☐ - restated

POLISH FINANCIAL SUPERVISION AUTHORITY

Consolidated annual report RS for the year 2015

(year)

(according to par. 82 s. 2 of the Decree of Minister of Finance dated 19 February 2009 - Journal of Laws No. 33, item 259, with amendments)
for the issuers in sectors of production, construction, trade or services

for the **year 2015**, i.e. from **1 January 2015 to 31 December 2015**

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

date of issuance: **15 February 2016**

ORANGE POLSKA SA
(full name of issuer)

ORANGEPL
(abbreviated name of the issuer)

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

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(post code)

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

SELECTED FINANCIAL DATA	PLN '000		EUR '000	
	year / 2015	year / 2014	year / 2015	year / 2014
I. Revenue	11 840 000	12 212 000	2 829 287	2 915 045
II. Operating income	572 000	986 000	136 685	235 362
III. Profit before income tax	281 000	581 000	67 148	138 687
IV. Consolidated net income	254 000	535 000	60 696	127 706
V. Net income attributable to owners of Orange Polska S.A.	254 000	535 000	60 696	127 706
VI. Earnings per share (in PLN/EUR) (basic and diluted)	0.19	0.41	0.05	0.10
VII. Weighted average number of shares (in millions) (basic and diluted)	1 312	1 312	1 312	1 312
VIII. Total comprehensive income	280 000	423 000	66 909	100 972
IX. Total comprehensive income attributable to owners of Orange Polska S.A.	280 000	423 000	66 909	100 972
X. Net cash provided by operating activities	2 537 000	2 753 000	606 242	657 150
XI. Net cash used in investing activities	(1 570 000)	(1 745 000)	(375 167)	(416 537)
XII. Net cash used in financing activities	(949 000)	(965 000)	(226 773)	(230 349)
XIII. Total net change in cash and cash equivalents	18 000	50 000	4 301	11 935
	Balance as at 31/12/2015	Balance as at 31/12/2014	Balance as at 31/12/2015	Balance as at 31/12/2014
XIV. Total current assets	2 330 000	2 078 000	546 756	487 530
XV. Total non-current assets	19 322 000	20 026 000	4 534 084	4 698 402
XVI. Total assets	21 652 000	22 104 000	5 080 840	5 185 932
XVII. Total current liabilities	5 185 000	4 709 000	1 216 708	1 104 802
XVIII. Total non-current liabilities	4 490 000	4 997 000	1 053 619	1 172 372
XIX. Total equity	11 977 000	12 398 000	2 810 513	2 908 758
XX. Equity attributable to owners of Orange Polska S.A.	11 975 000	12 396 000	2 810 043	2 908 289
XXI. Share capital	3 937 000	3 937 000	923 853	923 680

The statement of financial position data as at 31 December 2015 and 2014 presented in the table "Selected financial data" was translated into Euro at the average exchange rate of the National Bank of Poland on the end of the reporting period. The income statement data, together with the statement of comprehensive income and statement of cash flows data for the years ended 31 December 2015 and 2014, were translated into Euro at an exchange rate 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 2015 and 2014.

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

1 Euro	31 December 2015	31 December 2014
Statement of financial position	4.2615 PLN	4.2623 PLN
Income statement, statement of comprehensive income, statement of cash flows	4.1848 PLN	4.1893 PLN

Dear Shareholders,

In 2015 our business continued to develop in line with the priorities that we set a year ago. These were investments in connectivity, growth in customer satisfaction and further efficiency improvements. It was a very intensive period marked by several developments with long-term significance and consequences.

Orange brand in Poland evolves a new approach to customers…

In April we launched a new philosophy and visual identity for Orange in Poland. The brand is now more in tune with the digital world and engaged in active dialogue with our customers. The new marketing slogan is “always in touch to connect what’s essential in your life”, and the new guidelines for both the Group’s internal culture and its external actions are based on listening and responding to customer needs. This new approach has changed the way consumers experience our brand through customer care and sales channels. For example, 2015 saw the opening of eight brand new Smart Stores: interactive shops that encourage customers to explore the latest trends in communication and discover new solutions.

… contributing to a ten-year peak in net customer adds in mobile post-paid…

2015 was remarkable for us in net customer additions in mobile post-paid. Since Q2 our commercial momentum has been consistently improving, and in Q4 we achieved the best net additions result in more than ten years (274k new customers). Overall our mobile post-paid customer base grew almost 9% year-on-year. This success – well-balanced across all segments of the market – was the consequence of a number of actions. On the mass market, customers responded very well to our new multi-SIM Family offers and a new innovative mobile broadband offer. On the business market, the main growth drivers were simplification of offers, anti-churn actions and good performance in key accounts. We hope to keep this commercial momentum going in 2016.

… and improvements in customer perception.

I am pleased to report that more and more customers are willing to recommend Orange Polska’s services. In 2015 we significantly improved our so-called Net Promoter Score (NPS). This indicator reflects customers’ holistic experience with the operator, including not only customer care but also quality of connectivity and how well the offers fit their needs. Our improved performance tells us that we are indeed listening and responding better to customer expectations. We will continue to work to improve our NPS ranking in the future.

More than 700,000 households within our fibre network

In 2015 we started significant investments in the rollout of the fibre network in big cities. This is our response to strong demand for fast Internet, as well as an opportunity to win back market share back from cable operators. We delivered our target number of connectable households for the year – and did so at a lower than expected cost. Fibre technology customers constituted around 20% of all our fast broadband net customer additions in the fourth quarter. 59% of the fibre customers we acquired in 2015 were new Orange Polska customers, while the rest migrated from other technologies within our own customer base.

Best possible outcome in LTE spectrum auction

At a result of an auction process that lasted around eight months, we secured a great result in the LTE mobile spectrum: the amount of spectrum that we wanted, at a price below the average paid by our competitors. Although the price was high, it was a fair reflection of the rules of the process and the high level of competition. The auction outcome improves the competitive environment very much to the benefit of Orange Polska, and is crucial to our long-term strategy not only in mobile but also in fixed services. It is a must for us to be able to keep up with the very fast growth of mobile data traffic that lies ahead of us for at least the next ten years.

Financial performance in line with objectives

Our financial performance in 2015 was in line with our expectations. We generated around PLN 950 million of organic cash flow, meeting our guidance. Cash flow was impacted by the first year of fibre network rollout, which constitutes a vital investment in future connectivity improvement. Excluding the cash effect of this investment our organic cash flow would be at an almost similar level to 2014. Revenue evolution improved versus the previous year due to lower regulatory impact and better trends in mobile. EBITDA performance reflected proactive commercial actions and significant cost savings. Our very active marketing approach weighed on our profitability, but ultimately paid off by delivering many new customers, as I mentioned before. This much higher customer base will contribute to future revenue improvement.

New medium-term action plan: further investments in connectivity and customer acquisition to deliver turnaround in 2018

We have announced a new action plan for 2016-2018, which will see Orange Polska taking the fight to win market share. It is a proactive plan built around four strategic priorities: leadership in connectivity and in convergence, best customer experience, and agility. We are encouraged by good prospects for the Polish economy, a constructive regulatory environment and a more stable telecom market. In the years ahead we expect strong growth in demand for telecom services, fuelled by a surge in data consumption and increasing adoption by Polish households of a convergent approach. These two trends will drive our customer strategy. Good connectivity – both fixed and mobile – is the key to our success: therefore we will develop our LTE coverage further based on newly purchased spectrum, and we have also decided to significantly extend our fibre project. By the end of 2018 we plan to have up to 3.5 million households within the reach of our FTTH network. Our investment plan and intensive commercial strategy will be adjusted to the specifics of local markets. It is an ambitious plan that will weigh on our financial performance in the short term but will bring long-term value that will allow us to return to a growth path.

As you know, I will be leaving Orange Polska at the end of April to take up another position within the Orange Group. I will use this time to ensure a smooth and well-managed transition to my successor as CEO, Jean-Francois Fallacher. I have known Jean-François well for several years, and he is very well prepared for his new position. He has extensive experience in the telecommunications domain and in Orange Group, where he has served very successfully as CEO at Orange Romania since 2011. My time at Orange Polska has been a remarkable period for me. I would like to take this opportunity to thank Orange Polska employees for their creativity, hard work and dedication to our customers. I want also to thank our shareholders for their trust and support.

Bruno Duthoit
President of the Management Board and CEO
Orange Polska S.A.

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Building a better working world

INDEPENDENT AUDITOR'S OPINION

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

We have audited the attached consolidated financial statements of Orange Polska Group (the "Group") for the year ended 31 December 2015, for which the parent 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 2015, 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 2015 to 31 December 2015 and additional information, including other explanatory notes and the summary of significant accounting policies (the "attached consolidated financial statements").

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Company's Management and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – the "Accounting Act").

Auditor's responsibility

Our responsibility is to express an opinion on the attached consolidated financial statements based on our audit. We conducted our audit in accordance with chapter 7 of the Accounting Act, National Auditing Standards issued by the National Council of Statutory Auditors and International Standards on Auditing. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance, as well as its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, based on properly maintained accounting records and are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements.

Directors' Report

We have read the Directors' Report for the period from 1 January 2015 to 31 December 2015 (the "Directors' Report") and concluded that the information derived from the attached consolidated financial statements reconciles with the Directors' Report. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws 2014.133 with subsequent amendments).

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 15 February 2016

ORANGE POLSKA GROUP

LONG-FORM AUDITOR'S REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

(in million zlotys)

I. GENERAL NOTES

1. Background

Orange Polska S.A. (the “Company” or “OPL”) and its subsidiaries (together the “Orange Polska Group” or the “Group”) are a telecommunications group.

The principal activities of the Orange Polska Group are as follows:

- provision of mobile and fixed telecommunications services, including calls, messaging, content, access to the Internet and TV,
- provision of leased lines, data transmission and other telecommunications value added services,
- sale of telecommunications equipment.

The parent company was incorporated on the basis of a Notarial Deed dated 4 December 1991. The Company’s registered office is located in Warsaw at Al. Jerozolimskie 160.

The parent company is an issuer of securities as referred to in art. 4 of the Regulation (EC) No 1606/2002 of the European Parliament and of the Council of the European Union of 19 July 2002 on the application of international accounting standards (EC Official Journal L243 dated 11 September 2002, page 1, Polish special edition chapter 13, title 29 page 609) and, based on the article 55.5 of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – the “Accounting Act”), prepares consolidated financial statements of the Group in accordance with International Financial Reporting Standards as adopted by the EU. This requirement relates to the consolidated financial statements for the financial year beginning in 2005 and later.

The parent company was entered in the Register of Entrepreneurs of the National Court Register under no. KRS 0000010681 on 2 May 2001.

The Company was issued with tax identification number (NIP) 526-02-50-995 on 4 June 1993 and statistical number (REGON) 012100784 on 17 January 1992.

As at 31 December 2015, the Company’s issued share capital amounted to 3,937 million zlotys. The Group’s equity as at that date amounted to 11,977 million zlotys.

In accordance with Minutes of the Shareholder’s Meeting of 9 April 2015, the ownership structure of the Company’s issued share capital was as follows:

	Number of shares	Number of votes	Par value of shares	% of issued share capital
Orange S.A.	664,999,999	664,999,999	1,995	50.67%
The rest of shareholders	647,357,480	647,357,480	1,942	49.33%
Total	1,312,257,479	1,312,357,479	3,937	100%

There were no changes in the ownership structure of the parent company during the reporting period as well as during the period from the balance sheet date to the date of the opinion.

There were no movements in the share capital in the reporting period.

(in million zlotys)

As at 15 February 2016 the parent company's Management Board was composed of:

Bruno Duthoit	- President
Jolanta Dudek	- Member
Mariusz Gaca	- Member
Jacek Kowalski	- Member
Bożena Leśniewska	- Member
Piotr Muszyński	- Member
Maciej Nowohoński	- Member
Michał Paschalis-Jakubowicz	- Member

The following changes occurred in the composition of the Company's Management Board during the reporting period, as well as from the balance sheet date to the date of the opinion.

On 8 October 2015, the Supervisory Board of Orange Polska S.A. appointed the following persons to the position of Management Board Members as below:

- Jolanta Dudek
- Bożena Leśniewska
- Michał Paschalis-Jakubowicz

On 4 February 2016, Mr Bruno Duthoit submitted his resignation as the President and Member of the Company's Management Board with effect on 30 April 2016.

On the same day, the Supervisory Board of Orange Polska S.A. appointed Mr Jean-François Fallacher as the President of the Company's Management Board with effect on 1 May 2016.

2. Group Structure

As at 31 December 2015, the Orange Polska Group consisted of the following subsidiaries and a joint operation:

Entity name	Consolidation method	Type of opinion	Name of authorised entity that audited financial statements	Balance sheet date
Integrated Solutions Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Orange Customer Service Sp. z o.o	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Orange Real Estate Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015

(in million zlotys)

Orange Retail S.A.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Orange Szkolenia Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
TP Invest Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
TP TelTech Sp. z o.o.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Telefony Podlaskie S.A.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
TPSA Eurofinance France S.A.	Full consolidation	unqualified	Deloitte & Associés (France)	31 December 2015
Fundacja Orange	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.	Full consolidation	unqualified	Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k.	31 December 2015
Telekomunikacja Polska Sp. z o.o.	Full consolidation	no requirement to audit financial statements	no requirement to audit financial statements	31 December 2015
NetWorkS! Sp. z o.o.	Joint operation	unqualified	BDO Sp. z o.o.	31 December 2015

Details of the type and impact of changes in entities included in the consolidation as compared to the prior year may be found in Note 1.2 of the additional information ("the additional notes and explanations") to the consolidated financial statements of the Group for the year ended 31 December 2015.

There were changes to the list of consolidated companies when compared to the prior year as below:

- TP Edukacja i Wypoczynek Sp. z o.o. merged with Orange Szkolenia Sp. z o.o. in 2015.
- Contact Center Sp. z o.o. was disposed in 2015.
- Telefon2000 Sp. z o.o. was liquidated in 2015.

3. Consolidated Financial Statements

3.1 Auditor's opinion and audit of consolidated financial statements

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. with its registered office in Warsaw, at Rondo ONZ 1, is registered on the list of entities authorised to audit financial statements under no. 130.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. was appointed by the Supervisory Board on 15 June 2015 to audit the Group's financial statements.

Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. and the key certified auditor in charge of the audit meet the conditions required to express an impartial and independent opinion on the financial statements, as defined in Art. 56.3 and 56.4 of the Act on statutory auditors and their self-governance, audit firms authorized to audit financial statements and public oversight, dated 7 May 2009 (Journal of Laws 2009, No. 77, item 649 with subsequent amendments).

Under the contract executed on 16 June 2015 with the parent company's Management Board, we have audited the consolidated financial statements for the year ended 31 December 2015.

Our responsibility was to express an opinion on the consolidated financial statements based on our audit. The auditing procedures applied to the consolidated financial statements were designed to enable us to express an opinion on the consolidated financial statements taken as a whole. Our procedures did not extend to supplementary information that does not have an impact on the consolidated financial statements taken as a whole.

Based on our audit, we issued an auditor's unqualified opinion dated 15 February 2016, stating the following:

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

We have audited the attached consolidated financial statements of Orange Polska Group (the "Group") for the year ended 31 December 2015, for which the parent 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 2015, 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 2015 to 31 December 2015 and additional information, including other explanatory notes and the summary of significant accounting policies (the "attached consolidated financial statements").

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. In addition, the Company's Management and Members of the Supervisory Board are required to ensure that the attached consolidated financial statements and the Directors' Report meet the requirements of the Accounting Act dated 29 September 1994 (Journal of Laws 2013.330 with subsequent amendments – the "Accounting Act").

Auditor's responsibility

Our responsibility is to express an opinion on the attached consolidated financial statements based on our audit. We conducted our audit in accordance with chapter 7 of the Accounting Act, National Auditing Standards issued by the National Council of Statutory Auditors and International Standards on Auditing. Those regulations require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance, as well as its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU, based on properly maintained accounting records and are in respect of the form and content, in accordance with legal regulations governing the preparation of financial statements.

Directors' Report

We have read the Directors' Report for the period from 1 January 2015 to 31 December 2015 (the "Directors' Report") and concluded that the information derived from the attached consolidated financial statements reconciles with the Directors' Report. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws 2014.133 with subsequent amendments)."

We conducted the audit of the consolidated financial statements during the period from 7 September 2015 to 15 February 2016. We were present at the parent company's head office from 28 September 2015 to 13 November 2015, 1 December 2015 to 22 December 2015 and 5 January 2016 to 29 January 2016.

3.2 Representations provided and data availability

The Management Board of the parent company confirmed its responsibility for the preparation and fair presentation of the attached consolidated financial statements in accordance with the required applicable accounting policies, and the correctness of consolidation documentation. The Board stated that it provided us with all financial statements of the Group companies included in the consolidated financial statements, consolidation documentation and other required documents as well as all necessary explanations. We also obtained a written representation dated 15 February 2016, from the Management Board of the parent company confirming that:

- the information included in the consolidation documentation was complete;
- all contingent liabilities had been disclosed in the consolidated financial statements, and
- all material events from the balance sheet date to the date of the representation letter had been disclosed in the consolidated financial statements;

and confirmed that the information provided to us was fair to the best of the parent company Management Board's knowledge and belief, and included all events that could have had an effect on the consolidated financial statements.

At the same time we declare that during the audit of the financial statements, there were no limitations of scope.

3.3 Consolidated financial statements for prior financial year

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by Piotr Sokołowski, key certified auditor no. 9752, acting on behalf of Deloitte Polska spółka z ograniczoną odpowiedzialnością Sp. k, the company entered on the list of entities authorized to audit financial statements conducted by the National Council of Statutory Auditors with the number 73. The key certified auditor issued an unqualified opinion on the consolidated financial statements for the year ended 31 December 2014. The consolidated financial statements for the year ended 31 December 2014 were approved by the General Shareholders' Meeting on 9 April 2015.

The consolidated financial statements of the Group for the financial year ended 31 December 2014, together with the auditor's opinion, a copy of the resolution approving the consolidated financial statements and the Directors' Report, were filed on 21 April 2015 with the National Court Register.

4. Analytical Review

4.1 Basic data and financial ratios

Presented below are selected financial ratios indicating the economic or financial performance of the Group for the years 2015 – 2013. The ratios were calculated on the basis of financial information included in the financial statements for the years ended 31 December 2015 and 31 December 2014.

