

Average annual CPI reached 1.6% in 2018, which was below the National Bank of Poland's inflation target (2.5%). However, a significant increase in inflationary pressure is expected in the next few years, mainly due to a rise in electricity prices and an economic downturn worldwide.

Despite continued inflationary pressure, throughout the year the Monetary Policy Council kept the reference interest rate at the record low of 1.5% (set in March 2015), upholding an opinion that the current stable economic growth limited the risk of inflation remaining below the target in the medium term.

Compared with other branches, the telecommunications sector reported declining profitability in previous years, which was a result of a decrease in effective prices accompanied by significant capital expenditure required to upgrade obsolete infrastructure in line with the growing expectations of customers and ensure service availability in the areas of coverage gaps. However, 2018 saw price stabilisation in the telecom sector and operators began to focus more on customer base retention rather than aggressive acquisition of customers from other service providers. There was an increased need for infrastructure to meet the growing demand for data transmission generated by retail customers and the digital transformation of the economy as a whole. Total investments in the development and modernisation of both fixed line (especially FTTH) and mobile (particularly LTE) networks increased in 2018. This trend 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 are launched over the modern 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.

### 8.4.3 Negative Trends in the Labour Market

The labour market has been positively affected by the general macroeconomic climate, which was reflected in an increase in employment and a decrease in unemployment to 5.8% (-0.8 pp. y-o-y) at the end of December 2018. At the same time, the level of wages grew significantly. Between January and October 2018, the average gross remuneration was up 7.2% compared to the same period of 2017.

A further decline in unemployment may be expected in 2019. However, unemployment will be approaching the natural rate of 5%, which, despite continued favourable economic outlook, may intensify the existing problems with labour shortage and growing labour costs due to wage pressure. This in turn may negatively affect the mood in selected enterprise sectors and constitute a barrier to economic growth by limiting investments. So far, this effect has been partly offset by afflux of foreign labour force, mainly from Ukraine. However, there is a risk of substantial outflow of Ukrainian workers to the German economy as a result of incentives introduced by the German government, which copes with a similar labour shortage like in Poland.

### 8.4.4 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 stems from the on-going discussion on linking the distribution of resources from the current framework (2017–2020) to the admission of immigrants by beneficiary countries or, in case of Poland, to the respect for the EU principles of the rule of law. Furthermore, there is a risk that the United Kingdom will refuse to contribute to the EU funds. This issue is the subject of negotiations over the United Kingdom's withdrawal from the European Union.

## Factors Related to Financial Markets

### 8.4.5 Increase of Interest Rates

Once again, the Central Bank's policy did not change in 2018 and interest rates remained stable, at a historic low. The market expects that the Monetary Policy Council will keep interest rates unchanged in 2019, while taking steps to prepare the market for increases in 2020. However, a potential increase in interest rates should not have any major influence on the Group's debt service costs owing to a high hedging ratio.

### 8.4.6 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 2018, the Polish zloty lost 3.0% against the euro and 8.1% against the US dollar. The fluctuations of the Polish currency were caused mainly by external factors. In the reported period, the exchange rate of the zloty against the euro was in the 4.1423–4.3978 bracket, while its exchange rate against the US dollar oscillated between 3.3173 and 3.8268. NBP's mean exchange rates of PLN against the US dollar and the euro were 3.6117 and 4.2617, respectively, in 2018. Potential depreciation of the Polish zloty should not have any major influence on Orange Polska's liabilities denominated in foreign currencies or settlements with foreign operators owing to a high hedging ratio.

#### 8.4.7 Risk of Asset Impairment

The recoverable amounts of enterprises, which affects the accounting value of fixed assets, including goodwill, is sensitive to valuation methods and model assumptions as well as to any changes in the business environment contrary to the assumptions made. For more information about goodwill impairment and recoverable amounts please see notes to the Consolidated Full-Year Financial Statements.

#### 8.4.8 Factors That May Influence the Price of Orange Polska Shares

Other than major factors already mentioned earlier in this document, the following may also result in changes in Orange Polska share price:

- Successful implementation of Orange.one strategic plan
- 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

# 9 STATEMENTS OF THE MANAGEMENT BOARD

## 9.1 Statement on Adopted Accounting Principles

Orange Polska S.A. Management Board, composed of:

1. Jean-François Fallacher – President of the Board
2. Bożena Leśniewska – Vice President in charge of Business Market
3. Mariusz Gaca – Vice President in charge of Consumer Market
4. Witold Drożdż – Board Member in charge of Strategy and Corporate Affairs
5. Jolanta Dudek – Board Member in charge of Customer Care and Customers Excellence
6. Piotr Jaworski – Board Member in charge of Networks and Technology
7. Jacek Kowalski – Board Member in charge of Human Resources
8. Maciej Nowohoński – Board Member charge of Finance, Chief Financial Officer

hereby confirms that according to its best knowledge the annual consolidated financial statements and annual standalone financial statements of Orange Polska S.A. as well as comparable data have been drawn up in compliance with the accounting regulations in force and reflect the property, financial standing and financial result of Orange Polska S.A. and its Group in an accurate, reliable and transparent manner.

This Management Board's Report provides accurate depiction of the development, achievements and standing of the Orange Polska Group, including the description of major threats and risks.

## 9.2 Statement on Appointment of the Licensed Auditor of the Group's Consolidated Financial Statements

Orange Polska S.A. Management Board hereby declares that the licensed auditor of the consolidated financial statements and standalone financial statements of Orange Polska S.A. has been appointed in compliance with the relevant regulations and that both the auditor and the chartered accountants carrying out the audit meet the requirements to develop an impartial and independent opinion on the audited consolidated financial statements and standalone financial statements of Orange Polska S.A. in compliance with the relevant regulations and professional standards.

## 9.3 Agreement with the Licensed Auditor

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 2018 and 2019 and to review interim six-month financial statements of Orange Polska S.A. and the Orange Polska Group.

On June 6, 2018, Orange Polska S.A. concluded an agreement for 2018 and 2019 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 2018 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 2018 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 2018 is presented below (in PLN '000):

| | 2018 |
|---|---|
| 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 2018, 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, 2018 | 2,324 |
| Audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law | 1,218 |
| Other services | 400 |
| Total amount payable by the Group | 3,942 |

In 2017, 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 3,073 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 470 thousand for other services to Orange Polska S.A.; PLN 1,218thousand for audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law; and PLN 3 thousand of fees paid to Ernst & Young spółka z ograniczoną odpowiedzialnością Academy of Business sp.k.

### 9.4 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

As announced on February 20, 2018 in the current report 4/2018, the Group forecast the restated EBITDA in 2018 to be around PLN 3.0 billion under an old accounting standard (IAS 18) or around PLN 2.75 billion under a new accounting standard (IFRS15).

As of December 31, 2018, the forecast was met. Adjusted EBITDA (IAS 18) was PLN 3,104 million and Adjusted EBITDA (IFRS 15) was PLN 2,881 million in 2018.

### 9.5 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 2018

**I. STATEMENT ON THE AUDIT FIRM SELECTION POLICY**

The Supervisory Board hereby states the following:

1) On July 5, 2018, it selected an audit firm to audit the annual financial statements of Orange Polska S.A. and the Orange Polska Group, namely Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp.k., in compliance with the applicable regulations;
2) 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;
3) Orange Polska complies with the provisions on the rotation of the audit firm and the key auditor as well as mandatory cooling-off periods;
4) 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;
5) The requirements relating to the establishment, composition and operations of the Audit Committee including those relating to independence of the majority of its members as well as to knowledge and skills of certain members in the sector in which the Orange Polska operates and in accounting or auditing are fulfilled.
6) 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 2018**

The Supervisory Board has examined and appraised the following documents:

1) IFRS standalone financial statements of Orange Polska S.A. for 2018, that include:
   a) balance sheet as at 31 December 2018, showing the balance sheet total of PLN 23,091 million (in words: twenty three billion ninety one million Polish zlotys),
   b) profit and loss account for 2018, showing net profit of PLN 1 million (in words: one million Polish zlotys),
   c) statement of changes in equity for 2018, showing an increase in total equity by PLN 582 million (in words: five hundred and eighty two million Polish zlotys),
   d) cash flow statement, showing a decrease in net cash and cash equivalents by PLN 30 million (in words: thirty million Polish zlotys),
   e) notes to standalone financial statements;
2) Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2018;
3) IFRS consolidated financial statements of the Orange Polska Group for 2018, that include:
   a) consolidated balance sheet as at 31 December 2018, showing the balance sheet total of PLN 23,295 million (in words: twenty three billion two hundred and ninety five million Polish zlotys),
   b) consolidated profit and loss account for 2018, showing consolidated net profit of PLN 10 million (in words: ten million Polish zlotys), including net profit attributable to equity holders of Orange Polska S.A. of PLN 10 million (in words: ten million Polish zlotys),
   c) consolidated statement of changes in equity for 2018, showing an increase in total consolidated equity by PLN 565 million (in words: five hundred and sixty five million Polish zlotys), including an increase in equity attributable to equity holders of Orange Polska S.A. by PLN 565 million (in words: five hundred and sixty five million Polish zlotys),
   d) consolidated cash flow statement, showing a decrease in net cash and cash equivalents by PLN 35 million (in words: thirty five million Polish zlotys),

e) 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 2018, the Supervisory Board hereby states that:

– IFRS standalone financial statements of Orange Polska S.A. for 2018,
– Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. in 2018, and
– IFRS consolidated financial statements the Orange Polska Group for 2018

have been drawn up in compliance with the books and documents, the factual status and mandatory legal provisions, and that they provide a complete, fair and comparable 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 2018 has been drawn up in all major aspects on the basis of the financial data contained in the standalone and consolidated financial statements for 2018. 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 adjustments, are presented in the Note 3 to the IFRS Consolidated Financial Statements of the Orange Polska Group for the 12 months ended 31 December 2018.

Evolution of business trends is presented under the IAS 18 accounting standard which was valid in 2017. The new accounting standard, IFRS 15, has been implemented by Orange Polska without restating data for the comparable periods. In the opinion of the Management Board, such an approach assures continuity of performance presentation vis-à-vis the strategy announced in September 2017 and already known business trends.

## 10 CORPORATE GOVERNANCE STATEMENT

**(a) Company's corporate governance policy**

The Company, as an issuer of securities listed on the Warsaw Stock Exchange (WSE), is obliged to comply with the corporate governance practices set out in the *Best Practice for WSE Listed Companies 2016*. The version of the latter in force until December 31, 2018 is available at http://corp-gov.gpw.pl.

**(b) Corporate governance compliance**

In 2018, the Company complied with the corporate governance best practice referred to above.

Referring to the Recommendation IV.R.2 of the Best Practice, the Company informs that it provides the real-life broadcast of the general meeting but it provides neither real-time bilateral communication nor the possibility to exercise the right to vote for shareholders taking part in a meeting from a location other than the general meeting due to legal risks involved in providing electronic communication means of such type.

**(c) Description of major features of Orange Polska's internal control and risk management systems with respect to the process of development of standalone and consolidated financial statements (please see chapter IV for additional information on key risk factors)**

The system of internal control and risk management in 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 2018, the Disclosure Committee had five meetings. In addition the Audit Committee review the financial disclosures of the Company and the Group before they are published.

The key elements of the 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 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, Management Board decisions regarding the conclusion and termination of an employment contract with the Group Internal Audit Director as well as his evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.

(2) The Company conducts ongoing assessments of the quality of the risk management system and controls. This process includes identification and classification of the Orange Polska S.A.'s financial and non-financial risks – see Chapter 4, section 8.