The ratios for the years ended 31 December 2014 and 31 December 2013 were calculated on the basis of financial information included in the approved consolidated financial statements audited by another auditor acting on behalf of another authorized entity.

(in million zlotys)

	2015	2014	2013
Total assets	21,652	22,104	22,802
Shareholders' equity	11,977	12,398	12,631
Net profit	254	535	294
Return on assets (%)	1.2%	2.4%	1.3%
$\frac{\text{Net profit x 100\%}}{\text{Total assets}}$			
Return on equity (%)	2.0%	4.2%	2.3%
$\frac{\text{Net profit x 100\%}}{\text{Shareholders' equity at the beginning of the period}}$			
Profit margin (%)	2.1%	4.4%	2.3%
$\frac{\text{Net profit x 100\%}}{\text{Revenue}}$			
Liquidity I	0.6	0.6	0.3
$\frac{\text{Current assets}}{\text{Current creditors*}}$			
Liquidity III	0.07	0.07	0.04
$\frac{\text{Cash and cash equivalents}}{\text{Current creditors*}}$			
Debtors days	56 days	45 days	34 days
$\frac{\text{Current and non-current trade debtors x 365}}{\text{Revenue}}$			
Creditors days	94 days	93 days	85 days
$\frac{\text{Current and non-current trade creditors x 365}}{\text{Operating costs}}$			
Inventory days	46 days	45 days	43 days
$\frac{\text{Inventory x 365}}{\text{Cost of handsets and other equipment sold}}$			
Stability of financing (%)	76.1%	78.7%	67.7%
$\frac{\text{(Equity + long-term provisions and liabilities) x 100\%}}{\text{Total liabilities, provisions and equity}}$			

(in million zlotys)

	2015	2014	2013
Debt ratio (%)	44.7%	43.9%	44.6%
$\frac{\text{(Total liabilities and provisions) x 100\%}}{\text{Total assets}}$			
Rate of inflation (%):			
Yearly average	-0.9	0	0.9
December to December	-0.5	-1	0.7

* - Current creditors comprise of current trade payables, current loans from related party, current other financial liabilities at amortised cost, other current liabilities and income tax liabilities.

4.2 Comments

The following trends may be observed based on the above financial ratios:

The return on assets ratio in 2015 decreased to 1.2% in comparison to 2.4% in 2014 and 1.3% in 2013.

The return on equity ratio in 2015 decreased to 2% in comparison to 4.2% in 2014 and 2.3% in 2013.

The profit margin ratio in 2015 decreased to 2.1% in comparison to 4.4% in 2014 and 2.3% in 2013.

The liquidity ratio I remained at the same level of 0.6 in analysed period in comparison to 2014 and increased in comparison to 2013 when it amounted to 0.3.

The liquidity ratio III remained at the same level of 0.07 in the analysed period in comparison to 2014 and increased in comparison to 2013, when it amounted to 0.04.

The debtors days ratio, calculated as at the end of the period in 2015 increased to 56 days in comparison to 45 days in 2014 and 34 days in 2013.

The creditors days ratio, calculated as at the end of the period in 2015 increased to 94 days in comparison to 93 days in 2014 and 85 days in 2013.

The inventory days ratio, calculated as at the end of the period in 2015 increased to 46 days in comparison to 45 days in 2014 and 43 days in 2013.

The stability of financing ratio decreased to 76.1% in comparison to 78.7% in 2014 and increased in comparison to 67.7% in 2013.

The debt ratio in 2015 increased to 44.7% in comparison to 43.9% in 2014 and 44.6% in 2013.

4.3 Going concern

Nothing came to our attention during the audit that caused us to believe that the parent company is unable to continue as a going concern for at least twelve months subsequent to 31 December 2015 as a result of an intended or compulsory withdrawal from or a substantial limitation in its current operations.

In Note 2 of the additional notes and explanations to the audited consolidated financial statements for the year ended 31 December 2015, the Management Board of the parent company has stated that the financial statements of the Group were prepared on the assumption that the Group will continue as a going concern for a period of at least twelve months subsequent to 31 December 2015 and that there are no circumstances that would indicate a threat to its continued activity.

II. DETAILED REPORT

1. Completeness and accuracy of consolidation documentation

During the audit no material irregularities were noted in the consolidation documentation which could have a material effect on the audited consolidated financial statements, and which were not subsequently adjusted. These would include matters related to the requirements applicable to the consolidation documentation (and in particular eliminations relating to consolidation adjustments).

2. Accounting policies for the valuation of assets and liabilities

The Group's accounting policies and rules for the presentation of data are detailed in note 31 of the additional notes and explanations to the Group's consolidated financial statements for the year ended 31 December 2015.

3. Structure of assets, liabilities and equity

The structure of the Group's assets and equity and liabilities is presented in the audited consolidated financial statements for the year ended 31 December 2015.

The data disclosed in the consolidated financial statements reconcile with the consolidation documentation.

3.1 Goodwill on consolidation and amortisation

The method of determining goodwill on consolidation, the method of determining impairment of goodwill, the impairment charged in the financial year and up to the balance sheet date were presented in note 10 of the additional notes and explanations to the consolidated financial statements.

3.2 Shareholders' funds including non-controlling interest

The amount of shareholders' funds is consistent with the amount stated in the consolidation documentation and appropriate legal documentation. Non-controlling interest amounted to 2 million zlotys as at 31 December 2015. It was correctly calculated and is consistent with the consolidation documentation.

Information on shareholders' funds has been presented in note 25 of the additional notes and explanations to the consolidated financial statements.

3.3 Financial year

The financial statements of all Group companies forming the basis for the preparation of the consolidated financial statements were prepared as at 31 December 2015 and include the financial data for the period from 1 January 2015 to 31 December 2015.

4. Consolidation adjustments

4.1 Elimination of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of consolidated entities.

All eliminations of inter-company balances (receivables and liabilities) and inter-company transactions (revenues and expenses) of the consolidated companies reconcile with the consolidation documentation.

4.2 Elimination of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends

All eliminations of unrealised gains/losses of the consolidated companies, included in the value of assets, as well as relating to dividends reconcile with the consolidation documentation.

5. Disposal of all or part of shares in a subordinated entity

The effects of the sale of all of the shares of Contact Center Sp. z o.o. were disclosed in the Group's consolidated financial statements in accordance with the appropriate legal documents and consolidation documentation.

6. Items which have an impact on the Group's result for the year

Details of the items which have an impact on the Group's result for the year have been included in the audited consolidated financial statements for the year ended 31 December 2015.

7. The appropriateness of the departures from the consolidation methods and application of the equity accounting as defined in International Financial Reporting Standards as adopted by the EU

During the process of preparation of the consolidated financial statements there were no departures from the consolidation methods or application of the equity accounting

8. Additional Notes and Explanations to the Consolidated Financial Statements

The additional information to the consolidated financial statements for the year ended 31 December 2015 were prepared, in all material respects, in accordance with International Financial Reporting Standards as adopted by the EU.

9. Directors' Report

We have read the Directors' Report for the period from 1 January 2015 to 31 December 2015 ('the Directors' Report') and concluded that the information derived from the attached consolidated financial statements reconciles with the Directors' Report. The information included in the Directors' Report corresponds with the relevant regulations of art. 49 para 2 of the Accounting Act and the Decree of the Minister of Finance dated 19 February 2009 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 (Journal of Laws 2014.133 with subsequent amendments).

10. Conformity with Law and Regulations

We have obtained a letter of representations from the Management Board of the parent company confirming that no laws, regulations or provisions of the Group entities' Articles of Association were breached during the financial year, which could have a material effect on the audited consolidated financial statements.

on behalf of
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
Reg. No 130

Key Certified Auditor	Partner
Łukasz Piotrowski certified auditor No. 12390	Mikołaj Rytel

Warsaw, 15 February 2016

ORANGE POLSKA GROUP

IFRS CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

February 15, 2016

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CONSOLIDATED INCOME STATEMENT

(in PLN millions, except for earnings per share)	*Note*	*12 months ended 31 December 2015*	*12 months ended 31 December 2014 (see Note 2)*
Revenue	**5**	**11,840**	**12,212**
External purchases	6.1	(6,271)	(6,113)
Labour expense	6.2	(1,713)	(1,874)
Other operating expense	6.3	(613)	(607)
Other operating income	6.3	246	202
Gains on disposal of assets	7	71	57
Gain on disposal of Wirtualna Polska S.A.	8	-	191
Employment termination expense	14	(129)	8
Depreciation and amortisation	11,12	(2,871)	(3,073)
(Impairment)/reversal of impairment of non-current assets	9.3	12	(17)
Operating income		**572**	**986**
Interest income	17	17	14
Interest expense and other financial charges	17	(216)	(303)
Foreign exchange losses, net	17	-	(2)
Discounting expense	17	(92)	(114)
Finance costs, net		**(291)**	**(405)**
Income tax	24.1	(27)	(46)
Consolidated net income		**254**	**535**
Net income attributable to owners of Orange Polska S.A.		254	535
Net income attributable to non-controlling interests		-	-
Earnings per share (in PLN) (basic and diluted)	**31.5**	**0.19**	**0.41**
Weighted average number of shares (in millions) (basic and diluted)	31.5	1,312	1,312

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in PLN millions)	*Note*	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Consolidated net income		**254**	**535**
Items that will not be reclassified to profit or loss			
Actuarial gains/(losses) on post-employment benefits	16	9	(48)
Income tax relating to items not to be reclassified		(2)	9
Items that may be reclassified subsequently to profit or loss			
Gains/(losses) on cash flow hedges	21	23	(90)
Income tax relating to items that may be reclassified		(4)	17
Other comprehensive income/(loss), net of tax		**26**	**(112)**
Total comprehensive income		**280**	**423**
Total comprehensive income attributable to owners of Orange Polska S.A.		280	423
Total comprehensive income attributable to non-controlling interests		-	-

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(in PLN millions)	*Note*	*At 31 December 2015*	*At 31 December 2014 (see Note 2)*
ASSETS			
Goodwill	10	3,940	3,940
Other intangible assets	11	3,010	3,215
Property, plant and equipment	12	11,025	11,715
Trade receivables	13	210	138
Derivatives	21	89	70
Other assets		57	14
Deferred tax assets	24.2	991	934
Total non-current assets		**19,322**	**20,026**
Inventories		228	198
Trade receivables	13	1,591	1,372
Derivatives	21	33	21
Income tax assets		2	4
Other assets		126	164
Prepaid expenses		84	71
Cash and cash equivalents	20	266	248
Total current assets		**2,330**	**2,078**
TOTAL ASSETS		**21,652**	**22,104**
EQUITY AND LIABILITIES			
Share capital	25.1	3,937	3,937
Share premium		832	832
Other reserves		(103)	(119)
Retained earnings		7,309	7,746
Equity attributable to owners of Orange Polska S.A.		**11,975**	**12,396**
Non-controlling interests		2	2
Total equity		**11,977**	**12,398**
Trade payables	15.1	767	866
Loans from related party	19.1	2,849	3,229
Other financial liabilities at amortised cost	19.2	81	59
Derivatives	21	125	148
Employee benefits	16	251	345
Provisions	14	358	303
Deferred income	15.3	59	47
Total non-current liabilities		**4,490**	**4,997**
Trade payables	15.1	2,130	2,006
Loans from related party	19.1	1,273	1,078
Other financial liabilities at amortised cost	19.2	45	65
Derivatives	21	9	-
Employee benefits	16	188	179
Provisions	14	803	790
Income tax liabilities		60	58
Other liabilities	15.2	191	131
Deferred income	15.3	486	402
Total current liabilities		**5,185**	**4,709**
TOTAL EQUITY AND LIABILITIES		**21,652**	**22,104**

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
			Losses on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments				
Balance at 1 January 2015	**3,937**	**832**	**(106)**	**(137)**	**45**	**79**	**7,746**	**12,396**	**2**	**12,398**
Total comprehensive income for the 12 months ended 31 December 2015	-	-	23	9	(6)	-	254	280	-	280
Dividend (see Note 25.2)	-	-	-	-	-	-	(656)	(656)	-	(656)
Transfer to retained earnings (see Note 25.3)	-	-	-	85	(16)	(79)	10	-	-	-
Other movements (see Note 25.3)	-	-	-	-	-	-	(45)	(45)	-	(45)
Balance at 31 December 2015	**3,937**	**832**	**(83)**	**(43)**	**23**	**-**	**7,309**	**11,975**	**2**	**11,977**
Balance at 1 January 2014	**3,937**	**832**	**(16)**	**(89)**	**19**	**79**	**7,867**	**12,629**	**2**	**12,631**
Total comprehensive income for the 12 months ended 31 December 2014	-	-	(90)	(48)	26	-	535	423	-	423
Dividend (see Note 25.2)	-	-	-	-	-	-	(656)	(656)	-	(656)
Balance at 31 December 2014	**3,937**	**832**	**(106)**	**(137)**	**45**	**79**	**7,746**	**12,396**	**2**	**12,398**

CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)		*12 months ended*	
	Note	*31 December 2015*	*31 December 2014*
OPERATING ACTIVITIES			
Consolidated net income		254	535
Adjustments to reconcile net income to cash from operating activities			
Gains on disposal of assets	7	(71)	(57)
Gain on disposal of Wirtualna Polska S.A.	8	-	(191)
Depreciation and amortisation	11,12	2,871	3,073
Impairment/(reversal of impairment) of non-current assets	9	(12)	17
Finance costs, net		291	405
Income tax	24.1	27	46
Change in provisions and allowances		(88)	(328)
Operational foreign exchange and derivatives (gains)/losses, net		(3)	2
Change in working capital			
Increase in inventories, gross		(21)	(2)
Increase in trade receivables, gross		(298)	(281)
Increase/(decrease) in trade payables		(154)	137
Increase in prepaid expenses and other receivables		(49)	(28)
Increase/(decrease) in deferred income and other payables		134	(81)
Interest received		17	14
Interest paid and interest rate effect paid on derivatives, net		(289)	(447)
Exchange rate effect received on derivatives, net		4	4
Income tax paid		(76)	(65)
Net cash provided by operating activities		**2,537**	**2,753**
INVESTING ACTIVITIES			
Purchases of property, plant and equipment and intangible assets	11,12	(1,998)	(2,153)
Increase/(decrease) in amounts due to fixed assets suppliers		262	(79)
Exchange rate effect received on derivatives economically hedging capital expenditures, net		8	5
Proceeds from sale of property, plant and equipment and intangible assets		143	100
Proceeds from sale of subsidiaries, net of cash and transaction costs	4,8	8	371
Cash paid for subsidiaries, net of cash acquired		-	(2)
Finance lease repaid by a lessee		10	9
(Increase)/decrease in other financial assets		(4)	3
Exchange rate effect received on other derivatives, net		1	1
Net cash used in investing activities		**(1,570)**	**(1,745)**
FINANCING ACTIVITIES			
Redemption of bonds		-	(2,969)
Issuance of long-term debt		775	2,016
Repayment of long-term debt		(62)	(50)
Increase/(decrease) in short-term debt		(1,011)	814
Exchange rate effect received/(paid) on derivatives hedging debt, net		5	(120)
Dividend paid	25.2	(656)	(656)
Net cash used in financing activities		**(949)**	**(965)**
Net change in cash and cash equivalents		**18**	**43**
Cash and cash equivalents at the beginning of the period		248	205 [1]
Cash and cash equivalents at the end of the period		**266**	**248**

[1] Includes PLN 7 million classified as assets held for sale.

1. Corporate information

1.1. The Orange Polska Group

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

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, sells electrical energy and financial services.

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 2015	*31 December 2014*
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
Orange Customer Service Sp. z o.o.	Warsaw, Poland	Post-sale services for OPL S.A. customers.	100%	100%
Orange Real Estate Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100%	100%
Orange Retail S.A. (1)	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Orange Szkolenia Sp. z o.o.	Warsaw, Poland	Training and hotel services.	100%	100%
TP Edukacja i Wypoczynek Sp. z o.o. (2)	Warsaw, Poland	Hotel services, training and conference facilities.	-	100%
TP Invest Sp. z o.o.	Warsaw, Poland	Services for Group entities, holding management.	100%	100%
- Contact Center Sp. z o.o. (3)	Warsaw, Poland	Call-centre services and telemarketing.	-	100%
- TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100%	100%
- Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
- Telefon 2000 Sp. z o.o. (4)	Warsaw, Poland	No operational activity.	-	100%
- TPSA Eurofinance France S.A.	Paris, France	No operational activity.	99.99%	99.99%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	100%

(1) Previously Ramsat S.A.
(2) The company merged with Orange Szkolenia Sp. z o.o. in 2015.
(3) The company was disposed in 2015 (see Note 4).
(4) The company was liquidated in 2015.

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 2015 and 2014, the voting power held by the Group was equal to the Group's interest in the share capital of its subsidiaries. Main acquisitions, disposals and changes in scope of consolidation are described in Note 4.

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

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

Bruno Duthoit – President of the Management Board,
Mariusz Gaca – Vice President in charge of Business Market,
Piotr Muszyński – Vice President in charge of Operations,
Jolanta Dudek – Board Member in charge of Customer Care and Customer Excellence,
Jacek Kowalski – Board Member in charge of Human Resources,
Bożena Leśniewska – Board Member in charge of Sales and Commercial Digitisation,
Maciej Nowohoński – Board Member in charge of Finance,
Michał Paschalis-Jakubowicz – Board Member in charge of Marketing.

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

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

The following changes occurred in the Management Board of the Company in the year ended 31 December 2015 and in the year 2016 until the date of the authorisation of these Consolidated Financial Statements:

On 8 October 2015, OPL S.A.'s Supervisory Board appointed Ms Jolanta Dudek as the Member of the Management Board of OPL S.A. in charge of Customer Care and Customer Excellence, Ms Bożena Leśniewska as the Member of the Management Board of OPL S.A. in charge of Sales and Commercial Digitisation and Mr Michał Paschalis-Jakubowicz as the Member of the Management Board of OPL S.A. in charge of Marketing.

On 4 February 2016, Mr Bruno Duthoit submitted his resignation as the President and Member of the Management Board of OPL S.A. with effect on 30 April 2016. On the same day, the Supervisory Board of OPL S.A. appointed Mr Jean-François Fallacher as the President of the Management Board of OPL S.A. with effect on 1 May 2016.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2015 and in the year 2016 until the date of the authorisation of these Consolidated Financial Statements:

On 9 April 2015, the mandate of Mr Sławomir Lachowski, the Member of the Supervisory Board of OPL S.A., expired and was not renewed. On the same day the General Meeting of OPL S.A. appointed Ms Maria Pasło-Wiśniewska as the Member of the Supervisory Board of OPL S.A.

On 3 February 2016, prof. Andrzej K. Koźmiński submitted his resignation as the Deputy Chairman and Member of the Supervisory Board of OPL S.A. with effect on 12 April 2016.

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 are prepared in millions of Polish złoty ("PLN"). Comparative amounts for the year ended 31 December 2014 have been compiled using the same basis of preparation.

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

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 15 February 2016 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 2015 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 2015,
– IFRSs and related interpretations adopted for use by the European Union whose application will be compulsory for periods beginning after 1 January 2015 but for which the Group has opted for earlier application,
– accounting positions adopted by the Group in accordance with paragraphs 10 to 12 of International Accounting Standard ("IAS") 8 (Use of judgements).

Changes in presentation of the income statement

From Q4 2015, the Group reassesses the recoverable amount of trade and other receivables at their disposal date and presents gain on disposal on a net basis (see also Note 13). As a result, the comparative amounts of other operating expense and income for the 12 months ended 31 December 2014 were decreased by PLN 111 million without impact on the consolidated net income.

Changes in presentation of the statement of financial position

The lines presenting Other financial assets and Other assets were combined into one line: Other assets.

3. Segment information

The Group reports a single operating segment. Segment performance is evaluated by the Management Board mainly based on consolidated revenue, consolidated EBITDA, consolidated net income, consolidated organic cash flows, consolidated capital expenditures, consolidated net gearing ratio and consolidated net financial debt / EBITDA ratio based on cumulative EBITDA for the last four quarters. EBITDA corresponds to operating income before depreciation and amortisation expense and impairment of non-current assets. Organic cash flows correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of net exchange rate effect paid/received on derivatives economically hedging capital expenditures and increased by proceeds from sale of property, plant and equipment and intangible assets. Net gearing ratio is the share of net financial debt in the sum of net financial debt and equity.
To enhance the performance evaluation, where it is materially important for trends analysis, these financial data can be restated to exclude mainly the impact of significant exceptional transactions or other events not related to business as usual activities and changes in scope of consolidation, as displayed in the table below.

Basic financial data of the operating segment is presented below:

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Restated revenue	11,840	12,191
Restated EBITDA	3,521	3,916
Net income as per consolidated income statement	254	535
Restated organic cash flows	952	1,149
Restated capital expenditures	1,998	1,775

	At 31 December 2015	*At 31 December 2014*
Net gearing ratio	25%	25%
Net financial debt / restated EBITDA ratio	1.1	1.1

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

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Revenue	11,840	12,212
- restatement for data of Wirtualna Polska S.A. and Contact Center Sp. z o.o. [(1)]	-	(21)
Restated revenue	11,840	12,191
EBITDA	3,431	4,076
- restatement for gain on disposal of Wirtualna Polska S.A. (see Note 8)	-	(191)
- restatement for data of Wirtualna Polska S.A. and Contact Center Sp. z o.o. [(1)]	-	(5)
- restatement for the impact of certain claims and litigation	-	44
- restatement for employment termination expense (see Note 14) net of related curtailment of long-term employee benefits (see Note 16)	90	(8)
Restated EBITDA	3,521	3,916
Organic cash flows	952	626
- restatement for deposit relating to the auction for telecommunications licences	-	20
- restatement for payments for acquisition of telecommunications licences	-	358
- restatement for the impact of certain claims and litigation	-	145
Restated organic cash flows	952	1,149
Capital expenditures	1,998	2,153
- restatement for expenditures on acquisition of telecommunications licences	-	(378)
Restated capital expenditures	1,998	1,775

[(1)] Restated revenue and restated EBITDA for 12 months ended 31 December 2014, do not include data of Wirtualna Polska S.A. (a subsidiary disposed in February 2014, see Note 8) and include data of Contact Center Sp. z o.o. (a subsidiary disposed in August 2015) for the period up to August 2014.

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

On 30 November 2015, TP Edukacja i Wypoczynek Sp. z o.o. merged with Orange Szkolenia Sp. z o.o.

On 25 August 2015, the Group finalised a share sale agreement concluded on 6 July 2015 under which the 100% shareholding in Contact Center Sp. z o.o. was disposed for a total consideration amounting to PLN 9 million. Gain on the disposal amounted to PLN 3 million.

On 29 May 2015, the Group liquidated Telefon 2000 Sp. z o.o., a fully owned subsidiary.

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

5. Revenue

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Mobile services	**5,498**	**5,713**
Voice traffic revenue	2,666	3,064
Data, messaging, content and M2M (machine-to-machine)	1,923	1,903
Wholesale revenue (including interconnect)	909	746
Mobile equipment sales	**643**	**427**
Fixed services	**5,083**	**5,520**
Fixed narrowband	1,746	1,983
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,601	1,663
Enterprise solutions and networks	916	933
Wholesale revenue (including interconnect)	820	941
Other revenue	**616**	**552**
Total revenue	**11,840**	**12,212**

Other revenue includes mainly revenue from infrastructure projects, sales of equipment used in ICT (Information and Communications Technology) projects and property rental.

Revenue is generated mainly in the territory of Poland. Approximately 2.8% and 2.9% of the total revenue for the 12 months ended 31 December 2015 and 2014, 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 2015*	*12 months ended 31 December 2014*
Commercial expenses	(2,745)	(2,545)
– *cost of handsets and other equipment sold*	*(1,829)*	*(1,590)*
– *commissions, advertising, sponsoring costs and other*	*(916)*	*(955)*
Interconnect expenses	(1,345)	(1,231)
Network and IT expenses	(734)	(788)
Other external purchases	(1,447)	(1,549)
Total external purchases	**(6,271)**	**(6,113)**

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

6.2. Labour expense

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Average number of active employees (full time equivalent)	17,703	19,094
Wages and salaries	(1,580)	(1,625)
Social security and other charges	(362)	(380)
Long-term employee benefits (see Note 16)	74	(10)
Capitalised personnel costs	199	199
Other employee benefits	(44)	(58)
Total labour expense	**(1,713)**	**(1,874)**

6.3. Other operating expense and income

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014 (see Note 2)*
Taxes other than income tax	(301)	(329)
Orange brand fee (see Note 29.2)	(134)	(134)
Impairment losses on trade and other receivables, net	(98)	(61)
Other expense and changes in provisions, net	(80)	(83)
Total other operating expense	**(613)**	**(607)**
Total other operating income	**246**	**202**

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

6.4. Research and development

During the 12 months ended 31 December 2015 and 2014, research and development costs expensed in the consolidated income statement amounted to PLN 52 million and PLN 63 million, respectively.

7. Gains on disposal of assets

During the 12 months ended 31 December 2015 and 2014, gains on disposal of assets amounted to PLN 71 million and PLN 57 million, respectively, and included mainly gains on disposal of properties.

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

On 13 February 2014, the Group and o2 Sp. z o.o. finalised a share sale agreement under which the Group disposed its 100% shareholding in Wirtualna Polska S.A., for a total consideration amounting to PLN 367 million, consisting of consideration received in cash amounting to PLN 382 million, decreased by PLN 15 million of liabilities assumed by the Group. Net assets disposed, including goodwill, amounted to PLN 172 million. Additionally, the Group incurred transaction costs of PLN 4 million.

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

9. Impairment

9.1. Information concerning the Cash Generating Unit

Most of the Group's individual assets do not generate cash flows independently from other assets due to the nature of the Group's activities, therefore the Group identifies the telecom operation as the telecom operator Cash Generating Unit ("CGU").

The Group considers certain indicators, including market liberalisation and other regulatory and economic changes in the Polish telecommunications market, in assessing whether there is any indication that an asset may be impaired. As at 31 December 2015 and 2014 the Group performed impairment tests of the CGU (including goodwill). No impairment loss was recognised in 2015 or 2014 as a result of these tests.

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

- value of the market, penetration rate, market share and the level of the competition, 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
- growth rate to perpetuity which reflects Management's assessment of cash flows evolution after the last year covered by the cash flow projections.

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

Telecom operator CGU	*At 31 December 2015*	*At 31 December 2014*
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
Growth rate to perpetuity	1%	1%
Post-tax discount rate	8.5%	8.8%
Pre-tax discount rate [1]	9.9%	10.2%

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

Sensitivity of recoverable amount

The value in use of the telecom operator CGU as at 31 December 2015 exceeds its carrying value by PLN 2.6 billion. Any of the following changes in key assumptions:

- a 14% fall in projected cash flows after fifth year or
- a 1.5 p.p. decrease of growth rate to perpetuity or
- a 1.1 p.p. increase of post-tax discount rate

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

9.2. Goodwill

During the 12 months ended 31 December 2015 and 2014, there was no goodwill written off. Details regarding impairment tests of goodwill are presented in Note 9.1.

9.3. Other property, plant and equipment and intangible assets

During the 12 months ended 31 December 2015 and 2014, the (impairment)/reversal of impairment loss on property, plant and equipment and intangible assets included in the consolidated income statement amounted to PLN 12 million and PLN (17) million, respectively, primarily as a result of a review of certain of the Group's properties.

10. Goodwill

(in PLN millions)	*At 31 December 2015*			*At 31 December 2014*		
CGU	*Cost*	*Accumulated impairment*	*Net*	*Cost*	*Accumulated impairment*	*Net*
Telecom operator	3,940	-	3,940	3,940	-	3,940
Total goodwill	**3,940**	**-**	**3,940**	**3,940**	**-**	**3,940**

11. Other intangible assets

(in PLN millions)	*At 31 December 2015*			
	Cost	*Accumulated amortisation*	*Accumulated impairment*	*Net*
Telecommunications licences	2,617	(1,400)	-	1,217
Software	7,052	(5,323)	-	1,729
Other intangibles	207	(131)	(12)	64
Total other intangible assets	**9,876**	**(6,854)**	**(12)**	**3,010**

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

Details of telecommunications licences are as follows:

(in PLN millions)	*Acquisition date*	*Licence term*	*Net book value At 31 December 2015*	*Net book value At 31 December 2014*
450 MHz	1991	2016	-	-
900 MHz	2014	2029	324	348
900 MHz [(1)]	2013	2018	33	45
1800 MHz [(1)]	2013	2027	191	207
1800 MHz	1997	2027	-	-
2100 MHz	2000	2023	669	765
Total telecommunications licences			**1,217**	**1,365**

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

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2015 were as follows:

(in PLN millions)	*Telecommunications licences*	*Software*	*Other intangibles*	*Total other intangible assets*
Opening balance net of accumulated amortisation and impairment	**1,365**	**1,778**	**72**	**3,215**
Acquisitions of intangible assets	-	455	21	476
Amortisation	(148)	(501)	(24)	(673)
Reclassifications and other, net	-	(3)	(5)	(8)
Closing balance	**1,217**	**1,729**	**64**	**3,010**

From 2015, the Group extended the estimated useful lives for certain items of software which decreased the amortisation expense by PLN 121 million during the 12 months ended 31 December 2015.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2014 were as follows:

(in PLN millions)	*Telecommunications licences*	*Software*	*Other intangibles*	*Total other intangible assets*
Opening balance net of accumulated amortisation and impairment	**1,132**	**1,841**	**108**	**3,081**
Acquisitions of intangible assets	378	547	18	943
Amortisation	(145)	(620)	(46)	(811)
Reclassifications and other, net	-	10	(8)	2
Closing balance	**1,365**	**1,778**	**72**	**3,215**

12. Property, plant and equipment

(in PLN millions)	*At 31 December 2015*			
	Cost	*Accumulated depreciation*	*Accumulated impairment*	*Net*
Land and buildings	3,133	(1,775)	(36)	1,322
Network	37,737	(29,089)	-	8,648
Terminals	2,108	(1,536)	-	572
Other IT equipment	1,525	(1,151)	-	374
Other	289	(178)	(2)	109
Total property, plant and equipment	**44,792**	**(33,729)**	**(38)**	**11,025**

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

As at 31 December 2015 and 2014, 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 937 million and PLN 745 million, respectively.

During the 12 months ended 31 December 2015 and 2014, the Group recognised respectively PLN 9 million and PLN 34 million of non-repayable investment grants received from the government and the European Union.

These grants related to the development of the broadband telecommunications network. Investment grants are deducted from the cost of the related assets.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2015 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	**1,441**	**9,279**	**525**	**359**	**111**	**11,715**
Acquisitions of property, plant and equipment	61	1,043	249	129	40	1,522
Disposals and liquidations	(65)	(11)	-	-	-	(76)
Depreciation	(127)	(1,674)	(244)	(123)	(30)	(2,198)
Impairment	12	-	-	-	-	12
Dismantling costs, reclassifications and other, net	-	11	42	9	(12)	50
Closing balance	**1,322**	**8,648**	**572**	**374**	**109**	**11,025**

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2014 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	**1,611**	**10,156**	**539**	**369**	**93**	**12,768**
Acquisitions of property, plant and equipment	27	836	194	103	50	1,210
Disposals and liquidations	(46)	(7)	-	-	(1)	(54)
Depreciation	(134)	(1,771)	(210)	(113)	(34)	(2,262)
Impairment	(17)	-	-	-	-	(17)
Dismantling costs, reclassifications and other, net	-	65	2	-	3	70
Closing balance	**1,441**	**9,279**	**525**	**359**	**111**	**11,715**

The carrying value of equipment held under finance leases as at 31 December 2015 and 2014 amounted to PLN 64 million and PLN 25 million, respectively. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

13. Trade receivables

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Non-current trade receivables, net	210	138
Current trade receivables, net	1,591	1,372
Trade receivables, net	**1,801**	**1,510**

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

Movement in the impairment of trade receivables during the 12 months ended 31 December 2015 and 2014 is presented below.

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Beginning of period	**143**	**164**
Impairment losses, net	92	53
Impaired receivables sold or written-off	(97)	(74)
End of period	**138**	**143**

As a result of the changes in presentation of financial statements described in Note 2, for the 12 months ended 31 December 2014, the Group reversed PLN 25 million of impairment losses on trade receivables with a corresponding increase of PLN 25 million in the expense relating to the net book value of trade receivables sold.

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

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Trade receivables collectively analysed for impairment, net:		
Not past due	1,058	862
Past due less than 180 days	282	305
Past due between 180 and 360 days	34	22
Past due more than 360 days	4	1
Total trade receivables collectively analysed for impairment, net	**1,378**	**1,190**
Trade receivables individually analysed for impairment, net: (1)		
Not past due	289	238
Past due	134	82
Total trade receivables individually analysed for impairment, net	**423**	**320**
Total trade receivables, net	**1,801**	**1,510**

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

14. Provisions

Movements of provisions for the 12 months ended 31 December 2015 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 2015	**697**	**89**	**307**	**1,093**
Increases	28	132	7	167
Reversals (utilisations)	(2)	(87)	(22)	(111)
Reversals (releases)	(11)	(3)	-	(14)
Discounting effect	16	1	9	26
At 31 December 2015	**728**	**132**	**301**	**1,161**
Current	728	68	7	803
Non-current	-	64	294	358

Movements of provisions for the 12 months ended 31 December 2014 were as follows:

(in PLN millions)	*Provisions for claims and litigation, risks and other charges*	*Provisions for employment termination expense*	*Dismantling provisions*	*Total provisions*
At 1 January 2014	**781**	**176**	**255**	**1,212**
Increases	165	1	62	228
Reversals (utilisations)	(192)	(83)	(19)	(294)
Reversals (releases)	(89)	(9)	-	(98)
Foreign exchange effect	15	-	-	15
Discounting effect	17	4	9	30
At 31 December 2014	**697**	**89**	**307**	**1,093**
Current	697	89	4	790
Non-current	-	-	303	303

The discount rate used to calculate the present value of provisions amounted to 1.72% - 2.98% as at 31 December 2015 and 2.21% - 2.81% as at 31 December 2014.

Provisions for claims and litigation, risks and other charges

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

Provisions for employment termination expense

Provisions for employment termination expense as at 31 December 2015 consisted of the estimated amount of termination benefits for employees scheduled to terminate employment in OPL S.A. and Orange Customer Service Sp. z o.o. ("OCS") under the 2016 - 2017 Social Agreement. Other movements of these provisions during the 12 months ended 31 December 2015 and 2014 relate mainly to the 2014 - 2015 Social Agreement.

On 2 December 2015, OPL S.A. and OCS concluded with Trade Unions the Social Agreement under which up to 2,050 employees are entitled to take advantage of the voluntary departure package in years 2016 – 2017. The value of voluntary departure package varies depending on individual salary, employment duration and year of resignation. The basis for calculation of the provision for employment termination expense is the estimated number, remuneration and service period of employees who will accept the voluntary termination until the end of 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.

15. Trade payables, other liabilities and deferred income

15.1. Trade payables

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Trade payables	1,138	1,294
Fixed assets payables	841	562
Telecommunications licence payables	918	1,016
Total trade payables	**2,897**	**2,872**
Current	2,130	2,006
Non-current [1]	767	866

[1] Includes telecommunications licence payables only.

15.2. Other liabilities

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
VAT payables	113	64
Other taxes payables	20	21
Other	58	46
Total other liabilities	**191**	**131**
Current	191	131
Non-current	-	-

15.3. Deferred income

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Subscription (including unused balances in post-paid system)	189	192
Unused balances in the pre-paid system	221	161
Connection fees	47	44
Other	88	52
Total deferred income	**545**	**449**
Current	486	402
Non-current	59	47

16. Employee benefits

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Jubilee awards	131	145
Retirement bonuses and other post-employment benefits	118	221
Salaries and other employee-related payables	190	158
Total employee benefits	**439**	**524**
Current	188	179
Non-current	251	345

Certain employees and retirees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 31.21). 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 2015 and 2014 are detailed below:

(in PLN millions)	*12 months ended 31 December 2015*						
	Jubilee awards		*Retirement bonuses*		*Other post-employment benefits*		*Total*
Present/carrying value of obligation at the beginning of the period	**145**		**135**		**86**		**366**
Current service cost [(1)]	11		7		-		18
Past service cost [(1)]	(18)	(2)	(21)	(2)	(58)	(3)	(97)
Interest cost [(4)]	3		4		-		7
Benefits paid	(15)		(2)		-		(17)
Settlement [(3)]	-		-		(24)		(24)
Actuarial (gains)/losses for the period	5	(1)	(8)	(5)	(1)	(5)	(4)
Present/carrying value of obligation at the end of the period	**131**		**115**		**3**		**249**
Weighted average duration (in years)	8		17		27		12

(1) Recognised under labour expense in the consolidated income statement.
(2) Curtailment resulting from the Social Agreement concluded on 2 December 2015 (see Note 14).
(3) Impact of agreements with Trade Unions (see below).
(4) Recognised under discounting expense in the consolidated income statement.
(5) Recognised under actuarial gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

In the first quarter of 2015, the Group signed with Trade Unions agreements which curtailed other post-employment benefits for retirees of the Group and agreed additional contributions totalling PLN 24 million to the social fund for the years 2015-2017. As a result, in the first quarter of 2015, a credit of PLN 58 million was recognised in labour expense as the net effect of PLN 82 million of released provision for post-employment benefits and PLN 24 million of the recognised liability relating to the additional contributions to the social fund.