(3) Procedures were implemented in order to identify, report and monitor significant risks (i.e. legal, regulatory, environmental, financial reporting and operational) effectively on an ongoing basis. It provides a framework for ongoing risk-controlling activities.

In 2018, the Management Board again completed a comprehensive assessment of the Group's internal controls over financial reporting. Main deficiencies were identified and corrected or appropriate action points have been launched. As a result of the assessment, the Management concluded that there were no weaknesses that would materially impact the internal control over the financial reporting at December 31, 2018.

**(d) Indication of shareholders holding, directly or indirectly, significant batches of shares, including the number of shares held, the interest in the Share Capital, the corresponding number of votes and the percentage of the total voting power at the General Assembly**

Please see section 6.3 above for the information about major shareholders.

**(e) Indication of holders of any securities granting special control rights and description of such rights**

The Company has not issued any securities granting any special control rights to shareholders or other entities.

**(f) Indication of any restrictions concerning the exercise of the voting rights on shares, such as restriction of the voting rights to a certain percentage or number of votes or temporary restriction of the voting rights, or regulations according to which, in conjunction with the Company, the rights on securities are separated from the ownership of securities**

The Company has not introduced any specific restrictions concerning the exercise of the voting rights on shares.

**(g) Indication of any restrictions concerning transfer of ownership of the securities issued by Orange Polska**

The transfer of ownership of the securities issued by the Company is not subject to any restrictions.

**(h) Description of procedures for appointment and removal of managing persons and their rights, particularly the right to make decisions regarding the issuance or redemption of shares**

The Management Board consists of between 3 and 10 members, including the President. They are appointed and removed by the Supervisory Board by a simple majority of the votes cast. The term of office for the member of the Management Board is three years. The Management Board's remit comprises the management of all aspects of the Company's affairs, with the exception of the matters which under the Polish Commercial Companies Code or the Articles of Association shall be within the competence of the General Assembly or the Supervisory Board. In particular, the powers of the Management Board include development of the Group's strategy 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

**(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 of vote in person or by attorneys-in-fact (other representatives).

(2) Each shareholder has the right to candidature for the Chairman of the General Assembly or to put forward one candidature for the position of the Chairman of the General Assembly to the minutes.

(3) When every point on the agenda is considered each shareholder has the right to one speech of 5 minutes and a reply of 5 minutes.

(4) Each shareholder has the right to ask questions on any matters on the agenda.

(5) The shareholder has the right to object a decision of the Chairman of the General Assembly. The General Assembly shall decide in a resolution whether the decision of the Chairman be upheld or reversed.

(6) Each shareholder has the right to suggest amendments or additions to draft resolutions, which are covered by the agenda of the General Assembly, by the time of closing the discussion over the item on the agenda referring to the draft resolution to which the suggestion is related.

**(k) Composition and changes thereof in the last financial year, and description of bodies that manage, supervise or administer Orange Polska S.A. and any committees thereof**

I. Composition of the Management Board in 2018

Composition on January 1, 2018:

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. Jolanta Dudek – Board Member
5. Jacek Kowalski – Board Member
6. Maciej Nowohoński – Board Member

On February 7, 2018: the Supervisory Board of Orange Polska appointed Ms. Bożena Leśniewska and Ms. Jolanta Dudek for the next three-year terms of office as Members of the Management Board.

On October 18, 2018, the Supervisory Board of Orange Polska, appointed two new Members of the Management Board, Messrs. Witold Drożdż and Piotr Jaworski. They took up their new positions on November 1, 2018.

Composition on December 31, 2018:

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

Profiles of Management Board Members:

**Mr. Jean-François Fallacher** (born 1967), CEO and President of the Management Board of Orange Polska since May1, 2016.

Between 2011 and 2016 he was the CEO of Orange Romania, responsible for running Romania's leading mobile telecommunications company. Prior to Orange Romania, Jean-François served in key leadership roles within Orange Group for 20 years, most recently as the CEO of Sofrecom, the Group's international consulting company, and in the Netherlands as COO of the internet provider Wanadoo and as Marketing manager B2B for EuroNet Internet.

Jean-François has an extensive professional know-how in the telecom market, on both business and residential sectors, gained in various European markets. Holding a strong academic background with engineering degrees from École Polytechnique, École Nationale Supérieure des Télécommunications in Paris, completed by the International Business Development program at ESSEC Business School, Jean-François was formed in the early days of the www expansion.

**Mr. Mariusz Gaca** (born 1973), Vice President of the Board for Consumer Market since January 2017.He is also Chairman of the Ethics Committee of Orange Polska. Furthermore, he is Vice President of Employers of Poland and Chairman of the Polish Section of Business and Industry Advisory Committee to the OECD (BIAC).

He began his professional career in the Elektrim Group, where he co-created business plans for local telecommunication operators, between 1995 and 2000. From 2001 he worked at TP Group (Telekomunikacja Polska) as Director of Multimedia and was responsible for the development of Internet access for the mass market. Between 2005 and 2009 he was responsible for the TP Group business market. From 2009 he was TP Group Executive Director in charge of Sales and Customer Service and President of the Management Board of PTK Centertel (TP Group mobile telecommunication operator) – a position which he held until the merger of

PTK Centertel with Telekomunikacja Polska in 2013.From 2014 to 2016, he was the Vice-President of the Orange Polska Management Board in charge of Business Market.

He is a graduate of Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He also holds an MBA from the University of Illinois at Urbana Champaign and is a graduate of the Advanced Management Program (AMP) at INSEAD.

**Ms. Bożena Leśniewska** (born 1965), Vice-President of the Management Board in charge of Business Market.

She began her professional career at DHL International Ltd. in 1992. She has over 20 years' experience in the telecommunications sector. From 1996 she was responsible for the sales market in Polkomtel S.A., initially as Sales Director, then Regional Director, Mass Customers Department Director and Deputy Director of the Business Customers Department. In 2006 she joined the Orange Polska team in PTK Centertel as Deputy Branch Director of Sales for Business Market, then Branch Director of Business Market Sales. From 2008 she was Branch Director for Business Customers, then Sales Director in both PTK Centertel and Orange Polska. In November 2013, she became Executive Director in charge of Sales in Orange Polska, and two years later she was appointed the Management Board Member in charge of Sales and Commercial Digitisation. Since January 2017, as Vice-President of the Management Board of Orange Polska, she has been responsible for the business market and Integrated Solutions.

She is a graduate of the Philology Faculty of the Jagiellonian University, the Academy of Leadership Psychology at Warsaw University of Technology Business School, the Academy of Mentoring and Advanced Management Programme at INSEAD. She is a member of the European Network for Women in Leadership, the THINKTANK Board of Experts and the Responsible Leadership Council. Furthermore, she has been an active mentor in mentoring programmes held by Vital Voices, Foundation for Women Entrepreneurs etc.

**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 Vice-President of the Management Board and then acting President of the Management Board for PGE Energia Jądrowa S.A. Between 2007 and 2010 he served as Deputy Minister of the Interior and Administration, responsible for the development of information society and public records, as well as Chairman of the government Committee "Digital Poland" 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.

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 Care and Customer Excellence 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, 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.

**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 as well as the Orange Polska Ethics Committee.He is also the Chairman of the TP Teltech Supervisory Board.

Mr. Piotr Jaworski has worked at Orange Polska (former Telekomunikacja Polska) since 1991, initially as the Technical Manager in the Białystok Technical Unit, then, in the company's Headquarters, as 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 Executive Director in charge of Human Resources at Telekomunikacja Polska (now Orange Polska). He has worked for the Company for over 10 years. He began his career in the Group as Manager of Human Resources in Sales & Marketing at PTK Centertel in 2001. From 2005, he was Branch Director for Employee Competence and Development Management. Earlier, he was Director of the Entrepreneurship and Human Resources School in Infor Training (an Infor Media Group company) and 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 organisations management also at the University of Warsaw (1996).

He is a member of the Advisory Board of the Polish Human Resources Management Association.

**Mr. Maciej Nowohoński** (born 1973), Management Board Member in charge of Finance since March 2014.

He has been with Orange Polska since 2003 and 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. Furthermore, he sits on supervisory boards of selected subsidiaries of Orange Polska. Prior to joining the Orange team, he worked for Arthur Andersen & Andersen Business Consulting.

He is a graduate of the Foreign Trade Faculty, Economic University of Poznań and the Dutch HAN University of Applied Sciences in Nijmegen.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2018

Composition of the Supervisory Board on January 1, 2018:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Board Member and Secretary
4. Dr. Henryka Bochniarz - Independent Board Member
5. Federico Colom Artola - Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. John Russell Houlden - Independent Board Member and Chairman of the Audit Committee
10. Prof. Michał Kleiber - Independent Board Member
11. Patrice Lambert-de Diesbach - Board Member
12. Dr. Maria Pasło-Wiśniewska - Independent Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
14. Valérie Thérond - Board Member

On April 20, 2018, the mandates of Ms. Henryka Bochniarz, Mr. Jean-Marie Culpin, Mr. Ramon Fernandez, Ms. Maria Pasło-Wiśniewska, Mr. Wiesław Rozłucki and Ms. Valérie Thérond expired. On the same day, Ms. Henryka Bochniarz, Mr. Thierry Bonhomme, Mr. Ramon Fernandez, Ms. Maria Pasło-Wiśniewska, Mr. Wiesław Rozłucki and Mr. Jean-Marc Vignolles were appointed by the Annual General Assembly as Members of the Supervisory Board.

Composition on December 31, 2018:

1. Maciej Witucki - Chairman of the Supervisory Board
2. Gervais Pellissier - Deputy Chairman
3. Marc Ricau - Board Member and Secretary
4. Dr. Henryka Bochniarz - Independent Board Member
5. Thierry Bonhomme - Board Member
6. Federico Colom Artola - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. John Russell Houlden - Independent Board Member and Chairman of the Audit Committee
10. Prof. Michał Kleiber - Independent Board Member

11. Patrice Lambert-de Diesbach - Board Member
12. Dr. Maria Pasło-Wiśniewska - Independent Board Member
13. Dr. Wiesław Rozłucki - Board Member and Chairman of the Remuneration Committee
14. Jean-Marc Vignolles - Board Member and Chairman of the Strategy Committee

Until November 9, 2018, Orange Polska had five independent members on the Supervisory Board, namely Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber, Dr. Maria Pasło-Wiśniewska and Dr. Wiesław Rozłucki. At present, four members of the Supervisory Board meet the independence criteria, namely Dr. Henryka Bochniarz, John Russell Houlden, Prof. Michał Kleiber and Dr. Maria Pasło-Wiśniewska.

Composition of the Committees of the Supervisory Board on December 31, 2018:

The Audit Committee

1. John Russell Houlden – Chairman
2. Federico Colom Artola
3. Prof. Michał Kleiber
4. Dr. Maria Pasło-Wiśniewska
5. Marc Ricau

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

The Remuneration Committee

1. Dr. Wiesław Rozłucki – Chairman
2. Thierry Bonhomme
3. Dr. Maria Pasło-Wiśniewska
4. Marc Ricau

The Strategy Committee

1.Jean-Marc Vignolles– Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Prof. Michał Kleiber
5. Patrice Lambert-de Diesbach
6. Dr. Maria Pasło-Wiśniewska
7. Gervais Pellissier

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

Below, is the list of the Members of Orange Polska Supervisory Board and Management Board together with the Annual General Assemblies on which their mandates expire.

| **Management Board** | **Year of AGM** |
| --- | --- |
| Jean-François Fallacher – President | 2019 |
| Mariusz Gaca– Vice President | 2020 |
| Bożena Leśniewska – Vice President | 2021 |
| Witold Drożdż | 2021 |
| Jolanta Dudek | 2021 |
| Piotr Jaworski | 2021 |
| Jacek Kowalski | 2020 |
| Maciej Nowohoński | 2020 |

| **Supervisory Board** | **Year of AGM** |
| --- | --- |
| Maciej Witucki – Chairman | 2019 |
| Gervais Pellissier – Deputy Chairman | 2019 |

| | |
|---|---|
| Marc Ricau – Secretary | 2019 |
| Henryka Bochniarz | 2021 |
| Thierry Bonhomme | 2021 |
| Federico Colom Artola | 2021 |
| Eric Debroeck | 2019 |
| Ramon Fernandez | 2021 |
| John Russell Houlden | 2020 |
| Michał Kleiber | 2019 |
| Patrice Lambert-de Diesbach | 2020 |
| Maria Pasło-Wiśniewska | 2021 |
| Wiesław Rozłucki | 2021 |
| 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 absolute majority of votes of all appointed members of the Management Board. Individual members of the Management Board shall manage the areas of the Company's operations assigned to them.

The responsibilities and obligations of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl.

IV. Operations of the Supervisory Board

The work of the Supervisory Board is co-ordinated by the Board Chairman with the assistance of the Board Secretary. The Supervisory Board shall hold a meeting at least once a quarter. The Management Board or a member of the Supervisory Board may demand convening a meeting, specifying a suggested agenda thereof. The Chairman of the Supervisory Board shall call a meeting within two weeks of the receipt of the aforementioned motion. In case the Chairman of the Supervisory Board fails to call a meeting within two weeks, the applicant may call it on his own, specifying the date, place and suggested agenda of the meeting. The Supervisory Board shall adopt resolutions by a simple majority of the votes cast and in the presence of at least half of all members of the Supervisory Board. In case of equal votes, the Chairman of the Supervisory Board shall have the decisive vote.

Although the Board performs its tasks collectively, it delegates some of the work. The committees to which these tasks are delegated are described in further paragraphs.

The Supervisory Board by-laws are available at www.orange-ir.pl.

In particular, the Supervisory Board is responsible for the appointment and remuneration of the members of the Management Board, the appointment of the Company's independent auditors, and the supervision of the Group's business. As part of its supervisory responsibilities, it examines the Group's strategic plan and annual budget, monitors the Group's operating and financial performance, formulates opinions on incurring liabilities that exceed the equivalent of €100,000,000, formulates opinions on disposal of the Group's assets that exceed the equivalent of €100,000,000, evaluates the Management Board's report on the Company's activities and the Management Board's proposals regarding distribution of profits or covering losses. In considering these matters, the Board takes into account the social, environmental and ethical considerations that relate to Group's businesses.

Furthermore, the Polish Accounting Act determines the responsibility of the members of the Supervisory Board in regards to the reliability and fair presentation of the Company's financial reporting.

V. Operations of the Committees of the Supervisory Board

(A) The Audit Committee

The role of the Committee is to review the integrity of the financial information reported externally, the independence and objectivity of the Company's external auditors, 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.

The key functions of the Audit Committee include:

1) Monitoring the integrity of the financial information provided by the Company and the Group, in particular by reviewing:
   a. The financial reporting process;
   b. Performance of financial audit activities, particularly audits by an audit firm, taking into account the findings and conclusions of the Audit Oversight Commission from its audits of the audit firm;
   c. The relevance and consistency of the accounting methods used by the Company and the Group, including the criteria for the consolidation of the financial results;
   d. Any changes to accounting standards, policies and practices;
   e. Major areas of financial reporting subject to judgment;
   f. Significant adjustments arising from the audit;
   g. Statements on going concern;
   h. Compliance with the accounting regulations;
2) Reviewing, at least annually, the Group's system of internal control and risk management systems with a view to ensuring, to the extent possible, that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
3) Reviewing annually the Internal Audit programme, including the review of independence of the Internal Audit function and its budget, and coordination between the internal and external auditors;
4) Analyzing reports of the Group's Internal Audit and major findings of any other internal investigations and responses of the Management Board to them;
5) Making recommendations in relation to the engagement, termination, appraisal and/or remuneration (variable pay) of the Director of the Internal Audit;
6) Reviewing and providing an opinion to the Management and/or the Supervisory Board (where applicable) on significant transactions with related parties as defined by the corporate rules;
7) Controlling and monitoring the independence and objectivity of auditors and the audit firm, especially if the latter provides non-audit services to the Company;
8) Informing the Supervisory Board about the audit results and explaining how the audit has contributed to the accuracy of financial reporting in the Company as well as the Committee's role in the audit process;
9) Assessing the independence of auditors and accepting the provision of permitted non-audit services by the latter;
10) Developing the audit firm selection policy;
11) Developing the policy for provision of permitted non-audit services by the audit firm performing the audit or entities related to the audit firm or members of the audit firm chain;
12) Determining the audit firm selection procedure;
13) Reviewing the issues giving rise to the resignation of the external auditor;
14) Presenting the recommendations referred to in Article 16(2) of the Regulation No. 537/2014 to the Supervisory Board in line with the policies referred to in clauses 10) and 11) above;
15) Presenting the recommendations to the Supervisory Board aimed to ensure the accuracy of the financial reporting process in the Company;
16) Discussing with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
17) Discussing with the Company's external auditors (in or without the presence of the Company Management Board) any problems or reservations, resulting from the financial statements audit;
18) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
19) Considering any other matter noted by the Audit Committee or the Supervisory Board;
20) Regularly informing the Supervisory Board about all important issues within the Committee's scope of activity.
21) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

(B) The Remuneration Committee

The Remuneration Committee's task is to advise the Supervisory Board and Management Board on the general remuneration and nomination policy of the Group, determining the conditions of employment and remuneration (including the setting of objectives) of the Members of Management Board and giving recommendations to the Supervisory Board regarding salaries and the amounts of variable pay for the members of the Management Board.

(C) The Strategy Committee

The tasks of the Strategy Committee include:

(1) giving its opinion and recommendation to the Supervisory Board on the strategic plans put forward by the Management Board and any further suggestions made by the Supervisory Board regarding such strategic plan(s), and in particular on the main strategic options involved; and

(2) consulting on all strategic projects related to the development of the Group, the monitoring of the evolution of industrial partnerships within the Group and projects involving strategic agreements for the Group. It then reports and makes recommendations on each of these projects to the Supervisory Board.

In particular, the Committee is invited to consider projects such as:

(1) strategic agreements, alliances, and technological and industrial co-operation agreements, including aspects of the Group's strategic partnership with Orange SA; and

(2) significant acquisitions and sales of assets.

**(I) Regarding the Audit Committee of the Orange Polska Supervisory Board**

(1) The following persons declared that they meet the statutory criteria of independence: John Russell Houlden, Prof. Michał Kleiber and Dr. Maria Pasło-Wiśniewska.

(2) In the area of accounting or auditing of financial statements the following persons declared:

**John Russell Houlden** declared that he had the knowledge and skills in the area of accounting or auditing of financial statements; he has 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). 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 and Chief Financial Officer of Telecom New Zealand and United Utilities. Furthermore, he is a Main Committee member and Chairman of the Financial Reporting Committee of the '100 Group', which represents FTSE 100 to the International Accounting Standards Board, UK Financial Reporting Council and other regulatory bodies.

**Federico Colom Artola** declared that he had the knowledge and skills in the area of accounting or auditing of financial statements; he has been Executive Vice-President & Group Financial Controller at Orange Group in Paris since July 2016. From the end of 2007 to June 2016, he was the Chief Financial Officer of Orange Spain. Before, he was Financial Controller and Planning and Financial Controlling Director in Vodafone. Federico Colom Artola has BSc in Economics (University of Valencia) and MBA (EOI/Manchester Business School).

**Maria Pasło-Wiśniewska** declared that she had the knowledge in the area of accounting or 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 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. As the President of the Management Board of Pekao S.A. in 1998–2003, she effected the merger of four banks from the Pekao Group.

(3) The following persons declared that they had knowledge and skills in the field in which Orange Polska operates, indicating the respective ways in which they acquired such knowledge and skills as described below: John Russell Houlden, Federico Colom Artola, Prof. Michał Kleiber, Dr. Maria Pasło-Wiśniewska and Marc Ricau.

**John Russell Houlden** has 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). He also served as Finance Director of BT Networks & Information Services and BT Wholesale as well as Chief Financial Officer of Telecom New Zealand and United Utilities.

**Federico Colom Artola** has been Executive Vice-President & Group Financial Controller at Orange Group in Paris since July 2016. From the end of 2007 to June 2016, he was the Chief Financial Officerof Orange Spain. Federico Colom Artola has a long professional experience of more than 20 years in the telecommunications sector. Prior to joining Orange, he worked in the first private telecommunications operator in Spain (Airtel), where he was one of the founding employees and held various management positions in the administration, finance and customer service areas. Next, he was Financial Controller and Planning and Financial Controlling Director in Vodafone. Federico Colom Artola has BSc in Economics (University of Valencia) and MBA (EOI/Manchester Business School).

**Professor Michał Kleiber** is a graduate of the Warsaw University of Technology and the University of Warsaw and a specialist in information technology, materials science, future studies and innovative economy. Between 2007 and 2015 he was President of the Polish Academy of Sciences (PAS) and from 2006 to 2010 he acted as Advisor to the President of Poland. Between 2001 and 2005 he was the Minister of Science and Information Technology in the Polish government and from 1996 to 2001 he served as Director of the PAS Institute of Fundamental Technological Research, where he currently chairs the Computational Science Department. Furthermore, he is Vice-President of the European Academy of

Sciences and Arts, President of the European Community on Computational Methods in Applied Sciences (ECCOMAS) and President of the European Materials Forum (EMF).

**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. As the President of the Management Board of Pekao S.A. in 1998–2003, she effected the 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 (Science 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 area 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 Member of the Board of Directors of Orange Slovensko s.a. He is also a Member of the Board of Directors of Nadacia Orange (Orange Foundation) in Slovakia.

(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 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 prepares tender dossier for the attention of the invited audit firms, which should 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 partners, senior managers and managers conducting the statutory audit are independent from the audited company.

5. 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.

6. 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.

7. 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 (renew 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 seven meetings in 2018.

### 10.1 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, focusing on three main areas that align with the brand: music, filmand sport. In line with the adopted strategy, within these fields Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers, acting as the titular sponsor. Orange Polska sponsors various initiatives on a long-term rather than one-off basis. Implementation of one project in each of the three fields of sponsorship offers the highest efficiency in financial and image-building terms.

The implementation of our sponsoring policy is a responsibility of the Corporate Communication and CSR Director, to whom the CSR and Sponsoring Department reports. The key sponsoring projects are subject to approval by the Management Board of Orange Polska S.A. Each sponsoring project has its own target Key Performance Indicators (KPIs), such as attendance, advertising value equivalent (AVE), number of publications, etc. Upon completion of a project, it is evaluated by the Management Board. We established the Sponsoring Committee to centralise sponsoring project management in the Orange Polska Group.

Furthermore, Orange Polska carries out its charitable activities through a dedicated corporate foundation, the Orange Foundation, and the Donation Fund.

As part of its donation policy, Orange Polska has adopted formal rules for using the Donation Fund. These are specified in the Decision no. 50/16 of the Executive Director in charge of Corporate Affairs dated 17 November 2016.