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

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

The valuation of obligations as at 31 December 2015 and 2014 was performed using the following assumptions:

	At 31 December 2015	*At 31 December 2014*
Discount rate	3.1% – 3.5%	2.6%
Wage increase rate	2.0% – 2.5%	2.5% – 3.0%

A change of the discount rate by 0.5 p.p. would increase by PLN 15 million or decrease by PLN 14 million the present/carrying value of obligations related to long-term employee benefits as at 31 December 2015.

17. Finance income and expense

(in PLN millions)	*12 months ended 31 December 2015*							
	Finance costs, net					*Operating income*		
	Interest income	*Interest expense and other financial charges*	*Foreign exchange gains / (losses)*	*Discounting expense*	***Finance income / (costs), net***	*Interest income*	*Impairment losses*	*Foreign exchange gains / (losses)*
Loans and receivables	17	-	-	-	**17**	14	(92)	(1)
– *including trade receivables*	*10*	-	-	-	***10***	*14* [(1)]	*(92)*	*(1)*
Financial liabilities at amortised cost	-	(77) [(2)]	(44)	(59)	**(180)**	-	-	3
Derivatives	-	(139)	44	-	**(95)**	-	-	1
– *hedging derivatives*	-	*(99)*	*28*	-	***(71)***	-	-	-
– *derivatives held for trading* [(3)]	-	*(40)*	*16*	-	***(24)***	-	-	*1*
Non-financial items [(4)]	-	-	-	(33)	**(33)**	-	-	-
Total	**17**	**(216)**	**-**	**(92)**	**(291)**	**14**	**(92)**	**3**

[(1)] Late payment interest on trade receivables.
[(2)] Includes mainly interest expense on loans from related party and bank borrowings.
[(3)] Derivatives economically hedging commercial or financial transactions.
[(4)] Includes mainly provisions and employee benefits.

(in PLN millions)	*12 months ended 31 December 2014*							
	Finance costs, net					*Operating income*		
	Interest income	*Interest expense and other financial charges*	*Foreign exchange gains / (losses)*	*Discounting expense*	***Finance income / (costs), net***	*Interest income*	*Impairment losses*	*Foreign exchange gains / (losses)*
Loans and receivables	14	-	-	-	**14**	23	(53)	3
– *including trade receivables*	*2*	-	-	-	***2***	*23* [(1)]	*(53)* [(2)]	*3*
Financial liabilities at amortised cost	-	(137) [(3)]	(103)	(75)	**(315)**	-	-	(17)
Derivatives	-	(166)	101	4	**(61)**	-	-	27
– *hedging derivatives*	-	*(68)*	*94*	-	***26***	-	-	-
– *derivatives held for trading* [(4)]	-	*(98)*	*7*	*4*	***(87)***	-	-	*27*
Non-financial items [(5)]	-	-	-	(43)	**(43)**	-	-	(15)
Total	**14**	**(303)**	**(2)**	**(114)**	**(405)**	**23**	**(53)**	**(2)**

[(1)] Late payment interest on trade receivables.
[(2)] See Note 13.
[(3)] Includes mainly interest expense on loans from related party, bonds, bank borrowings and change in fair value of liabilities hedged by fair value hedges.
[(4)] Derivatives economically hedging commercial or financial transactions.
[(5)] Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2015 and 2014, there was no significant ineffectiveness on cash flow hedges and fair value hedges.

18. Net financial debt

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

The table below provides an analysis of net financial debt:

(in PLN millions)

	Note	*At 31 December 2015*	*At 31 December 2014*
Loans from related party	19.1	4,122	4,307
Other financial debt	19.2	126	124
Derivatives – net [1]	21	12	57
Gross financial debt after derivatives		**4,260**	**4,488**
Cash and cash equivalents	20	(266)	(248)
Effective portion of cash flow hedges		(83)	(106)
Net financial debt		**3,911**	**4,134**

[1] Liabilities less assets.

19. Financial liabilities at amortised cost excluding trade payables

19.1. Loans from related party

(in millions of currency)

		Amount outstanding at [1]			
		31 December 2015		*31 December 2014*	
Creditor	*Repayment date*	*Currency*	*PLN*	*Currency*	*PLN*
Floating rate					
Atlas Services Belgium S.A. (EUR)	31 March 2016	280	1,193	280	1,192
Atlas Services Belgium S.A. (EUR)	20 May 2019	480	2,043	480	2,041
Atlas Services Belgium S.A. (EUR)	20 May 2021	190	809	-	-
Atlas Services Belgium S.A. (PLN) [2]	30 March 2018	77	77	1,074	1,074
Total loans from related party			**4,122**		**4,307**
Current			1,273		1,078
Non-current			2,849		3,229

[1] Includes accrued interest and arrangement fees.
[2] Revolving credit line presented in short-term loans from related party.

The weighted average effective interest rate on loans from related party, before and after swaps, amounted respectively to 1.21% and 4.16% as at 31 December 2015 (1.91% and 4.11% as at 31 December 2014).

19.2. Other financial debt

(in millions of currency)		*Amount outstanding at[(1)]*			
		31 December 2015		*31 December 2014*	
Creditor	*Repayment date*	*Currency*	*PLN*	*Currency*	*PLN*
Floating rate					
European Investment Bank (EUR)	15 December 2015	-	-	8	36
Other credit lines (PLN)	4 December 2016	5	5	4	4
Fixed rate					
Instituto de Credito Oficial (USD)	2 January 2021	8	32	10	34
Bank borrowings			**37**		**74**
Finance lease liabilities and other (PLN)			89		50
Total other financial debt			**126**		**124**
Current			45		65
Non-current			81		59

(1) Includes accrued interest and bank borrowings issue costs.

The weighted average effective interest rate on the Group's bank borrowings, before and after swaps, amounted respectively to 1.66% and 2.60% as at 31 December 2015 (1.27% and 1.92% as at 31 December 2014).

20. Cash and cash equivalents

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Current bank accounts, overnight deposits and cash on hand	178	176
Deposits with Orange S.A.	87	69
Bank deposits up to 3 months	1	3
Total cash and cash equivalents	**266**	**248**

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 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 2015 and 2014, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives) i.e. interest rate swaps, currency swaps and non-deliverable forwards. To price these instruments the Group applies standard valuation techniques, where the applicable market interest rate curves constitute the base for calculation of discounting factors. A fair value of swap/forward transaction represents discounted future cash flows, converted into PLN at the National Bank of Poland period-end average exchange rate and 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 risk*	*Hedged item*	*Nominal amount (in millions of currency)*	*Maturity*	*Financial Asset*	*Financial Liability*
		At 31 December 2015				
Derivative instruments - cash flow hedge						
CCIRS	Currency and interest rate risk	Loans from related party	867 EUR	2016-2021	107	-
IRS	Interest rate risk	Loans from related party	3,550 PLN	2016-2021	-	(126)
NDF	Currency risk	Commercial transactions	102 EUR	2016	1	(3)
NDF	Currency risk	Commercial transactions	3 USD	2016	-	-
Option strategy	Currency risk	Commercial transactions	8 EUR	2016	-	-
Total cash flow hedges					108	(129)
Derivative instruments - held for trading [(2)]						
CCIRS	Currency and interest rate risk	Loans from related party	83 EUR	2016-2021	1	-
IRS	Interest rate risk	Forecast loan from related party	800 PLN	2021	2	(2)
NDF	Currency risk	2100 MHz licence payable	76 EUR	2016	5	(1)
NDF	Currency risk	Commercial transactions	35 EUR	2016	1	-
NDF	Currency risk	EC proceedings provision	105 EUR	2016	3	(1)
NDF	Currency risk	Bank borrowing	9 USD	2016	1	-
NDF	Currency risk	Commercial transactions	19 USD	2016	1	(1)
Option strategy	Currency risk	Commercial transactions	3 EUR	2016	-	-
Total derivatives held for trading					14	(5)
Total derivative instruments					**122**	**(134)**
Current					33	(9)
Non–current					89	(125)

[(1)] CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward, Option strategy – purchased call options and written put options.
[(2)] Derivatives economically hedging commercial or financial transactions.

(in PLN millions)					*Fair value*	
Type of instrument [(1)]	*Hedged risk*	*Hedged item*	*Nominal amount (in millions of currency)*	*Maturity*	*Financial Asset*	*Financial Liability*
		At 31 December 2014				
Derivative instruments - fair value hedge						
CCIRS	Currency risk	Loan from related party	80 EUR	2016	1	-
Total fair value hedges					1	-
Derivative instruments - cash flow hedge						
CCIRS	Currency and interest rate risk	Loans from related party	680 EUR	2016-2019	69	-
IRS	Interest rate risk	Loans from related party	2,800 PLN	2016-2019	-	(147)
NDF	Currency risk	Commercial transactions	75 EUR	2015	5	-
NDF	Currency risk	Commercial transactions	2 USD	2015	-	-
Total cash flow hedges					74	(147)
Derivative instruments - held for trading [(2)]						
NDF	Currency risk	Bank borrowing	8 EUR	2015	-	-
NDF	Currency risk	2100 MHz licence payable	98 EUR	2015	7	-
NDF	Currency risk	Commercial transactions	53 EUR	2015	3	-
NDF	Currency risk	EC proceedings provision	105 EUR	2015	3	-
NDF	Currency risk	Bank borrowing	12 USD	2015	3	-
NDF	Currency risk	Commercial transactions	3 USD	2015	-	-
IRS	Interest rate risk	Loan from related party	350 PLN	2020	-	(1)
Total derivatives held for trading					16	(1)
Total derivative instruments					**91**	**(148)**
Current					21	-
Non–current					70	(148)

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

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

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

(in PLN millions)	*12 months ended 31 December 2015*			*12 months ended 31 December 2014*		
	Before tax	*Tax*	*After tax*	*Before tax*	*Tax*	*After tax*
Effective part of gains/(losses) on hedging instrument	(46)	9	(37)	(62)	12	(50)
Reclassification to the income statement, adjusting:	71	(13)	58	(27)	5	(22)
- interest expense presented in finance costs, net	*100*	*(19)*	*81*	*50*	*(10)*	*40*
- foreign exchange differences presented in finance costs, net	*(28)*	*6*	*(22)*	*(77)*	*15*	*(62)*
- external purchases	*(1)*	*-*	*(1)*	*-*	*-*	*-*
Transfer to the initial carrying amount of the hedged item	(2)	-	(2)	(1)	-	(1)
Total gains/(losses) on cash flow hedges	**23**	**(4)**	**19**	**(90)**	**17**	**(73)**

Gains on cash flow hedges cumulated in other reserves as at 31 December 2015 are expected to mature and affect the income statement in years 2016 - 2021.

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 2015 and 2014, the carrying amount of cash and cash equivalents, current trade receivables, current trade payables and current financial liabilities at amortised cost approximated their fair value due to relatively short term maturity of those instruments or cash nature.

As at 31 December 2015 and 2014, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximated their fair value.

As at 31 December 2015 and 2014, the carrying amount of bank borrowing with fixed interest rate approximated its fair value due to immaterial difference between the fixed interest rate and market rates.

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

(in PLN millions)		*At 31 December 2015*		*At 31 December 2014*	
	Note	*Carrying amount*	*Estimated fair value Level 2*	*Carrying amount*	*Estimated fair value Level 2*
Telecommunications licence payables	15.1	918	1,100	1,016	1,233

The fair value of financial instruments is calculated by discounting expected 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 and interest rate risk), liquidity risk and credit risk. The Group manages the financial risks with the objective to limit its exposure to adverse changes in foreign exchange rates and interest rates, to stabilise cash flows and to ensure an adequate level of financial liquidity and flexibility.

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

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

- risk measures used to identify and evaluate the exposure to financial risks,
- selection of appropriate instruments to hedge against identified risks,
- valuation methodology used to determine the fair value of 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 and interest rate risk. The derivatives used by the Group include: cross currency interest rate swaps, cross currency swaps, interest rate swaps, currency options, currency forwards and non-deliverable forwards.

Certain derivative instruments are classified as fair value hedges or cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 31.17). The fair value hedges are used for hedging changes in the fair value of financial instruments that are attributable to particular risk and could affect the income statement. Cash flow hedges are used to hedge the variability of future cash flows that is attributable to particular risk and could affect the income statement.

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

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

23.3. Currency risk

The Group is exposed to foreign exchange risk arising from financial assets and liabilities denominated in foreign currencies, mainly loans from related party, bank borrowing (see Note 19), 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 28.b).

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

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

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

	Hedge ratio	
Currency exposure	*At 31 December 2015*	*At 31 December 2014*
Loans from related party and bank borrowings	99.7%	99.7%
2100 MHz licence payable	47.3%	55.1%
EC proceedings provision (see Note 28.b)	73.7%	75.5%

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

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

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

(in millions of currency)	*Effective exposure after hedging*				*Sensitivity to a change of the PLN against other currencies impacting consolidated income statement*			
	At 31 December 2015		*At 31 December 2014*		*At 31 December 2015*		*At 31 December 2014*	
					+10%	*-10%*	*+10%*	*-10%*
Currency exposure	*Currency*	*PLN*	*Currency*	*PLN*	*PLN*		*PLN*	
Bank borrowing (USD)	3	13	3	11	1	(1)	1	(1)
2100 MHz licence payable (EUR)	85	361	80	341	36	(36)	34	(34)
EC proceedings provision (EUR) (see Note 28.b)	38	160	34	145	16	(16)	15	(15)
Total		**534**		**497**	**53**	**(53)**	**50**	**(50)**

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 other reserves resulting from a hypothetical 10% depreciation/appreciation of the PLN against other currencies would amount to PLN 45/(45) million and PLN 33/(33) million as at 31 December 2015 and 2014, 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 19).

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

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

As at 31 December 2015 and 2014, the Group's proportion between fixed/floating rate debt (after hedging activities) was 88/12% and 73/27%, respectively.

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

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

(in PLN millions)	*Sensitivity to 1 p.p. change of interest rates*							
	At 31 December 2015				*At 31 December 2014*			
	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	37	(39)	(3)	4	9	(10)	(5)	5
Other reserves	107	(110)	(15)	17	99	(103)	(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 2015, the gross financial debt based on floating rate (after hedging) amounted to PLN 487 million (as at 31 December 2014, PLN 1,152 million).

23.5. Liquidity risk

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

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

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. As at 31 December 2015, the Group had the following unused credit facilities amounting to PLN 3,717 million (as at 31 December 2014, PLN 2,723 million):
- PLN 1,967 million of credit lines, mainly from the Orange Group,
- PLN 1,750 million of the above-mentioned back-up credit facility from Orange S.A.

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

The liquidity ratio (representing the relation between available financing sources, i.e. cash 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 2015	*At 31 December 2014*
Liquidity ratio (incl. derivatives) - next 12 months	288%	238%
Unused credit facilities	3,717	2,723
Cash and cash equivalents	266	248
Debt repayments (1)	1,313	1,170
Derivatives repayments (2)	71	78
Liquidity ratio (incl. derivatives) - next 18 months	276%	120%
Unused credit facilities	3,717	2,723
Cash and cash equivalents	266	248
Debt repayments (1)	1,329	2,380
Derivatives repayments (2)	113	98
Current liquidity ratio (incl. unused credit facilities)	117%	102%
Unused credit facilities	3,717	2,723
Total current assets	2,330	2,078
Total current liabilities	5,185	4,709

(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 2015 and 2014 is presented below.

As at 31 December 2015 and 2014, 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 2015 and 2014, respectively.

(in PLN millions)		*At 31 December 2015*								
			Undiscounted contractual cash flows (1)							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Loans from related party	19.1	4,122	1,301	26	33	2,069	9	815	2,952	4,253
Other financial debt	19.2	126	48	31	27	16	7	3	84	132
– *including finance lease liabilities*		*64*	*22*	*18*	*17*	*10*	*1*	*-*	*46*	*68*
Derivative assets	21	(122)	23	47	47	(7)	11	(36)	62	85
Derivative liabilities	21	134	48	37	29	12	(3)	(2)	73	121
Gross financial debt after derivatives		**4,260**	**1,420**	**141**	**136**	**2,090**	**24**	**780**	**3,171**	**4,591**
Trade payables	15.1	2,897	2,136	157	151	143	143	417	1,011	3,147
Total financial liabilities (including derivative assets)		**7,157**	**3,556**	**298**	**287**	**2,233**	**167**	**1,197**	**4,182**	**7,738**

(1) Includes both nominal and interest payments.

(in PLN millions)		*At 31 December 2014*								
			Undiscounted contractual cash flows [1]							
				Non-current						
	Note	*Carrying amount*	*Within 1 year*	*1-2 years*	*2-3 years*	*3-4 years*	*4-5 years*	*More than 5 years*	*Total non-current*	*Total*
Loans from related party	19.1	4,307	1,124	1,225	27	28	2,060	-	3,340	4,464
Other financial debt	19.2	124	67	18	16	13	8	8	63	130
– *including finance lease liabilities*		*24*	*10*	*5*	*4*	*4*	*3*	-	*16*	*26*
Derivative assets	21	(91)	39	19	35	35	(18)	-	71	110
Derivative liabilities	21	148	39	32	29	28	14	-	103	142
Gross financial debt after derivatives		**4,488**	**1,269**	**1,294**	**107**	**104**	**2,064**	**8**	**3,577**	**4,846**
Trade payables	15.1	2,872	2,013	157	156	151	143	560	1,167	3,180
Total financial liabilities (including derivative assets)		**7,360**	**3,282**	**1,451**	**263**	**255**	**2,207**	**568**	**4,744**	**8,026**

[1] Includes both nominal and interest payments.