Orange Polska S.A. follows clear and transparent rules in making donations:

- Any donation requires analysis and recommendation;
- Any donation is subject to approval by the President of the Management Board of Orange Polska;
- Any donation is made under a written donation agreement;
- All donations are effected by transfers and registered in the accounting systems of Orange Polska;
- 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, clear environment and enquiring team. Conclusions from a dialogue with stakeholders as well as market trends and social challenges for our industry at home and abroad have been an important road sign in the development of our CSR strategy. Responsibility for the implementation of the strategy lies with the CSR Steering Committee, which is made up of managers from different areas within the organisation. Our CSR initiatives are presented annually in the Orange Polska's Integrated Report (formerly in the Corporate Social Responsibility Report), which are 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.

### 10.2 Description of the Diversity Policy

Orange Polska has adopted the Diversity Management Policy, which was determined in the Decision no. 36/16 of the President of the Management Board dated 19 September 2016.

Our Diversity Management Policy supports the achievement of our business objectives, addresses changes in the labour market and responds to the expectations of our employees. The Policy supports the implementation of the values enshrined in the Code of Ethics, the social responsibility goals and the commitments specified in the Diversity Charter, of which Orange Polska is a signatory. In addition, the Policy refers to the Global Diversity Management and Inclusion Policy in Orange.

The key diversity dimensions in Orange Polska identified in its Diversity Management Policy are as follows:

- gender;
- age;
- competence / expertise / experience / way of thinking;
- psychophysical skills – (dis)abilities;
- parental status.

Other diagnosed dimensions include:

- religion / beliefs;
- workplace location (HQ vs. region);
- type of employment;
- nationality / ethnic origin.

With respect to administering, managing and supervising bodies, the rules specified in the Policy include proper selection of employees and leadership.

In the recruitment process, we follow transparent rules and criteria of candidate selection. Decisions to recruit particular employees are based on their qualifications and professional experience. We ensure that candidates represent diverse communities.

In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities as well as the requirements related to qualifications, expertise and competence of Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of fourteen members, including four independent members. They are appointed by the General Assembly (or, in exceptional cases, by the Supervisory Board). The term of office for the member of the Supervisory Board is three years. There are three women on the Supervisory Board.

The Management Board currently consists of 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.

### 10.3 Report on the Remuneration Policy of Orange Polska S.A.

**Remuneration Policy of Orange Polska S.A.**

The strategy of Orange Polska S.A. is based on building and maintaining high customer satisfaction, while providing a full range of the best quality telecommunication, multimedia and specialised ICT services fitting both household and business needs, as well as offering extensive connectivity and high customer relationship standards.

The Remuneration Policy contributes to implementing the Company's comprehensive strategy. By enabling the recruitment, retention and motivation of the best managers and professionals in the specialised areas existing in Orange Polska S.A. it provides people prepared to achieve the strategic goals of the Company.

While recognising that employees are a key asset of the Company, the Policy supports the creation of favourable conditions in the digital work environment by stimulating the commitment to the Company's objectives, employee development and use of flexible work methods.

Remunerations within Orange Polska S.A. are compared to those offered by peer companies in the market. The remuneration level depends on the Company's financial results, and on the employee's individual contribution and performance.

Remunerations are determined in a manner ensuring balance and consistency across the Orange Group. Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

1. Basic salary;
2. Performance bonus;
3. Discretionary bonuses;
4. Benefits.

Employees leaving the Company under the voluntary departure programme are offered severance pay. The terms of severance pay for employees are determined in a separate agreement with trade unions in compliance with the law, whereas the terms of severance pay for the managers excluded from the Intragroup Collective Labour Agreement are settled in individual agreements and codified in their employment contracts.

Terms of remuneration for Orange Polska S.A.'s employees covered by the Intragroup Collective Labour Agreement are determined in co-operation with trade unions.

**1. Basic salary**

Basic salary terms take into account the job remuneration standards related to the scope of tasks assigned to a particular job position as well as the market value of the work performed.

Orange Polska S.A. monitors the remuneration market by comparing, at least annually, the Company's salaries and remuneration practices to those adopted by the Polish market leaders, particularly ICT companies.

Orange Polska S.A. ensures the consistency of remuneration between job positions by taking into account the managerial and expert skills involved as well as job comparability between various parts of the organisation.

Orange Polska S.A. develops remuneration terms based on non-discrimination, particularly on the grounds of gender, age, disability, race, religion, nationality, political opinion, trade union membership, ethnic origin and sexual orientation.

Individual basic salaries are determined in the following process:

- Annual remuneration reviews, taking into account the evolving work standards of various professional groups and each employee's contribution to the achievement of goals;
- Promotions;
- Recruitment arrangements for candidates assuming their duties in a new professional area;
- Management of the risk of attrition of the most qualified employees leaving for the competition.

***Management Board Members and Executive Directors***

The Remuneration Committee of the Supervisory Board recommends the terms of employment, including the amount of basic salary, while taking into account the following aspects:

- scope of responsibilities and complexity of the particular job position;
- equality (employees with similar responsibilities, competence, experience and previous performance receive comparable remuneration);
- market competitiveness;
- individual contribution.

Based on the Remuneration Committee's recommendations, the Supervisory Board determines the basic salary of the Management Board Members, while the Management Board determines the basic salary of the Executive Directors.

**2. Performance bonus**

The purpose of the bonus system is to motivate employees to achieve high performance by attaining the predefined and agreed goals which support the implementation of the Company's strategy and growth of customer satisfaction. The system of goals stimulates co-operation among employees and business units by setting some solidarity goals in addition to individual ones.

Orange Polska S.A.'s bonus system is aligned with the specifics of the tasks performed by particular functions, which results in different levels of bonuses:

- Senior managers have a high share of bonuses in their total remuneration;
- Employees with sales goals have higher bonus or commission levels in the total remuneration than those without such goals.

For key managers, bonus is more related to the Company's performance, and depends more on the achievement of solidarity goals shared by all, whereas for experts/line managers, bonus is related to their individual performance and depends less on the solidarity components shared by the particular function or the entire Company.

The goals and bonuses are set for periods closely linked to the budgeting cycle.

All senior managers and line managers in the support functions receive bonuses on a semi-annual basis. Employees in the support functions, sales line managers and sales employees receive bonuses/commissions on a quarterly or monthly basis.

The detailed bonus terms are defined in the relevant Bonus Regulations.

***Management Board Members and Executive Directors***

Bonuses of the Management Board Members and Executive Directors depend on the attainment of goals based on the Company's long-term strategy and on financial performance. Solidarity goals delegated to managers are related to EBITDA and revenue ratios for the whole Company or particular segments of its activity as well as customer satisfaction from Orange services. Individual goals are related to functional performance and management quality.

The performance and bonuses of individual Management Board Members and Executive Directors are monitored directly by the Remuneration Committee of the Supervisory Board.

A new element that was introduced in 2017 is a long-term incentive program dedicated to key managers, including the Management Board Members and Executive Directors. The success in the programme is measured as an increase in the Company's value and customer satisfaction. Participation in the programme is voluntary and requires managers to contribute their own resources. The programme will be settled in the first half of 2021.

### 3. Discretionary bonuses

The Company's long-term strategy is based on innovation and commitment to outstanding performance.

Discretionary bonuses encourage employees to get involved in the development of innovative solutions, implementation of strategic projects and cross-functional co-operation. Owing to this scheme, employees can be rewarded for achievements which exceed the expectations defined in their periodic goals.

Discretionary bonuses are awarded twice a year by the CEO or other Board Members or Executive Directors for outstanding achievements.

### 4. Benefits

In order to improve the quality of life and promote employee integration, Orange Polska S.A. provides a broad package of market-competitive benefits to its employees, building a valuable offer which supports employee recruitment and retention.

A unique benefit for employees is their eligibility for the Employee Pension Fund, which is financed by Orange Polska S.A.

The programme is an employee pension scheme (Orange Polska S.A. Employee Pension Fund).

The key areas influenced by Orange Polska S.A. through benefit schemes are as follows:

- health and physical activity;
- financial stability;
- improved quality of life;
- employee development.

Orange Polska S.A. wants all its employees to be the ambassadors of the Orange brand; therefore. it provides them with access to its own products and services.

The Remuneration Policy shall not constitute the basis for any claims by the Company's employees or members of the Company's governing bodies. The detailed terms of remuneration are regulated by individual employment contracts and the Company's by-laws.

### Management Board and Supervisory Board Compensation

Persons that were Members of the Management Board of the Company as at 31 December 2018:

| *(PLN '000)* | *12 months ended 31 December 2018* | | | |
|---|---|---|---|---|
| | *Fixed compensation expense in 2018* | *Variable compensation expense in 2018*[1] | **Total compensation expense in 2018** | *Additionally: Variable compensation expense in 2017, paid in 2018* |
| Jean-François Fallacher | 2,849 | 923 | 3,772 | 631 |
| Mariusz Gaca | 1,683 | 739 | 2,422 | 395 |
| Jolanta Dudek | 962 | 415 | 1,377 | 210 |
| Jacek Kowalski | 1,183 | 529 | 1,712 | 274 |
| Bożena Leśniewska | 1,348 | 612 | 1,960 | 287 |
| Maciej Nowohoński | 1,260 | 511 | 1,771 | 248 |
| Witold Drożdż[2] | 156 | 86 | 242 | - |
| Piotr Jaworski[2] | 159 | 85 | 244 | - |
| **Total** | **9,600** | **3,900** | **13,500** | **2,045** |

[1] Includes bonuses accrued in 2018 to be paid in 2019, excludes bonuses accrued in 2017 and paid in 2018.
[2] From the date of appointment as the President of the Management Board of Orange Polska S.A.

Persons that were Members of the Management Board of the Company as at 31 December 2017:

| *(PLN '000)* | *12 months ended 31 December 2017* | | | |
|---|---|---|---|---|
| | *Fixed compensation expense in 2017* | *Variable compensation expense in 2017*[1] | **Total compensation expense in 2017** | *Additionally: Variable compensation expense in 2016 , paid in 2017* |
| Jean-François Fallacher | 2,831 | 973 | **3,804** | 391 |
| Mariusz Gaca | 1,697 | 847 | **2,544** | 339 |
| Jolanta Dudek | 908 | 431 | **1,339** | 194 |
| Jacek Kowalski | 1,196 | 580 | **1,776** | 271 |
| Bożena Leśniewska | 1,223 | 597 | **1,820** | 239 |
| Maciej Nowohoński | 1,231 | 552 | **1,783** | 271 |
| **Total** | **9,086** | **3,980** | **13,066** | **1,705** |

[1] Includes bonuses accrued in 2017 and paid in 2018, excludes bonuses accrued in 2016 and paid in 2017.

Person who was a Member of the Management Board of the Company in 2017 and in previous years:

| *(PLN '000)* | *12 months ended 31 December 2017* | | | |
|---|---|---|---|---|
| | *Fixed compensation expense in 2017* | *Variable compensation expense in 2017*[1] | **Total compensation expense in 2017** | *Additionally: Variable compensation expense in 2016 , paid in 2017* |
| Piotr Muszyński[2] | 5,821 | 818 | **6,639** | 359 |
| **Total** | **5,821** | **818** | **6,639** | **359** |

[1] Includes bonuses accrued and paid in 2017, excludes bonuses accrued in 2016 and paid in 2017.
[2] Compensation until the termination date (including post-employment benefits).