The average duration for the existing debt portfolio as at 31 December 2015 was 2.8 years (as at 31 December 2014, 3.2 years).

23.6. Credit risk

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

The main function of the Credit Committee under the control of the Board Member in charge of Finance is to coordinate and consolidate credit risk management activities across the Group, which involve:

- clients' risk assessment,
- monitoring clients' business and financial standing,
- managing accounts receivable and bad debts.

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

There is no significant concentration of credit risk within the Group.
Further information on credit risk is discussed in Notes 13, 20, 21.

23.7. Management of covenants

As at 31 December 2015, the Group was not a party to agreements containing specific covenants with regard to financial ratios.

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

24. Income tax

24.1. Income tax

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Current income tax	(80)	(31)
Deferred tax	53	(15)
Total income tax	**(27)**	**(46)**

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 2015*	*12 months ended 31 December 2014*
Consolidated net income before tax	**281**	**581**
Less: Gain on disposal of Wirtualna Polska S.A. (tax neutral)	-	*(191)*
Consolidated net income before tax, adjusted	281	390
Statutory tax rate	19%	19%
Theoretical tax	**(53)**	**(74)**
Tax relief on new technologies	39	25
Current income tax adjustments of prior years	-	36
Expense not deductible for tax purposes, net and other	(13)	(33)
Total income tax	**(27)**	**(46)**

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

During the 12 months ended 31 December 2015 and 2014, OPL S.A., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group.

24.2. Deferred tax

(in PLN millions)	*Consolidated statement of financial position*		*Consolidated income statement*	
	At 31 December 2015	*At 31 December 2014*	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Property, plant and equipment and intangible assets	537	513	24	69
Receivables and payables recognised on accrual basis	150	122	28	(24)
Deferred income	90	77	3	(14)
Employee benefit plans	72	90	(16)	(1)
Provisions	96	85	11	(17)
Net financial debt	22	22	4	(21)
Accumulated impairment losses on financial assets	29	30	(1)	(3)
Other	(5)	(5)	-	(4)
Deferred tax assets, net [1]	**991**	**934**	**-**	**-**
Total deferred tax	**-**	**-**	**53**	**(15)**

[1] During the 12 months ended 31 December 2015 and 2014, PLN (6) million and PLN 26 million of change in deferred tax asset was recognised in the consolidated statement of comprehensive income, respectively. During the 12 months ended 31 December 2015, PLN 10 million of change in deferred tax asset was recognised directly in retained earnings (see Note 25.3). During the 12 months ended 31 December 2014, no change in deferred tax asset was recognised directly in retained earnings.

Unrecognised deferred tax assets relate mainly to those tax losses, which are expected to expire rather than to be realised. As at 31 December 2015 and 2014, tax losses, for which no deferred tax asset was recognised, amounted to PLN 20 million and PLN 33 million gross, respectively. Unrecognised deferred tax assets relate also to temporary differences, which based on the Group's management assessment could not be utilised for tax purposes. As at 31 December 2015 there were no significant deductible temporary differences, for which no deferred tax asset was recognised. As at 31 December 2014, deductible temporary differences, for which no deferred tax asset was recognised, amounted to PLN 22 million gross.

25. Equity

25.1. Share capital

As at 31 December 2015 and 2014, the share capital of the Company amounted to PLN 3,937 million and was divided into 1,312 million fully paid ordinary bearer shares of nominal value of PLN 3 each.

The ownership structure of the share capital as at 31 December 2015 and 2014 was as follows:

(in PLN millions)	*At 31 December 2015*			*At 31 December 2014*		
	% 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

On 9 April 2015, the General Meeting of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.50 per share from the 2014 profit and retained earnings from previous years. The total dividend, paid on 9 July 2015, amounted to PLN 656 million.

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

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 4.7 billion as at 31 December 2015. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.3 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2015 was available for dividend payments by subsidiaries to OPL S.A.

On 15 February 2016, the Management Board of Orange Polska S.A. adopted a resolution on the payment of an ordinary dividend of PLN 0.25 per share from the 2015 profit and retained earnings from previous years. Proposed dividend is subject to approval at the General Meeting of Orange Polska S.A.

25.3. Other changes in retained earnings

In 2015, PLN 10 million of other reserves was transferred to retained earnings. This amount consists of PLN 79 million of share-based payments recognised in previous years, PLN (85) million of accumulated actuarial losses on other post-employment benefits for retirees of the Group curtailed in 2015 (see Note 16) and PLN 16 million of related deferred tax. Additionally, the Group recognised an adjustment amounting to PLN 45 million (net of deferred tax) relating to immaterial errors in recognition of pre-paid revenue in prior periods. The impact of this adjustment was recognised directly in retained earnings and presented as other movements in the consolidated statement of changes in equity.

26. Management of capital

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

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

In order to combine these factors the Group periodically establishes a framework for the financial structure. The current Group's objective in that area is to maintain net financial debt to restated EBITDA ratio at the level not higher than 2.2 in the period 2016 - 2018.

The table below provides the two major capital ratios monitored by the Group and presents the sources of capital involved in their calculation. The Group regards capital as the total of equity and net financial debt (see Note 18).

(in PLN millions)	*Note*	*At 31 December 2015*	*At 31 December 2014*
Net financial debt	18	3,911	4,134
Total equity		11,977	12,398
Total equity and Net financial debt		15,888	16,532
Restated EBITDA	3	3,521	3,916
Net Gearing ratio [(1)]		**25%**	**25%**
Net financial debt / restated EBITDA ratio		**1.1**	**1.1**

[(1)] Net Gearing = Net financial debt / (Net financial debt + Total equity).

The above policy imposes financial discipline, providing appropriate flexibility needed to sustain profitable development and the Group's cash distribution policy as set on an annual basis with a focus on delivering a reasonable remuneration to the Group's shareholders.

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 2015 and 2014 amounted to PLN 372 million and PLN 387 million, respectively. Most of the agreements are denominated in foreign currencies. Some of the above agreements are indexed with price indices applicable for a given currency.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2015 and 2014, were as follows:

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Within one year	205	215
After one year but not more than five years	419	405
More than five years	199	241
Total minimum future lease payments	**823**	**861**

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2015 and 2014 amounted to PLN 81 million and PLN 66 million, respectively.

27.2. Investment commitments

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

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Property, plant and equipment	102	88
Intangibles	161	47
Total investment commitments	**263**	**135**
Amounts contracted to be payable within 12 months after the end of the reporting period	190	119

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

28. Litigation, claims and contingent liabilities

a. Proceedings by UOKiK and claims connected with them

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

Proceedings by UOKiK related to retail prices of calls to Play
On 18 March 2013, UOKiK commenced competition proceedings against Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A. claiming that they abused collective dominant position in the domestic retail market of mobile telephony. UOKiK alleges that the retail prices of calls made by individual users from the network of each of the three operators to the network of P4 Sp. z o.o. (Play) were relatively higher than the prices for such calls to the networks of the three operators and determined without sufficient consideration of the differentiation of the asymmetric wholesale termination rates determined by UKE. In the view of UOKiK, the applied prices could result in restricting the development of competition on the retail domestic mobile telephony market.
Orange Polska, on request of UOKiK, provided detailed data relating to its offers and retail prices. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 13 March 2016.
In addition, in May 2015, Orange Polska received a request for settlement filed by P4 with the Court under which P4 raised claims in the amount of PLN 258 million relating to the retail mobile prices for a period between April 2012 and 31 December 2014. On 2 July 2015, at the court session, the parties did not reach an agreement. In September 2015, Orange Polska also received a lawsuit filed by P4 with the Court under which P4 claims for damages, in the amount of PLN 316 million including interest in the amount of PLN 85 million, relating to the retail mobile prices for a period between July 2009 and March 2012. P4 raised both claims jointly and severally towards Orange Polska, Polkomtel Sp. z o.o. and T-Mobile Polska S.A.
In the opinion of the Management, Orange Polska has not performed activities that would restrict competition and, in the period covered by the proceedings, the level of the competition on the retail domestic mobile telephony market had been constantly increasing.

Proceedings by UOKiK related to tenders for mobile services
On 20 December 2013, UOKiK commenced competition proceedings against Orange Polska and two other offerers in tenders for mobile services of data transmission conducted in 2012. UOKiK's proceedings relate

to the assertion that the offerers agreed the terms of offers they made. UOKiK informed the Company that it further prolonged the proceedings. The indicated date of prolongation is 21 February 2016.
The Management Board of Orange Polska notes that they did not agree the terms of offers with the other companies.

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, UOKiK appealed SOKiK verdict and the case is currently examined by the Appeal Court.
In connection with the decision of UOKiK, Magna Polonia S.A. filed 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 because DVB-H television was not launched (including lower value of its shares in Info TV FM) and costs of financing Info TV FM.

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

On 11 December 2013, at the session held at the Court the parties did not reach an agreement. Magna Polonia has filed no statement of claim against Orange Polska and it has filed no call for any payment since then.

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

As at 31 December 2015, the Group recognised provisions for known and quantifiable risks related to proceedings against the Group initiated by UKE and UOKiK, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed as, in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

b. Proceedings by the European Commission related to broadband access

On 22 June 2011, the European Commission imposed on Orange Polska a EUR 127.6 million fine (approximately PLN 508 million) for abuse of dominant position on the wholesale broadband access market, before October 2009. Orange Polska has recorded a provision for the whole amount of the fine 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.

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

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. The Company decided that it will appeal that verdict to the Court of Justice.

c. Proceedings by the tax authorities

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

d. Tax contingent liability

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

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

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

29. Related party transactions

29.1. Management Board and Supervisory Board compensation

Management Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2015*		*12 months ended 31 December 2014*	
	Paid	*Accrued but not paid*	*Paid*	*Accrued but not paid*
Short-term benefits excluding employer social security payments [(1)]	11,632	1,758	12,218	1,335
Post-employment benefits	-	-	2,358	-
Total	**11,632**	**1,758**	**14,576**	**1,335**

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

Compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) paid during the 12 months ended 31 December 2015 and 2014 (including PLN 1.3 million and PLN 1.3 million accrued in previous periods) or accrued but not paid in accordance with contractual commitments by OPL S.A. and its subsidiaries to OPL S.A.'s Management Board and Supervisory Board Members is presented below.

Persons that were Members of the Management Board of the Company as at 31 December 2015:

(in PLN thousands)	*12 months ended 31 December 2015*			*12 months ended 31 December 2014*		
	Paid		*Accrued but not paid*	*Paid*		*Accrued but not paid*
Bruno Duthoit	3,132		276	2,878		268
Mariusz Gaca	2,113		329	1,577	(1)	294
Piotr Muszyński	2,449		351	2,380		324
Jolanta Dudek [(2)]	194	(1)	98	-		-
- *from Orange Polska S.A.*	*98*		*49*	-		-
- *from Orange Customer Service Sp. z o.o.*	*96*		*49*	-		-
Jacek Kowalski	1,704		267	1,577		246
Bożena Leśniewska	226	(1)	101	-		-
Maciej Nowohoński	1,575		235	861	(1)	203
Michał Paschalis-Jakubowicz	239	(1)	101	-		-
Total	**11,632**		**1,758**	**9,273**		**1,335**

[(1)] From the date of appointment as the Member of the Management Board of OPL.
[(2)] Ms Jolanta Dudek is the Member of Management Boards of Orange Polska S.A. and Orange Customer Service Sp. z o.o.

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

(in PLN thousands)	*12 months ended 31 December 2015*		*12 months ended 31 December 2014*		
	Paid	*Accrued but not paid*	*Paid*		*Accrued but not paid*
Jacques de Galzain	-	-	2,350	(1)	-
Vincent Lobry	-	-	2,953	(1)	-
Total	**-**	**-**	**5,303**		**-**

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

Supervisory Board compensation was as follows:

(in PLN thousands)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Maciej Witucki	419	386
Prof. Andrzej K. Koźmiński	392	361
Gervais Pellissier (1)	-	-
Marc Ricau (1)	-	-
Dr. Henryka Bochniarz	209	192
Jean-Marie Culpin (1)	-	-
Eric Debroeck (1)	-	-
Ramon Fernandez (1)	-	-
Dr. Mirosław Gronicki	216	192
Russ Houlden	390	229
Marie-Christine Lambert (1)	-	-
Maria Pasło-Wiśniewska	135	-
Gérard Ries (1)	-	-
Dr. Wiesław Rozłucki	314	289
Valérie Thérond (1)	-	-
Timothy Boatman (2)	-	133
Sławomir Lachowski (2)	77	192
Pierre Louette (1) (2)	-	-
Benoit Scheen (1) (2)	-	-
Total	**2,152**	**1,974**

(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 2015 but were Members of the Supervisory Board of OPL S.A. in 2015 or previous periods.

During the years ended 31 December 2015 and 2014, the Members of OPL S.A.'s Supervisory Board did not receive any compensation (remuneration, bonuses, post-employment benefits and termination indemnities, including compensation under a competition prohibition clause - cash, benefits in kind or any other benefits) from the Group's subsidiaries.

During the years ended 31 December 2015 and 2014, the Group did not enter into any significant transactions with Members of the OPL S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections and did not grant them any loans, advances or guarantees.

During the years ended 31 December 2015 and 2014, the Group did not enter into any significant transactions with companies which were controlled or jointly controlled by the Members of the OPL S.A.'s Management Board or the Supervisory Board or their spouses, relatives up to second degree, individuals who are guardians or wards of the above persons or other persons with whom they have personal connections.

29.2. Related party transactions

As at 31 December 2015, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board appoints and dismisses Members of the Management Board.

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

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. The agreement is valid until 24 July 2018 with the possibility of renewal.

The Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded loan agreements for EUR 950 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 19.1). 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. provided in EUR. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2015 was EUR 950 million and PLN 4,350 million with a total negative fair value of PLN 18 million (as at 31 December 2014, nominal amount of EUR 760 million and PLN 3,150 million with a total negative fair value of PLN 78 million).

Financial receivables, payables, financial expense and other comprehensive income/(loss) concerning transactions with the Orange Group relate to the above-mentioned agreements. Financial income from Orange S.A. and cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 23.5).

(in PLN millions)	*12 months ended 31 December 2015*	*12 months ended 31 December 2014*
Sales of goods and services and other income:	**205**	**212**
Orange S.A. (parent)	113	131
Orange Group (excluding parent)	92	81
Purchases of goods (including inventories, tangible and intangible assets) and services:	**(265)**	**(286)**
Orange S.A. (parent)	(84)	(99)
Orange Group (excluding parent)	(181)	(187)
- including Orange Brand Services Limited (brand licence agreement)	*(134)*	*(134)*
Financial income:	**3**	**7**
Orange S.A. (parent)	3	7
Financial expense, net:	**(188)**	**(159)**
Orange S.A. (parent)	(75)	(21)
Orange Group (excluding parent)	(113)	(138)
Other comprehensive income/(loss):	**30**	**(112)**
Orange S.A. (parent)	30	(112)
Dividend paid:	**332**	**332**
Orange S.A. (parent)	332	332

(in PLN millions)	*At 31 December 2015*	*At 31 December 2014*
Receivables:	**44**	**71**
Orange S.A. (parent)	29	46
Orange Group (excluding parent)	15	25
Payables:	**81**	**106**
Orange S.A. (parent)	32	43
Orange Group (excluding parent)	49	63
Financial receivables:	**110**	**70**
Orange S.A. (parent)	110	70
Cash and cash equivalents deposited with:	**87**	**69**
Orange S.A. (parent)	87	69
Financial payables:	**4,250**	**4,455**
Orange S.A. (parent)	128	148
Orange Group (excluding parent)	4,122	4,307

30. Subsequent events

On 21 January 2016, Orange Polska signed with Trade Unions an agreement that amended the value of retirement bonuses and jubilee awards paid to employees. Employees are no longer entitled to retirement bonuses higher than those set out in the Polish labour law if the retirement takes place after 31 December 2017. The agreement reduces also an average value of a jubilee award paid to employees upon completion of a certain number of years of service – for payments due after 2020.
As a result, a credit of PLN 81 million will be recognised in labour expense in 2016 with a corresponding release of the liabilities relating to long-term employee benefits.

On 25 January 2016, the Group received decisions in which the President of UKE granted Orange Polska the frequencies in the 800 MHz and 2600 MHz bands for a total amount of PLN 3,168 million declared in the auction. On the basis of these decisions, Orange Polska received the licenses for two blocks of 2x5 MHz each in the 800 MHz band and licenses for three blocks of 2x5 MHz each in the 2600 MHz band. The licenses are valid for 15 years from the date of receipt of the decision. In February 2016, Orange Polska paid the whole amount less PLN 20 million of deposit paid in 2014 before the auction.

On 1 February 2016, the Group drew down PLN 1,560 million of the Revolving Credit Facility from Atlas Services Belgium S.A., a subsidiary of Orange S.A.

On 3 February 2016, the Group and Atlas Services Belgium S.A., a subsidiary of Orange S.A., concluded a Loan Agreement for up to PLN 2,700 million with repayment date in 2021, of which PLN 1,600 million was drawn down on 5 February 2016. In 2016, the Group entered into interest rate swaps of nominal value of PLN 1,200 million under the agreement with Orange S.A. to hedge interest rate risk related to the abovementioned new loan agreement.

From 2016, the Group will extend the estimated useful lives for certain network assets. As a result, depreciation expense in 2016 relating to these assets is expected to be lower by approximately PLN 200 million than in 2015.

31. Significant accounting policies

In addition to the statement of compliance included in Note 2, this note describes the accounting principles applied to prepare the Consolidated Financial Statements for the year ended 31 December 2015.

31.1. Use of estimates and judgement

In preparing the Group's accounts, the Company's management is required to make estimates, insofar as many elements included in the financial statements cannot be measured with precision. Management reviews these estimates if the circumstances on which they were based evolve, or in the light of new information or experience. Consequently, estimates made as at 31 December 2015 may be subsequently changed. The main estimates and judgements made are described in the following notes:

Note		*Estimates and judgements*
5, 31.9, 15.3	Revenue	Allocation of revenue between each separable component of a packaged offer based on its relative fair value. Estimating fair value of components. Straight-line recognition of revenue relating to service connection fees. Reporting revenue on a net versus gross basis (analysis of Group's involvement acting as principal versus agent). Fair value of early termination fees charged to customers.
9, 31.13, 31.16	Impairment of cash generating unit and individual tangible and intangible assets	Key assumptions used to determine recoverable amounts: impairment indicators, models, discount rates, growth rates.
11, 12, 31.13, 31.14	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
13, 31.17	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
14, 28, 31.20	Provisions	The assumptions underlying the measurement of provisions for claims and litigation. Provisions for employment termination expense: discount rates, number of employees, employment duration, individual salary and other assumptions.
14	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
16, 31.21	Employee benefits	Discount rates, salary increases, retirement age, staff turnover rates and other.
21, 22, 31.17	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
24, 31.19	Income tax	Assumptions used for recognition of deferred tax assets.
31.18	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 9) and provisions for claims, litigation and risks (see Notes 14 and 28).