The Supervisory Board compensation was as follows:

| *(PLN '000)* | *12 months ended 31 December 2018* | *12 months ended 31 December 2017* |
|---|---|---|
| Maciej Witucki | 431 | 431 |
| Gervais Pellissier [1] | - | - |
| Marc Ricau [1] | - | - |
| Dr. Henryka Bochniarz | 220 | 214 |
| Thierry Bonhomme [3] | 18 | - |
| Federico Colom Artola [1] | - | - |
| Jean-Marie Culpin [1] [2] | - | - |
| Eric Debroeck [1] | - | - |
| Ramon Fernandez [1] | - | - |
| John Russell Houlden | 394 | 394 |
| Prof. Michał Kleiber | 215 | 215 |
| Patrice Lambert-de Diesbach [1] | - | - |
| Dr. Maria Pasło-Wiśniewska | 212 | 212 |
| Dr. Wiesław Rozłucki | 321 | 322 |
| Valérie Thérond [1] [2] | - | - |
| Jean-Marc Vignolles [1] | - | - |
| **Total** | **1,811** | **1,788** |

(1) Persons appointed to the Supervisory Board of the Company employed by Orange S.A. do not receive remuneration for the function performed.
(2) Persons that were not Members of the Supervisory Board of the Company as at 31 December 2018 but were Members of the Supervisory Board of Orange Polska S.A. in 2017.
(3) Person appointed to the Supervisory Board of the Company and employed by Orange S.A., whose employment in Orange S.A. was terminated during the year. For the period of employment in Orange S.A., remuneration for the function in the Supervisory Board of Orange Polska S.A. was not due, while it was due after the termination of employment in Orange S.A.

The Management Board Members and Executive Directors are entitled to a variable remuneration component equal to 50% of their annual basic salary in case of 100% goal achievement. In some cases, if performance is higher than 100%, the variable remuneration component may exceed 50% of the annual basic salary. The variable remuneration component is based on the achievement of Orange Polska's Revenues, adjusted EBITDA and specific telco indicators. As regards termination of employment, the termination notice period for Management Board Members is 6 months and they receive basic salary during that period.

In addition, they are entitled to one-off severance pay equal to 6 monthly basic salaries. All Management Board Members shall restrain from any competitive activity for 12 months after the termination of employment, and they are entitled to compensation for this ban equal to 6 monthly basic salaries.

In addition, the President of the Management Board is entitled to the Stretch Bonus based on the adjusted EBITDA as a financial trigger.

Furthermore, those Management Board Members and Executive Directors who are expatriates are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

**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 Orange.one Incentive Programme for the key executives of Orange Polska S.A., including the Management Board Members, based on derivatives (phantom shares), where the underlying instrument is the price of shares of Orange Polska S.A. on the regulated market maintained by the Warsaw Stock Exchange.

According to the Programme Regulations, Members of the Management Board are eligible to voluntary purchase of a total of 370,000 phantom shares of PLN 1 each from the initial pool, and they will acquire additional blocks of phantom shares after meeting the conditions for the average price of the shares of Orange Polska S.A. and the NPS ranking. A total maximum number of phantom shares in additional pools will be 126,000 and 54,000, respectively.

Phantom shares will be bought back at the average price of the shares of Orange Polska S.A. in the first quarter of 2021, provided that it is not less than the average price of the shares of Orange Polska S.A. in the third quarter of 2017, which amounted to PLN 5,46.

If the conditions for additional blocks of phantom shares are not met, the phantom shares will not be bought back and the participant will lose the invested funds.

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 (included in the Orange Polska's costs).

| | *Options for additional phantom shares* | | | *The cost of share-based payments for 12 months till December 31, 2017 (PLN '000)*[1] | *The cost of share-based payments for 12 months till December 31, 2018 (PLN '000)*[1] |
|---|---|---|---|---|---|
| | *Phantom shares - initial pool (number)* | *Condition of the share price (number)* | *Condition of NPS (number)* | | |
| Jean - François Fallacher | 70,000 | 21,000 | 9,000 | 14 | 84 |
| Mariusz Gaca | 50,000 | 21,000 | 9,000 | 11 | 63 |
| Jolanta Dudek | 50,000 | 21,000 | 9,000 | 11 | 63 |
| Jacek Kowalski | 50,000 | 21,000 | 9,000 | 11 | 63 |
| Bożena Leśniewska | 50,000 | 21,000 | 9,000 | 11 | 63 |
| Maciej Nowohoński | 50,000 | 21,000 | 9,000 | 11 | 63 |
| Witold Drożdż[2] | 50,000 | 21,000 | 9,000 | - | 30 |
| Piotr Jaworski[2] | 50,000 | 21,000 | 9,000 | - | 30 |
| **Total** | **420,000** | **168,000** | **72,000** | **69** | **459** |

[1] For cost calculation assumptions please see Note 15.2 to the Orange Polska Group IFRS Consolidated Financial Statements for 2018.
[2] From the date of appointment as the President of the Management Board of Orange Polska S.A.

Person who was a Member of the Management Board of the Company in 2017 and in previous years:

| | *Options for additional phantom shares* | | | *The cost of share-based payments for 12 months till December 31, 2017 (PLN '000)* |
|---|---|---|---|---|
| | *Phantom shares - initial pool (number)* | *Condition of the share price (number)* | *Condition of NPS (number)* | |
| Piotr Muszyński | 50,000 | - | - | 66 |
| **Total** | **50,000** | **-** | **-** | **66** |

**Long Term Incentive Plan (LTIP) of the Orange Group**

The table below presents the number of shares granted by Orange S.A. to the Management Board Members under LTIP. The Long Term Incentive Plan is a 3-year plan from 2017 to 2019.

| | *Shares (number)* | *The cost of share-based payments for 12 months till December 31, 2017 (PLN '000)* | *The cost of share-based payments for 12 months till December 31, 2018 (PLN '000)* |
|---|---|---|---|
| Jean-François Fallacher | 2,000 | 7 | 37 |
| Mariusz Gaca | 2,000 | 7 | 37 |
| Jolanta Dudek | 2,000 | 7 | 37 |
| Jacek Kowalski | 2,000 | 7 | 37 |
| Bożena Leśniewska | 2,000 | 7 | 37 |
| Maciej Nowohoński | 2,000 | 7 | 37 |
| Witold Drożdż[1] | 2,000 | - | 6 |
| Piotr Jaworski[1] | 2,000 | - | 6 |
| **Total** | **16,000** | **42** | **234** |

[1] From the date of appointment as the President of the Management Board of Orange Polska S.A.

Currently, LTIP includes key managers who occupy key positions 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 plan until 31 December 2019 and performance conditions.

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 July 2018 the next edition of the Long-term Incentive Plan of the Orange Group for 2018-2020 was made available. Number of shares granted by Orange S.A. as part of the program, to the Management Board Members are specified in the table below.

| | *Shares (number)* | *The cost of share-based payments for 12 months till December 31, 2018 (PLN '000)* |
|---|---|---|
| Jean-François Fallacher | 2,000 | 17 |
| Mariusz Gaca | 2,000 | 17 |
| Jolanta Dudek | 2,000 | 17 |
| Jacek Kowalski | 2,000 | 17 |
| Bożena Leśniewska | 2,000 | 17 |
| Maciej Nowohoński | 2,000 | 17 |
| Witold Drożdż[1] | 2,000 | 7 |
| Piotr Jaworski[1] | 2,000 | 7 |
| **Total** | **16,000** | **116** |

[1] From the date of appointment as the President 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, company car, 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 6 months, are eligible for the Employee Pension Programme (PPE).

The key managers other than Executive Directors are entitled to health care package, company car and an access to Orange services in line with the relevant Company's policies. In addition, all key managers, having worked at Orange Polska for more than 6 months, are eligible for the Employee Pension Programme (PPE).

After enrolment to the Employee Pension Programme (PPE), the PPE contribution for all participants is paid by Orange Polska S.A.

In addition, French key managers are eligible for benefits connected with staying in Poland as foreigners, which are included in the Orange Group International Mobility Policy package and payable on a one-off basis or throughout the year. These include housing allowance, plane tickets, French social insurance premiums, etc.

### Assessment of Remuneration Policy in 2018

Like in previous years, our bonus systems support directly execution of: EBITDA, NPS, transformation projects, sales targets for convergent offers and fibre services. In 2018, bonuses for all people are stronger connected with EBITDA. Bonuses for first managerial line (the Board and Executive Directors) depend on EBITDA in 50%. A stronger EBITDA impact on bonuses is implemented for the rest of directors as well. All employees in non-sales teams received diverge level of bonus even in case of 100% individual performance, depending on the Company's EBITDA. The adopted bonus model focuses engagement of all people on EBITDA improvement. In bonus models dedicated to salesforce, there has been evolution of indicators from revenues and volume of services to profitability of services.

The Company offers a competitive level of remuneration in relation to the market; as a result, the level of staff turnover at the initiative of employees remains relatively low. At the same time, we note a growing pressure on remuneration growth related to an increase in demand for labour on the market, especially in new technology professions and direct contact with the customer. Systematic salary reviews are based on setting remunerations in the Company against the market and allow us to respond flexibly according to market changes. Therefore, our annual salary review is supplemented by additional microreviews and a salary rise process in the first and fourth quarters for selected professional groups that see dynamic wage growth in the market, which might lead to higher employee turnover in these groups.

### 10.4 Orange Polska Group and Orange Polska S.A.'s Statements on Non-financial Information for 2018

While reporting non-financial data in this statement, Orange Polska drew on its wide experience in developing CSR and integrated reports. 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.
Telefony Podlaskie S.A.
Orange Retail S.A.
Orange Energia Sp. z o.o.
Orange Real Estate Sp. z o.o.
Orange Szkolenia Sp. z o.o.
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.
Fundacja Orange (Orange Foundation)
Telekomunikacja Polska Sp. z o.o.

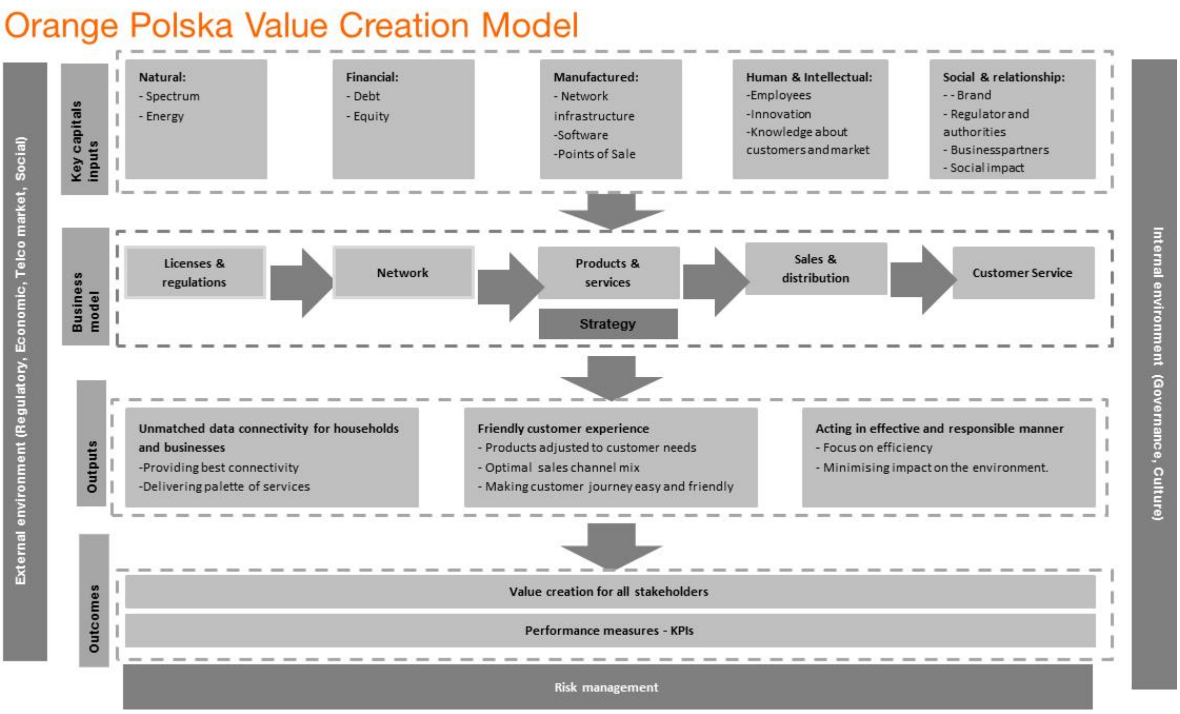
**The Group and T-Mobile Polska hold a 50% interest each in NetWorkS! Sp. z o.o. This company was classified in the Report as a joint operation and is not covered by this Statement.*

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. Stakeholders have been identified based on the strength of the impact on the Group and the presented attitude to the Group's activities (positive, neutral, negative).