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

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

31.2. Application of new standards and interpretations

<u>Adoption of standards or interpretations in 2015</u>

- IFRIC 21 "Levies". This interpretation provides guidance on when to recognise a liability for a levy imposed by a government. Adoption of IFRIC 21 did not have a significant impact on financial statements.

<u>Standards and interpretations issued but not yet adopted</u>

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

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

- IFRS 15 "Revenue from Contracts with Customers". This standard was issued on 28 May 2014 and will be effective for annual periods beginning on or after 1 January 2018. This standard has not yet been endorsed by the European Union. The standard will mainly affect:
    - recognition of revenue from multiple elements arrangements: the allocation of the revenue between the communication and handset component will change and therefore the timing of the revenue recognition will be accelerated;
    - subscriber acquisition and retention costs: the portion of these costs relating to incremental costs to acquire a contract (i.e. payment to distributors directly attributable to contract acquisition, excluding subsidies) will be eligible for deferral. Overall costs will not change.

- IFRS 16 "Leases" was issued on 13 January 2016 and will be effective for annual periods beginning on or after 1 January 2019 with earlier adoption permitted for entities that apply IFRS 15 "Revenue from Contracts with Customers" at or before the date of initial application of IFRS 16. This standard has not yet been endorsed by the European Union.

  IFRS 16 will supersede IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a lease", SIC-15 "Operating Leases – Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

  The main provisions of the new standard include a single lease accounting model, requiring a lessee to recognize right-of-use assets and lease liabilities in the statement of financial position for all leases with a term exceeding 12 months, including operating leases, but with the exception of low value assets. This change is expected to influence the following values reported in the Group's financial statements: fixed assets, financial liabilities, net profit, financing and operating cash flows. The exact impact is currently being analysed by the Management.

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

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

Multiple-elements arrangements

When accounting for multiple-elements arrangements (bundled offers) the Group has adopted the provisions of Generally Accepted Accounting Principles in the United States, Accounting Standards Codification 605-25

„Revenue Recognition – Multiple Element Agreements" (see Note 31.9 *Separable components of packaged and bundled offers*).

31.4. Options available under IFRSs and used by the Group

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

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

31.5. 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.

<u>Presentation of the income statement</u>

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

<u>Earnings per share</u>

The net income per share for each period is calculated by dividing the net income for the period attributable to the equity holders of the Company by the weighted average number of shares outstanding during that period. The weighted average number of shares outstanding is after taking account of treasury shares.

31.6. Consolidation rules

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

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

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

Intercompany transactions and balances are eliminated on consolidation.

31.7. Investments in joint arrangements

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

31.8. Effect of changes in foreign exchange rates

The functional currency of Orange Polska is the Polish złoty.

Transactions in foreign currencies

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

31.9. Revenue

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

Separable components of packaged and bundled offers

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

Equipment sales

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

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

Equipment leases

Equipment lease revenue is recognised on a straight-line basis over the life of the lease agreement, except 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 lease and finance income is recognised over the lease term.

Revenues from the sale or supply of content

The accounting for revenue from the sale or supply of content (audio, video, games, etc.) depends on the analysis of the facts and circumstances surrounding these transactions. To determine if the revenue must be recognised on a gross or a net basis, an analysis is performed using the following criteria:
- if the Group has the primary responsibility for providing services desired by the customer;
- if the Group has inventory risk (the Group purchases content in advance);
- if the Group has discretion in establishing prices directly or indirectly, such as by providing additional services;
- if the Group has credit risk.

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

Service revenue

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

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

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

Promotional offers

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

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

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

Barter transactions

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

31.10. Subscriber acquisition costs, advertising and related costs

Subscriber acquisition and retention costs are recognised as an expense for the period in which they are incurred. Advertising, promotion, sponsoring, communication and brand marketing costs are also expensed as incurred.

31.11. Borrowing costs

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

31.12. 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.

31.13. Intangible assets (excluding goodwill)

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

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

Telecommunications licences

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

Research and development costs

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

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

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

Software

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

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

31.14. Property, plant and equipment

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

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

Finance leases

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

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

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

Derecognition

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

Depreciation

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

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

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

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

31.15. 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.

31.16. 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 2015 the Group identified a single major CGU (see Note 9.1). 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 and are not reversed.

31.17. Financial assets and liabilities

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

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

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

Recognition and measurement of financial assets

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

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

<u>Loans and receivables</u>
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables and cash and cash equivalents. They are carried in the statement of financial position under “Trade receivables” and “Cash and cash equivalents”.

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

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

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

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

<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 IAS 39. Financial assets classified in this category are measured at fair value.

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 carried in the statement of financial position under “Trade payables”, “Loans from related party” and “Other financial liabilities at amortised cost”.

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

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

Financial liabilities at fair value through profit or loss
Financial liabilities at fair value through profit or loss include derivative liabilities not designated as hedging instruments as set out in IAS 39. 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 interest rate component and credit risk adjustment of derivatives held for trading are presented under interest expense and other financial charges within finance costs. The foreign exchange component of derivatives held for trading that economically hedge commercial or financial transactions is presented under foreign exchange gains or losses within other operating income / expense or finance costs, respectively, depending on the nature of the underlying transaction.

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

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

The effects of applying hedge accounting are as follows:

- for fair value hedges of existing assets and liabilities, the change in fair value of the hedged portion of the asset or liability attributable to the hedged risk adjusts the carrying amount of the asset or liability in the statement of financial position. The gain or loss from the changes in fair value of the hedged item 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 directly in other comprehensive income are subsequently recognised in profit or loss in the same period or periods during which the hedged item affects profit or loss. If a hedge of a forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously deferred in other comprehensive income are transferred from other comprehensive income and included in the initial measurement of the cost of the asset or liability.

31.18. Inventories

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

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

31.19. 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.

31.20. 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.

31.21. Pensions and other employee benefits

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

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

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

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

The Group recognizes 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 subsidized telecommunication services. In absence of specific guidance under IFRS, the Group's policy is to value such employee benefits at their net incremental cost as incurred.

31.22. Share-based payments

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

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

ORANGE POLSKA GROUP

MANAGEMENT BOARD'S REPORT
FOR 2015
ENDED 31 DECEMBER 2015

15 February 2016

This report on the activity of the Orange Polska Group ("the Group" or "Orange Polska") in 2015 has been drawn up in compliance with Articles 91 and 92 of the Decree of the Minister of Finance of 19 February 2009 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 2009 No. 33, item 259, as amended).

CHAPTER I
HIGHLIGHTS OF THE CONSOLIDATED FINANCIAL STATEMENTS

as of December 31, 2015 and for the twelve month period ended thereon

1 SUMMARISED FINANCIAL STATEMENTS

	For 12 months ended				
	31 December 2015		31 December 2014		Change
	in PLN mln	in EUR[1] mln	in PLN mln	in EUR[2] mln	
Consolidated Income Statement					
Revenue	11,840	2,829	12,212	2,915	-3.0%
EBITDA (restated*)	3,521	841	3,916	935	-10.1%
EBITDA margin (restated)*	*29.7%*		*32.1%*		*-2.4pp*
Operating income	572	137	986	235	-42.0%
Operating margin	*4.8%*		*8.1%*		*-3.3pp*
Consolidated net income	254	61	535	128	-52.5%
Net income attributable to owners of Orange Polska S.A	*254*	*61*	*535*	*128*	*-52.5%*
*Weighted average number of shares (in millions)***	*1,312*		*1,312*		*n/a*
Earnings per share (in PLN) (basic and diluted)	*0.19*	*0.05*	*0.41*	*0.10*	*-53.7%*
Consolidated Statement of Cash Flows					
Net cash provided by operating activities	2,537	606	2,753	657	-7.8%
Net cash used in investing activities, including	(1,570)	(375)	(1,745)	(417)	-10.0%
Purchases of property, plant and equipment and intangible assets	(1,998)	(477)	(2,153)	(514)	-7.2%
Net cash used in financing activities	(949)	(227)	(965)	(230)	-1.7%
Net change in cash and cash equivalents	18	4	43	10	-58.1%
Organic cash flow (restated)*	*952*	*227*	*1,149*	*274*	*-17.1%*

	As of				
	31 December 2015		31 December 2014		Change
	in PLN mln	in EUR[3] mln	in PLN mln	in EUR[4] mln	
Consolidated Statement of Financial Position					
Cash and cash equivalents	266	62	248	58	7.3%
Other intangible assets	3,010	706	3,215	754	-6.4%
Property, plant and equipment	11,025	2,587	11,715	2,749	-5.9%
Total assets	21,652	5,081	22,104	5,186	-2.0%
Financial liabilities at amortised cost***, of which:	4,248	997	4,431	1,040	-4.1%
Current	1,318	309	1,143	268	15.3%
Non-current	2,930	688	3,288	771	-10.9%
Other liabilities, current and non-current	5,427	1,274	5,275	1,238	2.9%
Total equity	11,977	2,811	12,398	2,909	-3.4%

Notes on data conversion:

1 – PLN/EUR fx rate of 4.1848 applied

2 – PLN/EUR fx rate of 4.1893 applied

3 – PLN/EUR fx rate of 4.2615 applied

4 – PLN/EUR fx rate of 4.2623 applied

** For restatements of basic financial data please see Note 3 to the Consolidated Financial Statement.*
*** Weighted average number of shares in 12 months ended December 31, 2015 and December 31, 2014, respectively*
**** Excluding trade payables*

1.1 Comments on the Consolidated Income Statement

The consolidated revenue amounted to PLN 11,840 million in 2015 and was lower by PLN 372 million (3.0%) as compared to 2014.

Restated operating income before depreciation and amortisation expense and impairment of non-current assets (EBITDA restated, please see Note 3 to the IFRS Consolidated Financial Statements) amounted to PLN 3,521 million in 2015 and was PLN 395 million lower than in 2014.

In particular, in 2015 compared to 2014 (restated data):

- Mobile voice traffic revenue decreased by PLN 398 million, mainly due to lower prices and competitive pressure;
- Mobile data, messaging, content and M2M revenue increased by PLN 20 million, driven up by a growing demand for consumption data;
- Wholesale mobile revenues increased by PLN 163 million due to higher traffic. Increase in revenues is linked with higher interconnection costs.
- Mobile equipment revenues increased by PLN 216 million, due to instalment sales;
- Fixed narrowband revenue decreased by PLN 237 million, mainly due to substitution of fixed traffic and lines to mobile;
- Enterprise solutions and network revenues decreased by PLN 17 million, due to price and competitive pressure;
- Revenues from fixed wholesale decreased by PLN 121 million, due to lower customer base driven by fixed to mobile substitution.
- Interconnection costs increased by PLN 114 million, mainly due to higher mobile traffic;
- Network and IT costs decreased by PLN 54 million, thanks to savings initiatives.
- Commercial expenses increased by PLN 201 million, mainly due to higher costs of handsets and other equipment sold, as a result of intensive marketing activity;
- Labour expense decreased by PLN 151 million, mainly due to lower headcount and lower actuarial provision.

Operating income (EBIT) amounted to PLN 572 million in 2015 and was PLN 414 million lower than in 2014, mainly due to lower restated EBITDA, provisions for the new social plan in the amount of PLN 92 million created in 2015 and the gain on disposal of Wirtualna Polska in the amount of PLN 191 million which was recognized in 2014.

Net finance costs were PLN 114 million lower than in 2014, which resulted mainly from a decrease in net interest expense of PLN 90 million (due to lower cost of debt) and decrease in discounting expense of PLN 22 million.

Consolidated net income amounted to PLN 254 million in 2015, which is a decrease of PLN 281 million compared to 2014. Earnings per share decreased from PLN 0.41 to PLN 0.19.

1.2 Comments on the Consolidated Statement of Cash Flows

Net cash from operating activities amounted to PLN 2,537 million in 2015 and was lower by PLN 216 million compared to 2014. The decrease was mainly attributable to lower EBITDA and higher use of the working capital (PLN 388 million used in 2015 compared to PLN 255 million used in 2014) which offset lower interest expense.

Net cash used in investing activities amounted to PLN 1,570 million in 2015 and was lower by PLN 175 million compared to 2014. Cash outflows for purchases of property, plant and equipment and intangible assets amounted to PLN 1,736 million in 2015 and were lower by PLN 118 million compared to outflows in 2014 (restated for PLN 378 million payments relating to deposit and acquisition of telecommunications licences). Proceeds from sale of property, plant and equipment and intangible assets were higher in 2015 by PLN 43 million compared to 2014. In 2014 cash inflow of PLN 371 million resulted from net proceeds from sale of Wirtualna Polska S.A.

Net cash used in financing activities amounted to PLN 949 million in 2015 and was lower by PLN 16 million compared to 2014. In 2015 and 2014 cash outflow was generated mainly by the payments of dividend in the amount of PLN 656 million and by a debt repayment.

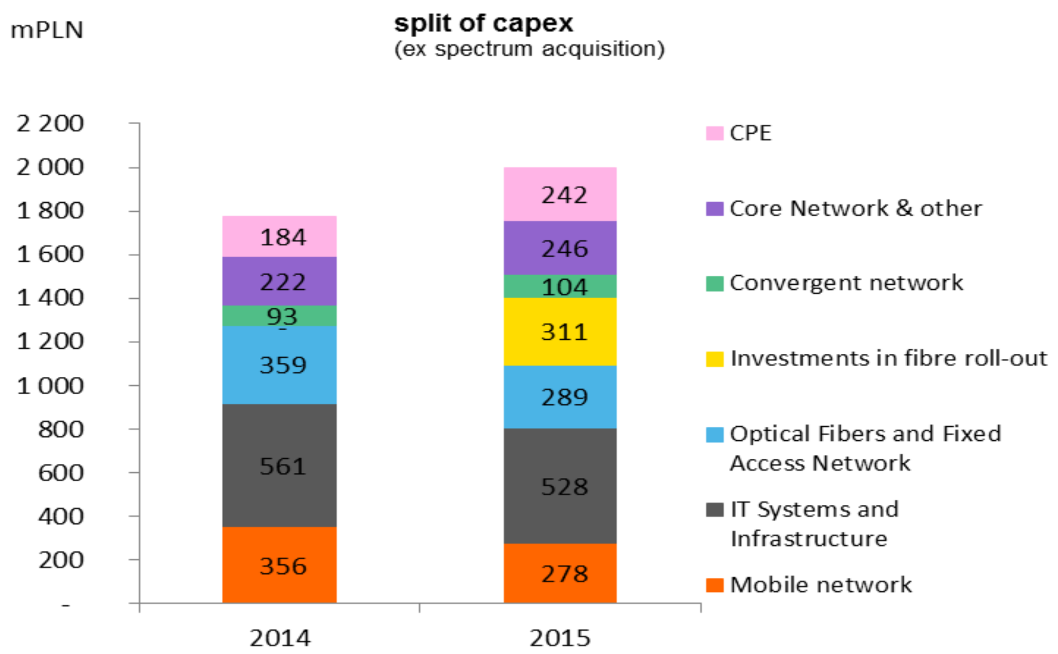
1.2.1 Capital Expenditures (CAPEX)

Group's capital expenditures in 2015 amounted to PLN 1,998 million and were higher by PLN 223 million than in 2014 (excluding expenditures on telecommunications licences amounting to PLN 378 million). The only reason for higher capex in 2015 was the start of fibre network rollout which was at PLN 311 million.

The Group invested mainly in the following areas:

- roll-out of the fibre access network in the announced investment programme, which covered 638 thousand households in 2015; including the lines developed in 2014, there are now 716 thousand households within the reach of the fibre network, mainly in Warsaw, Lublin, Białystok, Bydgoszcz, Katowice, Łódź, Szczecin, Cracow and Wrocław; in addition, investments started in Sosnowiec, Elbląg, Zielona Góra, Opole, Piotrków Trybunalski, Mysłowice and Gdańsk;
- investments to enhance 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, as well as 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 a single billing system for fixed-line services for B2C 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;
- revitalisation and modernisation of Orange Point of Sale (POS) network;
- research and development.

The break-down of capital expenditures by main categories (excluding telecommunication licences) is presented in the diagram below.



1.3 Comments on the Consolidated Statement of Financial Position

As at 31 December 2015, total equity amounted to PLN 11,977 million and was lower by PLN 421 million than as at 31 December 2014. The change was attributable mainly to the declaration of dividend of PLN 656 million, which was partially offset by consolidated net income of PLN 254 million generated in 2015.

Property, plant, equipment and other intangible assets decreased by PLN 895 million compared to 31 December 2014, mainly as a result of depreciation and amortisation that was higher by PLN 873 million than capital expenditures.

Total assets were lower by PLN 452 million than as at 31 December 2014. The change resulted mainly from the aforementioned decrease of PLN 895 million in property, plant, equipment and other intangible assets, which was offset by an increase of PLN 291 million in trade receivables and an increase of PLN 57 million in deferred tax assets.

Total non-current and current liabilities decreased by PLN 31 million to PLN 9,675 million as at 31 December 2015. The change resulted mainly from the decrease of PLN 185 million in loans from a related party, which was partially offset by an increase of PLN 96 million in deferred income and an increase of PLN 60 million in other liabilities.

1.4 Related Parties Transactions

Please see Note 29 to the IFRS Consolidated Financial Statements about Group's transactions with related entities.

1.5 Description of Significant Agreements

Please see section 1.9.2 below for information on significant agreements concluded by the Group in 2015.

1.6 Subsequent Events

Please see Note 30 to the IFRS Consolidated Financial Statements for information on subsequent events.

1.7 Scope of Consolidation within the Group

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

1.8 Information about the Loan or Borrowing Collaterals or Guarantees Provided by the Issuer or Its Subsidiaries

In the 12 months ended 31 December 2015, 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 OPL S.A.'s shareholders equity. Please see section 1.9.5 below for additional information.

1.9 Management of Financial Resources and Liquidity of the Group

In the reported period, the Group financed its activities mostly by cash from operating activities and loans provided by the Orange SA Group.

In 2015, the Group repaid long-term bank loans totalling PLN 41 million and a revolving loan of PLN 1,960 million provided by Orange SA Group.

The Group benefited from a long-term loan, of which a total of PLN 769 million was used, and a revolving loan, of which a total of PLN 960 million was used, both provided by the Orange SA Group.

As of December 31, 2015, Group's interest-bearing liabilities (before derivatives) totalled PLN 4,159 million, which is a decrease of PLN 222 million compared to December 31, 2014.

The value of liabilities under financial lease and other financial liabilities as of December 31, 2015 amounted to PLN 89 million and was PLN 39 million higher compared to December 31, 2014.

Group's liquidity remained solid, owing to strong cash position, amounting to PLN 266 million at December 31, 2015, and available credit facilities totalling the equivalent of PLN 3,717 million (please see section 1.9.3 below for details).

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 2016.

1.9.1 Bonds

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

1.9.2 Loan and Borrowings Agreements

In 2015, Group companies concluded the following major loan agreements:

On May 13, 2015, Orange Polska S.A. ("Company") concluded a loan agreement with Atlas Services Belgium SA, a wholly-owned subsidiary of Orange SA, which provided the Group with long-term financing of up to EUR 190 million, with the maturity date of May 20, 2021.

1.9.3 Unused Credit Facilities

As of December 31, 2015, the Group had outstanding general-purpose credit facilities amounting to an equivalent of PLN 1,967 million, specifically (by Group companies):

- Orange Polska S.A.: EUR 461 million (revolving loan);
- Orange Retail S.A. (formerly Ramsat S.A.): PLN 1 million (current account overdraft); and
- Orange Real Estate sp. z o.o.: PLN 1 million (current account overdraft).

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

1.9.4 Loan Covenants

Agreements to which Orange Polska S.A. 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 restated EBITDA was 1.1 on December 31, 2015.

1.9.5 Guarantees and Collaterals

In the reported period, 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 Orange Polska promised to cover any claims related to payments under the guarantee. As of December 31, 2015, those guarantees totalled PLN 17.9 million.

On December 29, 2015, Orange Polska S.A. granted a collateral of PLN 2.6 million to Bank Handlowy w Warszawie S.A. to secure a bank guarantee issued upon request of TP Teltech sp. z o.o. as a proper performance bond.

1.9.6 Hedging Transactions

In 2015, the Group continued to minimise its exposure to foreign exchange volatility by concluding and maintaining cross currency swap, cross currency interest rate swap and non-deliverable forward contracts, which at December 31, 2015 covered:

- 99.7% of debt denominated in foreign currencies,
- 47.3% of licence payable for the 2100 MHz spectrum; and
- 73.7% of European Commission proceedings provision.

As a result of hedging, Group's effective currency exposure at December 31, 2015 was as follows:

- USD 3 million of debt;
- EUR 85 million of licence payable for the 2100 MHz spectrum; and
- EUR 38 million of European Commission proceedings provision.

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

In addition, the Group uses interest rate swaps and cross currency interest rate swaps to hedge its interest rate risk. As of December 31, 2015 the Group's proportion between fixed/floating rate debt (after hedging) was 88/12% as compared to 73/27% on December 31, 2014.

1.9.7 Group's Financial Liquidity and Net Financial Debt

At December 31, 2015, Group's quick and current ratios remained fairly flat compared to the end of 2014.

The liquidity ratios for the Group at December 31, 2015 and December 31, 2014, respectively, are presented in the table below.

	December 31, 2015	December 31, 2014
Current ratio Current assets / current liabilities*	0.60	0.59
Quick ratio Total current assets – inventories / current liabilities*	0.54	0.53
Super-quick ratio Total current assets – inventories – receivables / current liabilities*	0.13	0.14

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

Group's net financial debt (after valuation of derivatives) decreased to PLN 3,911 million at December 31, 2015 (from PLN 4,134 million at the end of December 2014).

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

in 2015

2 OPERATING AND FINANCIAL PERFORMANCE OF THE GROUP

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

Selected financial data (PLN million) IFRS	**12 month ended**		**Change 2015/2014**
	December 31, 2015	**December 31, 2014**	
Restated Group's revenue	11,840	12,191	-2.9%
Restated EBITDA	3,521	3,916	-10.1%
Restated EBITDA (as % of revenue)	29.7%	32.1%	-2.4 pp
Consolidated net income	254	535	-52.5%

** For restatements of basic financial data please see Note 3 to the Consolidated Financial Statement.*

Group's restated revenue totalled PLN 11,840 million in 2015 and was down PLN 351 million (2.9%) year-on-year.

The regulatory impact amounted to PLN 52 million and was significantly lower than in 2014. MTRs remained unchanged, while lower roaming rates negatively affected the Group's performance in the first six months of 2015 only.

Excluding regulatory impact, revenue evolution remained under pressure due to a decrease in fixed line revenue (mainly due to structural erosion in fixed line voice and wholesale segments), as well as price pressure that negatively affected mobile voice traffic revenue (mainly in the business market).

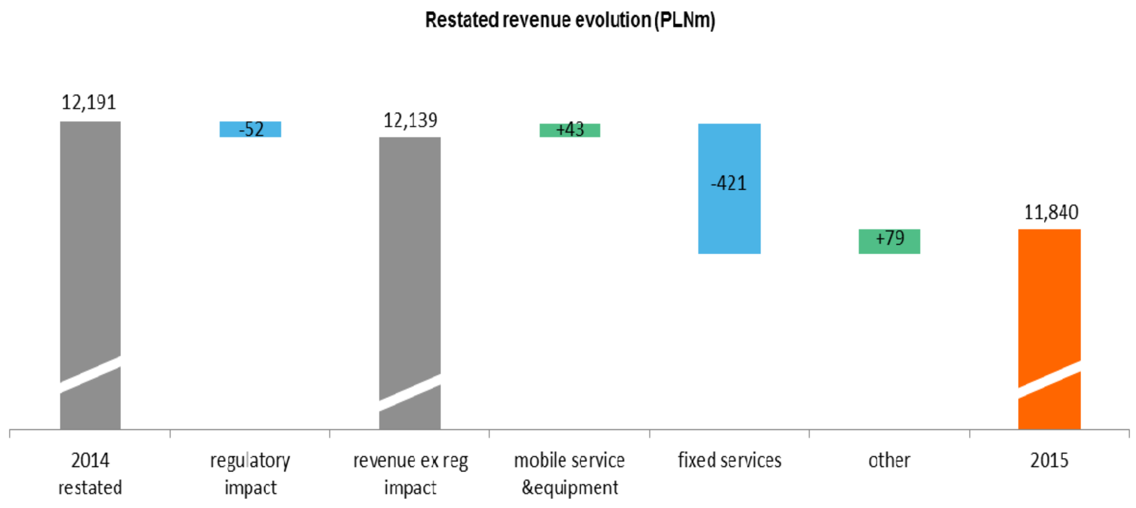
These factors were only partly offset by an increase in equipment sales (by PLN 216 million), higher mobile incoming traffic revenue and higher other revenue. The sharp rise in equipment sales was driven by growing popularity of an instalment scheme in mobile equipment sales, which had been introduced in 2014. Other revenue grew by PLN 80 million. However, this growth was wholly consumed in the first three quarters. In the last quarter, other revenue was lower year-on-year due to the completion of infrastructure projects in the Warmia-Mazuria Region and the Subcarpathian Region.

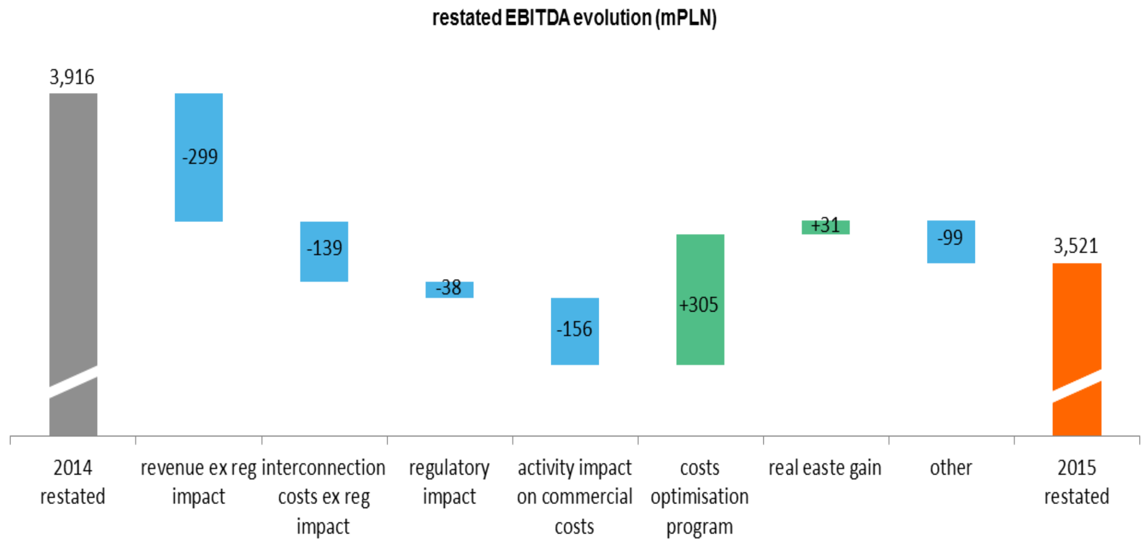
Restated EBITDA margin decreased by 2.4 percentage points year-on-year, while restated EBITDA was PLN 395 million lower than in 2014. The decline can be attributed mainly to the following factors:

- a revenue decrease, as described above;
- a PLN 139 million (excl. regulatory impact) increase in interconnect costs related to growth in traffic, particularly resulting from higher popularity of unlimited mobile tariffs;
- a PLN 156 million increase in direct commercial costs due to the Company's offensive strategy aimed to maximise customer acquisitions, which resulted in a 9% increase in the volume of post-paid mobile services in 2015 (which will be reflected in favourable revenue evolution in subsequent periods).

The aforementioned factors were only partially offset by cost savings (which exceeded PLN 300 million for the second year in a row) and gain on disposal of assets.

In 2015, restated EBIDTA evolution was significantly weaker than in 2014, when the introduction of instalment schemes had a considerable positive impact on EBITDA. Moreover, in 2014 increased popularity of SIM-only offers contributed to a lower increase in commercial costs.





Striving to reverse the negative trends, Orange Polska has focused on the development of bundled services, promotion of its convergent offer as well as further optimisation of its cost base and improvement in the customer satisfaction from Orange services. In addition, revenue trends have been supported by the introduction of instalment sales. In addition, revenue trends have been supported by steady growth in the ICT segment and introduction of additional services (financial services, resale of electricity), which supplement the core telecommunication portfolio. The Group has developed a new action plan for 2016–2018, which provides for intensive investments and marketing efforts that should result in a significant improvement in revenue and EBITDA evolution (please see section 3.2 below for more information).

2.1 Mobile Services

Revenue			
PLN million	**For 12 months ended**		**Change**
	December 31, 2015	**December 31, 2014**	
Mobile services revenue	5,498	5,713	-3.8%
of which voice traffic revenue	2,666	3,064	-13.0%
of which data, messaging, content and M2M	1,923	1,903	1.1%
of which wholesale	909	746	21.8%
Mobile equipment sales	643	427	50.6%

Key performance indicators					
'000, unless indicated otherwise	**December 31, 2015**	**December 31, 2014**	**December 31, 2013**	**Change 2015/2014**	**Change 2014/2013**
Total mobile customers (SIM)	15,906	15,629	15,325	1.8%	2.0%
of which post-paid	8,361	7,679	7,221	8.9%	6.3%
of which pre-paid	7,545	7,950	8,104	-5.1%	-1.9%
SRC (post-paid), PLN	232.2	277.0	403.9	-16.2%	-31.4%
SAC (post-paid), PLN	316.3	380.1	516.4	-16.8%	-26.4%
Monthly blended ARPU, PLN	30.3	31.5	34.5	-3.8%	-8.7%
post-paid	49.2	54,0	59.9	-8.9%	-9.8%
pre-paid	12.7	12.4	13.9	2.4%	-10.8%
Convergent customers*	728	539	286	35.1%	88.5%

* Convergent service a bundle of fixed-line and mobile services

As at the end of 2015, Orange Polska had a mobile customer base of 15.9 million, which is an increase of 277 thousand or almost 2% year-on-year. The increase was driven entirely by the expansion of the post-paid customer base, which grew by 682 thousand or almost 9% year-on-year. This highest growth rate in many years could be attributed to several factors.

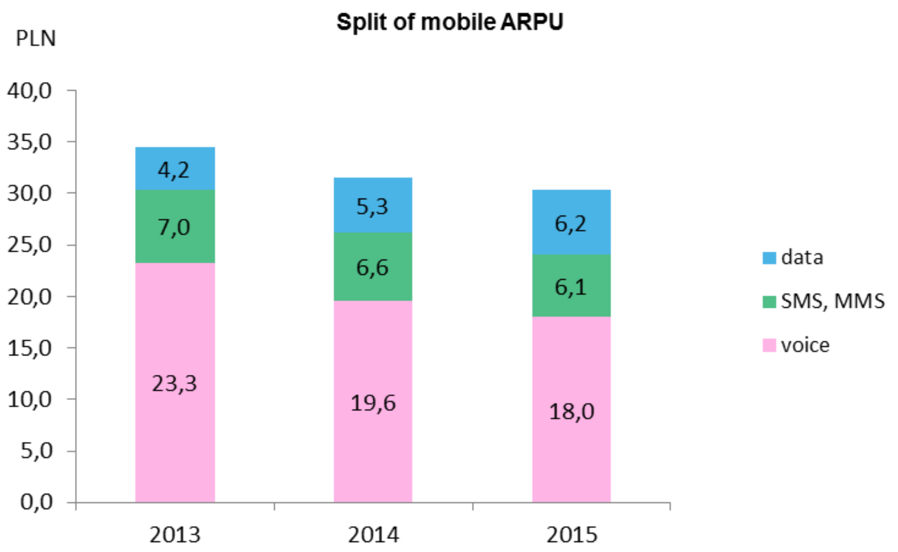
A number of new attractive offers, well fitting the needs of customers on both mass and business markets, were introduced. These offers were supported by intensive marketing activity efforts, especially in the second half of the year. Anti-churn initiatives also proved successful. As a result, quarterly churn rate in the post-paid segment decreased to 3%, a many years' low.

Growing popularity of SIM cards dedicated to mobile broadband was another growth factor, as these are typically activated in the post-paid scheme. The mobile broadband customer base increased by over 30% in 2015. Furthermore, post-paid services became significantly more affordable for customers, who partly migrated to post-paid solutions from the pre-paid segment. This largely explains the decline of the pre-paid customer base.

Blended ARPU amounted to PLN 30.3 in 2015 and was 3.8% down year-on-year. This can be attributed mainly to a decline in voice and SMS ARPU, resulting from price competition in the market, particularly in the business segment, and the growing popularity of unlimited offers. The introduction of instalment sales of terminals in the second quarter of 2014 further contributed to a decrease in ARPU, as in this scheme a portion of revenue corresponding to the handset is reported as revenue from equipment sales rather than revenue from services (which is the basis for ARPU calculation). These negative factors were only partially offset by an increase in data ARPU, which grew 18% (year-on-year) in 2015. The increase resulted from vast demand for data transmission, as mobile data traffic growth per customer greatly exceeded 100%. The share of data ARPU in aggregate ARPU increased from 17% in 2014 to 20% in 2015.

As for ARPU decline, in 2015 it was significantly lower than in 2014, when ARPU was down almost 9%. This resulted mainly from a considerable improvement in the pre-paid segment. Pre-paid ARPU was up over 2% in 2015, as compared to an 11% decline a year earlier. Pre-paid ARPU gained from an increase in incoming traffic and was subjected to lower price pressure as compared to post-paid services (mainly owing to the fact that pre-paid is not affected by competition in the business market).

Customer acquisition and retention costs (SAC, SRC) fell for the second year in a row. In 2015, it was attributable mainly to further rapid growth in share of instalment schemes in the overall sales structure.



2.1.1 Market and Competition

The mobile voice market is in a saturation phase in terms of the number of users. The number of SIM cards decreased by -2.4% compared to December 31, 2014, driving the mobile penetration rate (among population) to 146.2% at the end of December 2015.

According to Orange Polska's own estimates, between the end of December 2014 and the end of December 2015 the four leading operators maintained their aggregate market share of 98%. Orange Polska's estimated share in the mobile market was 28.4% by volume at the end of 2015.

Due to differences in methodology, such as different definitions of an active prepaid SIM card or different methods of customer acquisition and retention (instalment sales, subsidies), positioning of the data sets presented by various operators against one another is becoming increasingly difficult.

In 2015, Orange Polska kept the second position in terms of number portability market share. Numbers transferred to Orange Polska totalled 420 thousand, which corresponded to a market share of 25%. Mobile number portability balance was -35 thousand in the January-December period, which was a slight improvement over 2014 (-47 thousand). Notably, the balance was positive for post-paid services alone. It was +116 thousand, increasing for the second year in a row.

2.1.2 Convergent Offer

One of the key strategic objectives of Orange Polska is to be the convergence leader, providing mobile and fixed line service bundles. Through a system of discounts encouraging customers to buy additional services, convergence increases customer loyalty and reduces churn, as churn rate is much lower than among single service users. It also contributes to revenue growth and increased efficiency of IT and marketing spending.

In 2015, Orange Polska consistently expanded its convergent offer, Orange Open (i.e. discount for customers who use multiple Orange mobile and fixed-line services), as well as Open Smart Plan offer (mobile tariff plans dedicated to users of fixed-line services). At the end of December 2015, Orange Open and Open Smart Plan customer base reached 728 thousand, which is an increase of 189 thousand (or 35%) compared to the end of 2014. The total number of services sold in the convergence scheme exceeded 3 million. On average, each customer uses more than four Orange services. In the mass market, Orange Polska is the only operator to offer convergent services, which is definitely a competitive advantage contributing to the market success.