This Statement is a continuation of the CSR Reports developed by Orange Polska from 2006 and integrated reports developed since 2017.

- **Governance Area**

The Orange Polska Group is Poland's leading telecommunication provider, operating in all segments of the Polish telecoms market. The Group owns the largest telecom infrastructure in Poland, rendering voice and data services on fixed and mobile networks. The Company's portfolio includes mobile and fixed line voice services, broadband services (including fibre), pay TV and convergent offers.



- **Business 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, 1800MHz, 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 as well as 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 fixed 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. The members of each committee are experts in their field of expertise, who provide the Supervisory Board with advice on issues requiring more detailed analysis. The Audit Committee provides the Supervisory Board with wide expertise on finance, accounting and audit. The Remuneration Committee deals with general remuneration policy and recommends appointments of Management Board members. The Strategy Committee is responsible for delivering recommendations on strategic plans and planning processes set up by the Management Board.

The aim of the corporate governance model described above is to properly distribute responsibilities within the Company and establish 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, 22301, 27001, 27018and 17025. 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 the risk management framework to identify, assess and manage risks. This framework has been based on the ISO 31000:2009 standard. In addition, each subsidiary of the Group is subject to risk assessment. Leaders within the Group's individual business areas and functions are responsible for the assessment and management of risks including the identification and escalation of new/emerging circumstances and monitoring and reporting on the risks and control effectiveness.

- **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. Our CSR strategy 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.

In 2016, anew CSR strategy for 2016–2020 was launched. It was updated in 2018. A strong foundation of this strategy is responsible management: our values, ethics, human rights, compliance and our dialogue with stakeholders as a tool for understanding their expectations. 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 free from threats.
- **Clean environment** – We implement our business objectives with respect for ecology rules and in harmony with the environment.
- **Engaged team** – We build culture of co-operation in which employees feel respected, work towards achieving shared goals and have an influence on functioning of the Company.

Responsible management and actions within these four pillars account for our social impact, which is analysed in six areas: economy, innovations, customers, environment, communities and employees.

### 1. Environmental Area

Orange Polska responds to global challenges related to the natural environment and natural resources. Within environmental protection policy we supervise compliance of our operations with the law and other regulations regarding ecology. We promote environmentally friendly solutions, which help to reduce greenhouse gas emissions through offering services that can replace traditional communications or written documents. Thanks to comprehensive ICT systems for business and administration, we make environmental protection part of everyday life.

Orange Polska has adopted an environmental policy that defines its key areas of use of natural resources and its impact on the environment. It was complemented by the Environmental Management System consistent with the ISO 14001 standard for mobile services.

Pursuant to these documents, 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 CO2 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.

**Key environmental indicators**

| **Environmental Data*** | | | |
|---|---|---|---|
| **Energy** | **Unit** | **2017** | **2018**** |
| KPI: electricity consumption/customer | kWh/customer | 27.4 | 26.5 |
| **Direct energy consumption by primary energy sources** | | | |
| Fuel (all buildings, all uses) | ‘000 $m^3$ | 2.2 | 2.0 |
| Gas | ‘000 $m^3$ | 3,103 | 2,842 |
| Coal | tonnes | 70.8 | 55.6 |

| | | | |
|---|---|---|---|
| Energy produced during combustion, primary sources | GWh | 57.0 | 54.0 |
| **Indirect energy consumption by primary energy sources** | | | |
| Electricity | GWh | 581 | 564 |
| **Greenhouse gas emissions** | | | |
| CO2 emissions excluding transport | ‘000 tonnes | 454.7 | 447.5 |
| CO2 emissions during transport | ‘000 tonnes | 10.7 | 10.4 |
| Total CO2 emissions | ‘000 tonnes | 465.4 | 457.9 |
| KPI: CO2 emissions during electricity consumption/customer | kg/customer | 20.7 | 26.5 |
| KPI: CO2 emissions (all energies)/customer | kg/customer | 22.0 | 20.0 |
| **Materials** | | | |
| Waste paper, cardboard boxes: internally and externally | ‘000 tonnes | 1.8 | 0.8 |
| Water | ‘000 $m^3$ | 315.0 | 255.7 |
| **Waste management** | | | |
| Internal WEEE (network & tertiary) | tonnes | 70.4 | 94.6 |
| Wooden poles | tonnes | 190.9 | 321.5 |
| Cables | tonnes | 287.9 | 179.9 |
| Batteries | tonnes | 101.8 | 115.7 |
| Paper / Cardboard | tonnes | 13.8 | 18.8 |
| Other hazardous waste (including PCB) | tonnes | 7.0 | 2.58 |
| Other non-hazardous waste | tonnes | 1,050.4 | 2,067.2 |
| **Electromagnetic field emissions** | | | |
| Compliance with the relevant standards | | yes | yes |
| **Recycling and refurbishment** | | | |
| Collected and recycled handsets | pcs. | 42,869 | 16,034 |
| Refurbished and relaunched handsets*** | pcs. | 8,138 | 5,644 |
| Refurbished and relaunched multimedia (broadband) devices | ‘000 | 396 | 511 |

* The indicated 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, whereas EMF emissions and handset recycling and refurbishment are characteristic of Orange Polska only.

** Due to non-availability of some data for Q4 before the deadline of this Report, the presented full-year figures consist of actual data for Q1, Q2 and Q3 and estimates for Q4.

*** The decrease in refurbished devices has been a result of lower distribution of new terminals, enhanced quality of products, mobile market saturation and elimination of gaps in the process of terminal returns.

**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 | Delivery in 2018 |
|---|---|
| **Energy** | |
| Reduction in energy consumption by 1–5% year-on-year | -3% |
| **Reduction in greenhouse gas emissions** | |
| Reduction in CO2 emissions | -1.6% |
| **Recycling and refurbishment** | |
| Increase in refurbished and relaunched broadband devices year-on-year (%) | 29% |
| **Materials and natural resources** | |
| Decrease in paper consumption / increase in % of customers using e-invoices | 3.3% |
| **Management of the environmental impact** | |
| Compliance with regulations:number of infringements | No infringements |

**Reference to the Key Risks in the Environmental Area**

***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, even though the Polish EMF limit is much more restrictive than in most other countries, where the limit set in the Council Recommendation 1999/519/EC applies.

If the above-mentioned health risks were scientifically confirmed to a certain extent in the future, this would likely result in 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.

Furthermore, legislative works on a bill tightening the regulations on electromagnetic fields from telecommunications equipment have been initiated in Poland. The legislation process is still at its initial stage, but the new regulations can expand operators' obligations, increasing the cost and time of network deployment (especially with respect to 5G systems). Despite discontinuation of ISO14001:2015 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 (5G technology testing).

## 2. Employment Area

**Employment**

Orange Polska attaches great importance to ensuring equal treatment, clear evaluation and promotion criteria, professional and personal development opportunities, as well as good and safe working conditions. We aim to create a culture of co-operation, in which all employees feel respected and can freely pursue their professional goals and life passions. Orange Polska conducts regular employee surveys and is involved in dialogue with trade unions.
We create a friendly workplace and take care of employees' safety, health and decent retirement. We provide preventative healthcare, promote sports activity among employees and offer help and support in difficult life situations. We value diversity and believe that skilful diversity management in a workplace creates new opportunities.

There is no single comprehensive document concerning workforce policy in the Orange Polska Group. The employment area is regulated by the following documents: Staff Regulations, policies on mobility, training and development, remuneration, diversity, health and well-being investments and occupational safety and health, as well as 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 the procedure for informing employees about occupational risks;
- procedures for confirming the arrival and presence at work as well as justifying the absence at work 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 | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Workforce | 13,894 | 12,516 | 14,615 | 13,222 |
| Full-time positions | 13,872 | 12,497 | 14,587 | 13,197 |
| Full-time employees | 13,805 | 12,448 | 14,514 | 13,139 |
| Part-time employees | 89 | 68 | 101 | 83 |
| Outsourced employees (full-time positions)* | 5,204 | 4,044 | 5,480 | 4,344 |
| Employees in management positions | 1,873 | 1,486 | 1,819 | 1,643 |

* 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.

The Mobility Policy aims to prepare employees to perform new professional roles in accordance with the Company's needs through:

(1) recruitment in line with the identified needs of the Company;
(2) competence transfer in and between Group companies; and
(3) scheduled exchange of employees identified to have the highest development potential between Orange Group's international structures.

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 | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Total number of new employee hires | 466 | 415 | 552 | 476 |
| Departures* | 1,247 | 1,437 | 1,302 | 1,487 |
| Turnover** | 2.6% | 2.6% | 2.8% | 2.8% |

* 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

We have a number of development programmes, which aim to develop competence and prepare employees to face the Group's strategic challenges.

All employees can increase their qualifications and improve their language skills. We have been developing specialist competencies in different areas through the Professional Schools initiative. We promote knowledge sharing through various programmes, such as Knowledge Highway, which supports the development of know-how sharing culture among Orange Polska's internal experts. Our employees have access to numerous products that vary in form and topic: e-learning courses, webinars, films, books and workshops. We have a programme for identification and development of management talents, which supports people with initiative, concrete achievements and leadership potential.

Since 2011, we have carried out an international development programme, Orange Campus, to promote uniform management standards across the Orange Group. In an attempt to change culture, we launched the Leader.One initiative dedicated to Orange managers. It involves a series of workshops and a manager community on Plazza (our internal social networking site).

Furthermore, we have launched the 360-degree Feedback assessment for all employees, which involves development interviews, goal determination and development planning. A major element supporting the feedback culture is the monthly Pulse Meter opinion poll, in which individual teams can offer feedback and suggest changes.

The Company follows the employee Development & Assessment (D&A) process, which combines annual evaluation results with the employee's career development plan; it also involves progress monitoring throughout the year.

Development opportunities are supported by the Mobility programme as well as a tool with which employees can express desire for change of their professional roles and managers provide information about vacancies in their respective areas.

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 | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Total number of employees trained (in '000) | 15.1 | 14.5 | 15.3 | 13.9 |
| Total number of partners trained (in '000) | 24.2 | 25.3 | 24.2 | 25.3 |

| | | | | |
|---|---|---|---|---|
| Total hours of employee training (in ‘000) | 484.5 | 342.8 | 487.3 | 337.8 |
| Total hours of partner training (in ‘000) | 615.8 | 403.0 | 615.8 | 402.5 |
| **Employee assessment** | | | | |
| % of regularly evaluated employees** | 94.4% | 80.2% | 94.4% | 35.7% |
| % of employees with individual development plans | 82.4% | 78.6% | 82.3% | 42% |
| % of regularly evaluated outsourced staff** | 97.8% | 35.7% | 97.8% | 35.7% |
| % of outsourced staff with individual development plans* | 73.4% | 42% | 73.4% | 42% |

* The development and education data for the Orange Polska Group cover the following: Orange Polska S.A., TP Teltech, Integrated Solutions and Orange Foundation.
** In 2018, the assessment system was changed to 360-degree Feedback, which resulted in a decrease in the share of evaluated employees.

**Remuneration**

The Remuneration Policy regulates the main guidelines and principles for remuneration in Orange Polska. 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.Remunerations are determined in a manner ensuring balance and consistency across the Orange Group.

Our Remuneration Policy complies with the labour law and corporate governance regulations.

The remuneration system consists of the following components:

1. Basic salary

   Basic salary terms take into account the market remuneration standards for various positions, as well as individual competence and contribution of employees. Orange Polska develops remuneration terms based on non-discrimination.

2. Performance bonus

   The purpose of the bonus system is to motivate employees to achieve high performance by attaining the predefined and agreed goals which support the implementation of the Company’s strategy and growth of customer satisfaction. The bonus amount depends on both the Company’s overall business performance and the achievement of individual goals matching the character of particular positions.

   All employees are eligible for performance bonuses. Depending on their responsibilities, individual groups of employees are subject to different bonus criteria matching the character of particular positions. Depending on the group, bonuses to employees are settled on a monthly, quarterly or semi-annual basis.

3. Discretionary bonuses
4. Benefits

Terms of remuneration for Orange Polska’s employees covered by the Intragroup Collective Labour Agreement are determined in co-operation with trade unions.

**Key remuneration indicators**

| Wages | Orange Polska S.A. | | Orange Polska Group | |
|---|---|---|---|---|
| | **2017** | **2018** | **2017** | **2018** |
| Average basic salary (in PLN) | 6,790 | 7,102 | 6,791 | 7,114 |
| Ratio of wages at the lowest positions to the legal minimum wage | 148% | 137% | 149% | 138% |

**Diversity**

The Diversity Management Policy aims to bolster the pursuit of our business objectives, address changes in the labour market and respond to the expectations of our employees. The policy also supports compliance with the values enshrined in the Code of Ethics, CSR goals and the obligations under the Diversity Charter, of which we are a signatory.

The key diversity dimensions in the Group are as follows: gender, age, competence / expertise / experience / way of thinking, psychophysical skills – (dis)abilities, and parental status. Other diagnosed dimensions include: religion / beliefs, workplace location (HQ vs. region), type of employment, and nationality / ethnic origin.

With respect to administering, managing and supervising bodies, the rules specified in the Policy include proper selection of employees and leadership. In the recruitment process, we follow transparent rules and criteria for candidate selection. Decisions to recruit particular persons are based on their qualifications and professional experience. We ensure that candidates represent diverse communities. In terms of leadership, the diversity requirements include care for the diversity of decision-making bodies within the Company.

In complementary action plans to the Policy, we have assumed a requirement for analysis of management and supervisory bodies in terms of diversity with respect to such aspects as age, gender, education or professional experience.

The duties and responsibilities as well as the requirements related to qualifications, expertise and competence of Supervisory Board Members are specified in the Company's Articles of Association. In addition, Orange Polska S.A. applies the provisions of the *Best Practice for WSE Listed Companies 2016*.

The Supervisory Board currently consists of fourteen members, including four 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 two 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, 2018).

**Key diversity indicators**

| Diversity | Orange Polska S.A. | | Orange Polska Group | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| **Access to positions** | | | | |
| % of women in the Group | 41.1% | 39.8% | 40.5% | 39.1% |
| % of women in management positions | 33.5% | 34.1% | 32.7% | 32.9% |
| **Ratio of basic salary of women to men by positions (men's salary = 100%)*** | | | | |
| General | 78.9% | 79.1% | 79.4% | 79.5 % |
| Non-management positions | 81.5% | 81.3% | 82.0% | 81.8% |
| Management positions | 81.9% | 80.8% | 83.5% | 82.5% |
| **Ratio of salary of women to men within the same pay grades (men's salary = 100%)** | *no data* | 96.9% | *no data* | 97.1% |
| **People with disabilities** | | | | |
| % of employees with disabilities | 1.7% | 1.8% | 1.7% | 1.8% |

* 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**

In order to improve quality of life and promote employee integration, Orange Polska provides a broad package of market-competitive benefits to its employees, building a valuable offer which supports employee recruitment and retention.

The key areas influenced by Orange Polska through benefit schemes are health and physical activity, financial stability, improved quality of life and employee development.

The Policy for Investing in Health Quality and Well-being of Orange Polska's Employees provides for developing friendly working environment, ensuring balance between professional and personal life, promoting a healthy lifestyle, supporting employees' physical activity and hobbies, as well as creating a culture of co-operation in which all employees feel respected, freely pursue their professional goals and life passions and get involved in social initiatives.

Orange Polska ensures safe and friendly working conditions for its employees:

- Orange Polska employees are offered broad medical services at LUXMED Group clinics and partner medical facilities nationwide;
- Orange Polska's employees are eligible for participation in the Employee Retirement Plan;
- Orange Polska has the Company Social Benefits Fund as a means of social welfare addressed to employees and retired employees in need;
- In addition to the Company Social Benefits Fund, employees can use the Central Housing/Welfare Funds;
- Orange Polska's employees and their families are offered discounts by the Group's partners as well as discounts for Orange products and services in the 'Offer for You' programme;

- Employees are also eligible for financing of sports, tourist and cultural events and can use FitProfit cards.

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 | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| % of employees eligible for health care | 100% | 100% | 100% | 100% |
| % of employees covered by the Employee Retirement Plan* | 85.7% | 85.2% | 81.5% | 52.2% |

* 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 OSH 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.

**Key OSH indicators**

| Occupational Health and Safety | Orange Polska S.A. | | Orange Polska Group | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Number of accidents | 45 | 26 | 48 | 31 |
| Accident frequency rate* | 3.0 | 2.2 | *no data* | *n/a* |
| Days off due to work-related accidents | 994 | 1,584 | 1,203 | 1,792 |
| Accident severity rate** | 22.1 | 61.0 | *no data* | *n/a* |
| Fatal accidents | 0 | 0 | *no data* | 0 |
| Serious accidents | 0 | 0 | *no data* | 0 |
| Other accidents | 31 | 26 | *no data* | 31 |
| % 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 the 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 regular broad dialogue with our social partners. As part of a dialogue within Orange Polska, we negotiate settlements, agreements or other documents with trade unions. The most important of them is the Intragroup Collective Labour Agreement for the Employees of Orange Polska S.A. This document regulates, among others, 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. There is also the Employee Council in Orange Polska S.A. Pursuant to mandatory regulations, the Company has an obligation to consult the Council 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 the work organisation or employment terms.

An important document developed in consultation with trade unions is the Intragroup Collective Labour Agreement in Orange Polska S.A. This document regulates, among others, 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. Also the Social Agreement is developed in consultation with trade unions.

The Social Agreement, which remains valid in 2018–2019, addresses particularly the following issues: investments in a friendly work environment, pay rises in 2018 and 2019, financial compensation for employees leaving Orange Polska and support for outplacement. Under the Settlement for 2018,up to 1,450 employees of Orange Polska were eligible for the voluntary departure package in 2018. In December 2018, the Settlement for 2019 was concluded, determining the detailed terms of voluntary departures of Orange Polska's employees in 2019. 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 | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Number of trade unions | 17 | 17 | 18 | 18* |
| % of employees in trade unions | 31.4% | 31.1% | 30.8% | 30.3% |
| % of employees covered by the Intragroup Collective Labour Agreement | 97.6% | 97.3% | 95.7% | 95.3% |

* Based on figures for Orange Polska S.A., TP Teltech Sp. z o.o. and ORE 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 2018 |
|---|---|
| **Development and Education** | |
| No disparity in access to training on account gender or age | No disparity |
| **Diversity Policy** | |
| 35% of women in managerial positions by 2020 | 32.9% |
| 1.5% of people with disabilities employed in Orange Polska by 2020 | 1.8% |

**Reference to the Key Risks in the Employment Area**

***Human Resources Risks and Alignment of Organisation Structure***

Orange Polska and its managers continue transforming its internal culture in order to motivate the employees and drive the performance culture as well as streamlining the organisation and infrastructure in order to confront the competition and implement new technologies and new, more efficient business models through the transformation programme. If Orange Polska fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted. Orange Polska has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an external consultant.

## 3. Social Area

Access to new technologies is a major step in the digitisation process, but other important elements include web security, education, participation in culture, local development and enhancement of competences required to build the society of the 21st century. In 2004, we established the Orange Foundation, whose mission is to disseminate knowledge and implement social projects through which new technologies will become conducive of social development.

The activity of the Orange Foundation, which pursues social goals on behalf of the Orange Polska Group, has been defined in the relevant Strategy for 2016–2018. 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 *Safety Here and There*, *MegaMission* and *Orange Studios*, which are complemented by the corporate volunteering programme. In 2018, the strategy was updated and expanded to include programming initiatives (*#SuperCoders* and *Code the Future* – nine projects co-financed within the Operational Programme "Digital Poland" framework).

***Safety Here and There***

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 activities are carried out under the programme *Safety Here and There*, which combines the educational activities of the Orange Foundation with the Group's services related to customer safety. The programme provides and supports education on children's on-line safety in schools and kindergartens all around Poland. Every year the Orange Foundation, in co-operation with the Empowering Children Foundation, offers many educational tools and materials, such as e-learning and educational websites, on-line brochures and guidelines for pupils, parents and teachers within the programme.

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.

**Key indicators and goals of the *Safety Here and There* programme**

| ***Safety Here and There*** | **2017** | **2018** |
|---|---|---|
| Parents and guardians using the educational materials* | 190,750 | 1,104,682 |
| Children involved in educational initiatives* | 403,388 | 872,636 |
| Schools participating in the programme | 2,132 | 3,654 |

* Change in methodology: figures including views of educational video materials in social media.

***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 at 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.

**Key indicators and goals of the *MegaMission* programme**

| ***MegaMission*** | **2017** | **2018** |
|---|---|---|
| Children trained in the programme | 8,250 | 5,000 |
| Teachers trained in the programme | 250 | 200 |
| School facilities provided with IT equipment and teaching aids | 250 | 200 |

***#SuperCoders***

*#SuperCoders* is a nationwide educational programme aimed at primary school students of grades 4 to 6. 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.

**Key indicators and goals of the *#SuperCoders* programme**

| ***#SuperCoders*** | **2017** | **2018** |
|---|---|---|
| Children trained in the programme | 2,964 | 3,366 |
| Teachers trained in the programme | 270 | 340 |
| Schools provided with equipment to teach programming | 135 | 170 |

**Orange Studios**

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. The purpose is to provide members of the local community with access to new technologies, courses and workshops. The leaders of the studios 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 studios across the country. In addition, we have launched an on-line knowledge-sharing platform for Orange Studio 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.

**Key indicators and goals of the Orange Studios programme**

| **Orange Studios** | **2017** | **2018** |
|---|---|---|
| Active Studios maintained | 100 | 100 |

| | | |
|---|---|---|
| Local leaders trained in digital and organisational skills | 143 | 205 |
| Population with access to Studios | 900,000 | 900,000 |

**Corporate Volunteering**

Orange Polska has the biggest employee volunteering programme in Poland. It has been running for 15 years. Our employees share their knowledge, skills and experience and teach children and seniors how to use the Internet safely and wisely. Our volunteers take part in important social campaigns and in events organised by Orange Polska (e.g. Orange Warsaw Festival). Moreover, our employees can develop their own volunteering project and apply for a grant for its implementation.

**Key indicators and goals of the corporate volunteering programme**

| Corporate volunteering | 2017 | 2018 |
|---|---|---|
| Volunteers | 3,258 | 3,465 |
| Volunteers' working hours | 24,293 | 25,356 |

**Sponsorship**

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, focusing on three main areas that align with the brand: music, film and sport. In line with the adopted strategy, within these fields Orange Polska develops long-term, comprehensive, nationwide projects addressed to a large group of its existing or prospective customers, acting as the titular sponsor. Orange Polska sponsors 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 established the Sponsorship Committee to centralise project management of sponsorship opportunities in the Orange Polska Group.

**Key sponsorship indicators**

| Sponsorship | 2017 | 2018 |
|---|---|---|
| **Music sponsoring: Orange Warsaw Festival and Open'er Festival Powered by Orange** | | |
| Number of participants | 175,000 | 250,000 |
| Advertising value equivalent (in PLN millions) | 10.6 | 10.1 |
| Number of publications | 6,165 | 6,297 |

**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 Executive Director in charge of 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.

**Key grant indicators**

| Grants | 2017 | 2018 |
|---|---|---|
| Total support granted, (in PLN millions) | 13.4 | 12.7 |

**Key social commitments and their delivery**

Key social commitments were defined in the Orange Foundation strategy for 2016–2018 and the sponsoring strategy. The commitments were verified in 2018 owing to the launch of the new #SuperCoders programme.

| Commitments in the social area | Delivery in 2018 | Aggregate outcome in 2016–2018 | Goal |
|---|---|---|---|
| ***Safety Here and There*** | | | |
| Parents and guardians using the educational materials | 1,104,682 | 1,683,417 | 1,000,000 |

| | | | |
|---|---|---|---|
| Children involved in educational initiatives | 872,636 | 1,938,984 | 500,000 |
| Schools participating in the programme | 3,654 | 6,786 | 1,000/year |
| ***MegaMission*** | | | |
| Children trained in the programme | 5,000 | 20,000 | 15,000 |
| Teachers trained in the programme | 200 | 800 | 800 |
| School facilities provided with IT equipment and teaching aids | 200 | 800 | 800 |
| ***#SuperCoders*** | | | |
| Children trained in the programme | 3,366 | 7,180 | 7,000 |
| Teachers trained in the programme | 349 | 340 | 570 |
| Schools provided with equipment to teach programming | 340 | 340 | 340 |
| ***Orange Studios*** | | | |
| Active Studios maintained | 100 | | 100 |
| Local leaders trained in digital and organisational skills | 205 | | 143 |
| Population with access to Studios | 900,000 | | 900,000 |
| **Corporate volunteering** | | | |
| % of employees involved in corporate volunteering | 26% | | 20% |
| % of volunteers involved in competence volunteering | 20% | | 23% |
| % of volunteers declaring greater satisfaction from work | 98% | | 80% |
| **Music sponsoring** | | | |
| Number of participants | 250,000 | | 180,000 |

**Reference to the Key Risks in the Social Area**

***Negative impact of new technologies on children and young people***

Children and young people widely use social media, the Internet and new technologies. Unfortunately, they often do it rather unskilfully and uncreatively. When used in such a manner, new technologies only occupy time and attention instead of supporting education, development and experience and inspiration sharing with peers. Consequently, 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*, *Safety Here and There* and Orange Studios, 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'.

## 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, Orange Group complies with the UN Guiding Principles on Business and Human Rights adopted in 2011. 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. We respect all people and their right to privacy. We accept diversity in terms of background, race, gender, culture, age and marital status as well as religious beliefs, political views and membership of social or professional organisations.

In 2018, we implemented the Supplier Code of Conduct in Poland. at Orange Polska. The Code has been developed on the Orange Group level and adapted to national laws and regulations. It seeks to encourage to comply with and respect these laws and regulations, and ensure that they are faithfully and effectively enforced. The Supplier shall respect human rights and shall avoid being complicit in human rights abuses of any kind.

The Code 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 published and incorporated into contracts with suppliers.

**Key human rights indicators**

| Human Rights | Orange Polska S.A. | | Orange Polska Group | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Total hours of employee training in ethics and human rights | 635 | 205 | 640 | 214 |
| Total hours of partner training in ethics and human rights | 653 | 162 | 653 | 162 |
| % of purchase department employees trained* | | 73% | | 73% |
| % of new contracts incorporating the Supplier Code of Conduct | | 100% | | 100% |
| **Child labour** | | | | |
| Operations identified as having significant risk for incidents of child labour | None were identified in the Group | | | |
| **Forced labour** | | | | |
| Operations identified as having significant risk for incidents of forced labour | None were identified in the Group | | | |
| **Discrimination** | | | | |
| Total number of incidents of discrimination | None | None | None | None |
| **Right to privacy** | | | | |
| Number of reasonable grievances and violations with respect to privacy | None | None | None | None |
| **Right to safety** | | | | |
| % of products evaluated for safety standards | 100% | 100% | 100% | 100% |
| Number of grievances and violations regarding product safety | None | None | None | None |
| **Human rights violations** | | | | |
| Number of grievances about human rights* | None | None | None | None |

* New initiatives introduced in Orange Polska in 2018.

**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 | 2018 | 2020 |
|---|---|---|
| % of employees trained in business ethics | 100% | 100% |
| Compliance clauses as a standard in agreements with suppliers | Yes | Yes |
| % of new contracts incorporating the Supplier Code of Conduct | 100% | 100% |
| % of purchase department employees trained in human rights | 73% | 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. 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 liberties of data subjects.

***Breach of Security of Information, Including Personal Data***

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers' personal data and information constituting telecommunications secrets. The Company has implemented a certified Information Security Management System, which complies with ISO/IEC 27001:2013 with respect to provision of telecommunication and ICT services, hosting, collocation, cloud computing, cybersecurity and cloud processing of personal data.In October 2017, Orange Polska S.A.

obtained a certificate of compliance with ISO/IEC 27018:2014 *Code of practice for protection of personally identifiable information (PII) in public clouds acting as PII processors* with respect to processing of personal data (also entrusted by other entities) via UCaaS (Unified Communication as a Service), ICS (Integrated Computing Standard), ICM (Integrated Computing Managed) and smart CCaaS (Contact Center as a Service) cloud computing. 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.

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) malicious acts (including cyber attacks), particularly aimed at theft of personal data, or (ii) potential negligence within the Group or its external partners.

Recourse to liability proceedings is facilitated by the General Data Protection Regulation (GDPR), which became applicable on May 25, 2018. 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 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 29134:2017and the Article 29 Working Party guidelines, we have implemented a process to identify and prevent violation of rights and liberties of data subjects. We have also delivered dedicated training for Orange Polska's employees and partners.

## 5. Anti-bribery and Corruption

Orange Polska operates in an increasingly competitive market. This market demands that we apply high standards and rules not only when it comes to the quality and innovation of our services, but also our way of doing business and maintaining business relationships.

Therefore, as part of our Corporate Governance framework we have introduced the Compliance Management Programme. An important responsibility of the Compliance function is the Anti-Corruption Policy. Its purpose is to provide all employees of Orange Polska with a code of conduct, that is specify a set of rules to be complied with in any business activity and indicate 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 Program, 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 (whistle -blowing) are monitored by the Audit Committee on the basis of periodic reports.

To promote knowledge about the Program, we have introduced many training plans, including an obligatory e-learning course "Compliance – anti-corruption". Since 2015, more than 1290 employees and partners have completed this course.

**Key compliance indicators**

| Anti-bribery and Corruption | Orange Polska S.A. | | Orange Polska Group | |
|---|---|---|---|---|
| | 2017 | 2018 | 2017 | 2018 |
| Total number of employees trained in compliance | 497 | 172 | 508 | 179 |
| Total number of partners trained in compliance | 588 | 241 | 588 | 241 |
| Total hours of compliance training of employees (in '000) | 1.7 | 1.03 | 1.8 | 1.05 |
| Total hours of compliance training of partners (in '000) | 1.0 | 0.6 | 1.0 | 0.6 |
| 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 corruption area | 2018 | 2020 |
|---|---|---|
| Corruption risk reduction (zero-tolerance approach towards corruption) | No infringements | No infringements |

**Reference to the Key Compliance Risks**

***Bribery and Corruption Risks***

As part of compliance management, we undertake actions aimed at identification and effective mitigation of bribery and corruption risks. Orange Polska performs regular analysis and assessment of the corruption risk exposure. The annually updated heat maps indicate risks and their probability in various areas of the organisation. The applied process for the analysis of corruption risk indicates also the proper measures for its mitigation. 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)

**Access Fee** – revenues from monthly fee from New Tariff Plans (incl. Free minutes)

**ARPO –** Average Revenues per Offer

**AUPU** – Average Usage per User

**BSA** – Bitstream Access Offer

**CATV** – Cable Television

**CDMA** – Code Division Multiple Access, second generation wireless mobile network used also as a wireless local loop for locations where cable access is not economically justified

**EBITDA** – Operating income + depreciation and amortisation + impairment of goodwill + impairment of non-current assets

**F2M** – Fixed to Mobile Calls

**FBB –** Fixed Broadband

**FTE** – Full time equivalent

**FTTH** – Fibre To The Home

**FVNO –** Fixed Virtual Network Operator

**Home Zone** (or Office Zone for business customers) – area within range of predefined base stations which cover the particular location (home/office).

**ICT** – Information and Communication Technologies

**ILD** – International Calls

**IP TV** – TV over Internet Protocol

**Liquidity Ratio –** Cash and unused credit lines divided by debt to be repaid in the next 18 months

**LLU** – Local Loop Unbundling

**LTE** – Long Term Evolution, standard of data transmission on mobile networks (4G)

**M2M –** Machine to Machine, telemetry

**MTR** – Mobile Termination Rates

**MVNO** – Mobile Virtual Network Operator

**Net Gearing** – net gearing after hedging ratio = net debt after hedging / (net debt after hedging + shareholders' equity)

**Organic Cash Flow** – Organic Cash Flow = Net cash provided by Operating Activities – (CAPEX + CAPEX payables) + proceeds from sale of assets

**RAN agreement** – agreement on reciprocal use of radio access networks

**RIO** – Reference Interconnection Offer

**SAC –** Subscriber Acquisition Costs

**SIMO** – mobile SIM only offers without devices

**SMP** – Significant Market Power

**SRC** – Subscriber Retention Cost

**UKE** – Urząd Komunikacji Elektronicznej (Office of Electronic Communications)

**UOKiK** – Urząd Ochrony Konkurencji i Konsumentów (Office for Competition and Consumer Protection)

**USO** – Universal Service Obligation

**VDSL** – Very-high-bit-rate Digital Subscriber Line

**VHBB –** Very high speed broadband, above 30 Mbps

**VoIP** – Voice over Internet Protocol

**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