The major marketing initiatives in the mass market launched in 2015 included:

- Development of pre-defined bundles of mobile and home services with Orange Open discount, which are based on the 'Family', 'Free', 'Comfortable' and 'Convenient' packages. The packages were developed on the basis of the most frequently chosen options. However, the packages do not exclude other combinations of services, to which Orange Open discounts apply.
- Introduction, for the first time, of mobile tariff plans dedicated exclusively to users of fixed-line services at very attractive prices (Open Smart Plans). In November 2015, the Open Smart Plan promotion was refreshed to include new mobile plans offering unlimited calls to all networks, discounts of up to PLN 50 per month, additional data pools and attractive prices of terminals. A total of five plans were introduced, from LTE Open Smart Plan for PLN 29.99 to a family offer with 4 SIM cards and a handset: 'Common' LTE Open Smart Plan for PLN 119.99.

- The Orange Open eligibility threshold for mobile tariff plans was reduced from PLN 39 to PLN 29 and all fixed voice plans became eligible for the promotion. This is to increase the loyalty of this group of customers.

Simultaneously, we expanded the convergent offer to business customers. In 2015, discounts in the *Orange Open for Business* offer were significantly increased. As a result, for combining several mobile services (e.g. voice and broadband) and fixed-line products, customers can now gain discounts of up to PLN 135 (net of VAT). The existing customers are also eligible for the offer.

According to a report by the European Commission ("Implementation of the EU regulatory framework for electronic communication – 2015"), bundle service penetration in Poland remains relatively low compared to West European benchmarks. We expect that in the next few years the demand for convergent offers will steadily grow in Poland as households recognise benefits of buying a number of services from one operator. Therefore, our convergent offer will be further enhanced and promoted as one of the pillars of the Company's strategy. It will be a very important element in ensuring the success of our broadband service offer in the fibre technology.

2.1.3 Mobile Voice and Data Services

In 2015, we carried out intensive marketing activities with respect to mobile voice and data services, which resulted in an increase of almost 9%, a many years high, in mobile customers in the post-paid segment.

In 2015, the key trends related to mass market offers were as follows:

- Portfolio simplification and reduction in the number of tariff plans;
- An offer featuring unlimited calls to all mobile networks and unlimited SMSs became the key tool in customer acquisition and retention;
- A data package is now an indispensable element of any offer and the data pool volume is one of the key competitive distinguishers;
- Competition based on simple price cuts is gradually replaced by a trend of adding new services (e.g. roaming) or larger data pools for the same price;
- Multi-SIM offers are growing in popularity;
- A strong offer of modern smartphones remains very important, especially in the context of the LTE network development;
- The developments in the mobile broadband segment included growing data pools offered for the same price as well as promotions offering unlimited data transfer on LTE networks.

Our offers launched in 2015 reflected the aforementioned trends. Currently, all our voice offers (except for the Nju Mobile brand and Zetaphone hybrid offer) include a data pool. In a process of portfolio simplification, we decided to discontinue Mix tariffs in 2015.

A family offer introduced in the second half of the year was the biggest innovation. As standard in this offer, pools can be shared between three SIM cards for a single subscription fee. Customers can also use one card dedicated exclusively to mobile broadband access. Furthermore, for an extra fee up to five additional SIM cards can be purchased, which can then share the pools of unlimited calls and SMSs embedded in the main card. The new offer generated much interest in the market and performed very well in terms of sales, especially in the fourth quarter of 2015.

The pre-paid portfolio was expanded to include unlimited voice calls to all networks. The natural next step in the development of this offer was the introduction of integrated products combining unlimited calls and SMSs with extra value provided by a data pool embedded in the subscription fee. As a result, we significantly enhanced the attractiveness of our pre-paid offer, which considerably reduced churn in the second half of 2015.

The key development in the mobile broadband segment was the introduction of the *LTE Internet for Home* offer as the alternative to fixed line broadband. Within the home zone, customers can access Internet without any data limits; in addition, they have large GB pools for using outside home. *LTE Internet for Home* includes two tariff plans for PLN 69.90 and 89.90 respectively, offering unlimited Internet access at maximum speed in the home zone plus pools of 20 and 40 GB respectively for data transfer outside the home zone.

Offers to Business Customers

The introduction of the *New Orange Biz* offer of four new tariff plans in April was the most important development in the mobile business portfolio in 2015. For the first time, each plan provides for an LTE/3G data pool embedded in the subscription fee. In addition, depending on the tariff plan chosen, customers can get: unlimited calls, SMSs and MMSs, pool of minutes for roaming calls in the European Union, pool of MB for data transmission anywhere in the world and other services. In parallel to the new voice offer, the *LTE Internet for Business* offer, with four tariff plans to choose from, was introduced in June. In the high-end plan, the data transmission speed is never reduced. The portfolio structure was considerably simplified and enhanced, which contributed to very good performance of the business segment in terms of customer acquisitions in 2015.

2.2 Fixed Line Services and Other Revenue

Revenue			
PLN million	**For 12 months ended**		**Change**
	December 31, 2015	**December 31, 2014**	
Fixed line revenue	5,083	5,520	-7.9%
of which voice	1,746	1,983	-12.0%
of which broadband, TV and VoIP	1,601	1,663	-3.7%
of which enterprise solutions and networks	916	933	-1.8%
of which wholesale	820	941	-12.9%
Other revenue	616	552	11.6%

Key performance indicators					
'000, unless indicated otherwise	**December 31, 2015**	**December 31, 2014**	**December 31, 2013**	**Change 2015/2014**	**Change 2014/2013**
Fixed voice lines (retail: PSTN and VoIP)	4,194	4,512	4,741	-7.0%	-4.8%
Convergent customers*	728	539	286	35.1%	88.5%
3P customers (broadband, TV and VoIP)	507	423	351	19.9%	20.5%
Fixed broadband accesses (retail)	2,105	2,241	2,301	-6.1%	-2.6%
TV customers	787	748	707	5.2%	5.8%
Retail fixed voice ARPU, in PLN	40.0	41.4	44.2	-3.4%	-6.3%
Broadband, TV and VoIP ARPU, in PLN	61.2	60.4	60.3	1.3%	0.2%

* Convergent service a bundle of fixed-line and mobile services

In 2015, fixed-line revenue remained under pressure from both other market players and mobile technologies. Net decrease of base of fixed voice customers accelerated to 318 thousand in 2015 as compared to 229 thousand in 2014. This can be attributed to several factors. The voice customer base was negatively affected by pressure on broadband customers, as they often discontinue also voice service when they leave. Furthermore, growing attractiveness of mobile services with unlimited calls to all networks continues to discourage fixed line customers. In addition, 2014 saw a positive effect of customers returning from competitive offers of alternative operators. However, all these factors were partially offset by much lower decline in fixed voice ARPU. As a result, fixed-line revenue erosion slightly slowed down as compared to 2014.
The negative trends in fixed line voice affected also the wholesale segment. A rate of decline in wholesale lines, in percent, was comparable to that in 2014.

As for broadband, TV and VoIP revenue, the number of services declined, but the customer mix improved, which positively affected ARPU. Owing to excellent sales of high-speed broadband and a major decline in the CDMA technology, which is no longer competitive, a share of VDSL and FTTH customers in the entire customer base grew to 15% (from 8% at the end of 2014). The total number of lines decreased as a result of competition from both CATV operators and mobile technologies. Customers who use fast broadband access are more keen to purchase additional services. The 3P (Internet, TV and VoIP) customer base increased by almost 20% year-on-year and accounted for over 24% of the entire broadband customer base at the end of December 2015. As a result, broadband ARPU slightly improved year-on-year despite significant price cuts in June.

There was a significant increase in other revenue in 2015 mainly as a result of implementation of broadband infrastructure projects and activity in the ICT area. However, this growth was wholly consumed in the first three quarters. In the last quarter, other revenue was lower year-on-year due to the completion of infrastructure projects in the Warmia-Mazuria Region and the Subcarpathian Region (which had been implemented by Orange Polska's subsidiary, TP Teltech).

2.2.1 Market and Competition

Fixed Line Voice Market

The Group estimates that the fixed line penetration rate was at 21.0% of Poland's population at the end of December 2015, as compared to 22.0% at the end of December 2014. 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 (WLR and LLU).

Fixed Broadband Market

According to Group's estimates, the total number of fixed broadband access lines at the end of December 2015 dropped by 0,5% compared to the end of 2014. The penetration of fixed broadband services in Poland's population stood at 18.8% at the end of December 2015, which is a decline compared to the end of 2014. A major factor affecting the market evolution is the popularisation of mobile broadband access, which, depending on the price option, may be either substitute of or complementary to fixed broadband access. Competition from mobile broadband intensified in 2015 as a result of the development of LTE networks by all mobile operators and high marketing activity related to the relevant offers. This factor contributed to a higher churn rate among Orange Polska's fixed broadband customers.

Competitive pressure from cable television (CATV) operators has remained strong and their total market share has been steadily growing. It is estimated at 35.3% by volume or 33.4% by value as of the end of 2015, as compared to 33.8% by volume and 31.9% by value as of the end of 2014. The increase in CATV market share results from popularity of bundled offers, which may be effectively sold by CATV operators due to their strong position on the television market. It is also a result of growth of the broadband speeds offered by CATV operators, without raising prices, which contributes to an increase in average line speeds and raises customers' expectations in this respect.

Alternative operators, primarily Netia, still use the wholesale BSA and LLU based services. The number of BSA-based lines at the end of December 2015 declined by 36 thousand compared to the end of December 2014, while the number of LLU-based lines at the end of December 2015 totalled 131 thousand as compared to 152 thousand at the end of December 2014.

2.2.2 Fixed Line Voice Services

Net decrease of base of fixed voice customers accelerated to 318 thousand in 2015 as compared to 229 thousand in 2014. This can be attributed to several factors. The voice customer base was negatively affected by pressure on broadband customers, as they often discontinue also voice service when they leave. Furthermore, growing attractiveness of mobile services with unlimited calls to all networks continues to discourage fixed line customers. In addition, 2014 saw a positive effect of customers returning from competitive offers of alternative operators. The evolution of fixed voice customer base is also negatively affected by demographic factors.

The voice market saw deregulation in 2015. The relevant markets 3 to 6 were deregulated. The markets 3 (market for provision of national telephone services on a fixed public telephone network to consumers) and 4 (market for provision of international telephone services on a fixed public telephone network to consumers) are of particular relevance to the fixed voice offer. As a result of the aforementioned changes, the voice offer is no longer subject to regulation and may be developed according to the operator's own business model. However, connection (subscription) markets are much more important with respect to the fixed voice offer, and these remain regulated.

In 2015, Orange Polska continued steady efforts to contain the erosion of its fixed-line voice subscriber base. Customers were further loyalised mainly through 'Adjusted Home Plans' with agreements for a specified time. Another step in building customer loyalty was a reduction of the Orange Open eligibility threshold from PLN 39 to PLN 29. As a result, all fixed voice plans became eligible for the promotion.

According to Orange Polska's internal estimates, the Group had the following market shares:

Fixed voice market share in December 2015

	4Q 2015 (estimated)	4Q 2014	Change
Retail local access[1]	52.1%	53.3%	-1.2pp

2.2.3 Fixed Line Data Services

Fixed broadband market – key performance indicators:

	Dec 31, 2015	Dec 31, 2014
Market penetration rate in Poland – broadband lines (in total population)	18.8%	18.9%
Total number of broadband lines in Poland ('000)	7,237	7,275
Market share of Orange Polska	29.3%	30.9%

2015 saw a decline in Orange Polska's fixed broadband sales. However, the situation differed in the deregulated areas and elsewhere. Sales of *Neostrada* and *Neostrada* bundles grew (year-on-year) in the areas where the market was deregulated in the fourth quarter of 2014, and a share of high-speed options and

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

Neostrada plus TV bundles in the total sales increased owing to a strategy of more flat price structure as well as gadget offers.

In consideration of the success of the new offer in the deregulated areas and intensified competitive pressure, Orange Polska decided to introduce uniform prices nationwide in June 2015. Furthermore, a single price for three speed options (up to 10, 20 and 80 Mbps) was introduced. Furthermore, as compared to the previous leading promotions *Neostrada* prices were reduced by PLN 10 for the option of up to 10 Mbps or PLN 20 for higher-speed options.

In the second half of 2015, sales of Orange Polska's fixed broadband services increased by about 18% as compared to sales in the first six months of the year, mainly owing to price cuts in the regulated areas, which cover approximately 2/3 of Polish households.

Orange Polska continued to focus on promoting high speed broadband access. In addition to continuing sales of VDSL, the customer base of which exceeded 290 thousand, in 2015 the Company commenced investments in the FTTH network. This reached over 700 thousand households by the end of 2015. In the FTTH roll-out programme, investments were carried out in Warsaw, Lublin, Białystok, Bydgoszcz, Katowice, Łódź, Szczecin, Wrocław, Gdańsk, Elbląg, Cracow, Mysłowice, Opole, Piotrków Trybunalski, Sosnowiec and Zielona Góra. The nationwide promotion of the FTTH service under the Supernova brand was launched on October 1. By the end of 2015, the FTTH customer base had reached 17 thousand. Through investments in FTTH lines Orange Polska intends to regain its position in the high-speed broadband market in big cities, which is currently dominated by CATV operators.

3 OUTLOOK FOR THE DEVELOPMENT OF ORANGE POLSKA

3.1 Market Outlook

According to Group's estimates, the value of Poland's telecommunication market from end users decreased by 2.9% in 2015 (year-on-year). At the same time, the wholesale mobile market expanded, particularly with respect to services provided to operators for the purpose of creating services to end users. Re-evaluation of the fixed line market continued. It was accompanied by a decline in the mobile retail market due to a decrease in average prices paid by customers. In the effect the total value of Poland's telecommunications services market (both in terms of retail and wholesale revenue) slightly grew in 2015 by 0.7% (year-on-year).

Mobile operators continue to offer voice services with unlimited minutes both in their mobile and fixed-line portfolio. This contributes to a decline of the market value, particularly in the mobile segment. On the other hand growing popularity of smartphones, tablets and other devices that use mobile broadband access has a positive impact on the development of the telecom market, particularly mobile data services.
Fixed to mobile substitution continues to be an important adverse factor on the market. In previous years, this trend affected mainly fixed-line voice services; now, it is beginning to affect the fixed broadband segment, as well. Popularisation of LTE, depending on price options, could potentially affect the substitute role of mobile services to fixed line services or the complementarity of both services.

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

Poland is currently going through a transformation on the fixed line Internet market towards a higher share of very high speed broadband in total broadband access. Having a product with very high connection speed in their portfolio is crucial for a company to stay competitive and to face challenges of growing needs of customers. After an extensive FTTH pilot conducted in 2014, Orange Polska commenced considerable investments in the fibre-optic technology in 2015.

There was a number of major ownership changes in the telecommunication market in 2015. In the wake of the acquisition of GTS Central Europe by Deutsche Telekom (owner of T-Mobile Polska) and approval of the transaction by the European Commission, GTS Poland's results have been consolidated with those of T-Mobile Polska since Q1 2015. In order to strengthen its position on the B2B market Netia acquired a 100% stake in TK Telekom of PLN 222 mln from PKP company.

Furthermore, new business partnerships were formed, which combine telecommunication services with other sectors of the economy. Operators, including Orange Polska, started to sell banking services or, in conjunction with electricity providers, offer power supply to its customers. One of mobile operators is also considering gas sales. These processes are expected to continue in the future.

3.2 Orange Polska's Medium Term Action Plan

In February 2016, Orange Polska announced its new strategic plan for the years 2016–2018. The plan provides for intensive investments in customer acquisition and ensuring best mobile and fixed connectivity in order to build long-term value and reverse the negative trends in market share, revenue and income evolution.

The new action plan does not involve any far-reaching changes as compared to the priorities set in the previous one, with customer, network investments, convergence and agility remaining at the top of the list. A much emphasised change, however, is the intensity of our actions, for which we see the following reasons.

First, in our opinion, the market offers favourable conditions for investments. The macroeconomic outlook for Poland is positive, as economic growth and falling unemployment should lead to an increase in the purchasing power of both consumers and businesses. Also the regulatory environment provides favourable opportunities for investments. The telecom market, though still highly competitive, is more stable than it was a few years ago. Competition is becoming more diverse rather than limited to simple price offers.

Second, we notice rapidly evolving customer needs. The continued digitisation of the society generates a vast increase in demand for data transfer. This is particularly evident on mobile networks, where consumers want to stay on-line anytime and anywhere. Fixed line networks have also seen rapid growth in data consumption with a shift in the traffic structure generating demand for high speeds. According to Cisco, the average growth in mobile traffic in Poland will exceed 60% per annum to 2019. As for fixed line traffic, Analysys Mason forecasts its growth by almost 30% each year over the same period. On the other hand, we notice that customers tend to expect something more than a cheap offer. They increasingly appreciate offer simplicity and customer experience. Households increasingly recognise benefits from buying multiple services from a single supplier. We believe that the demand for convergent offers will grow at an even faster rate than hitherto.

Third, the frequencies from the 800 MHz spectrum have been assigned. The auction completion and frequency assignment significantly increase the market transparency, which has been disturbed for this reason for the last few years. Orange Polska has turned out the winner, considerably improving its holdings in terms of mobile frequencies. It has had a major impact on both technological and commercial aspects of our strategy. Furthermore, we have been enriched by experience of the first year of our extensive investments in the fibre network.

Through intensive network investments and aggressive marketing expenditure on customer acquisition we want to improve our market shares and lay the foundation for future growth. We expect that the households which are our customers will start to use much more of our services, contributing to further rapid growth in our convergent customer base.

Our strategy related to ensuring best connectivity and undertaking commercial initiatives will take into account the specifics of local markets, so as to ensure the optimum resource allocation. The competitive environment, our market shares in various market segments, conditions for network development and customer needs are all different in big cities, medium to small towns and rural areas. Our actions will account for these differences, while convergence will remain the common denominator for our efforts. In big cities, we will focus on the development of the FTTH coverage and recovery of market shares in fixed broadband by capitalising on our excellent position in the mobile market, whereas in rural areas mobile technologies, supplemented by fixed ones, will be the primary broadband access solution. Our main challenge will be to defend the fixed broadband customer base, particularly by cross-sales of mobile services.

With respect to the fibre network roll-out, our strategic plan provides for connecting up to 1 million households annually to 2018. In 2016–2018, we intend to spend over PLN 2 billion on this project, the vast majority of which will be invested in big cities. As a result, up to 3.5 million customers should be within the reach of our FTTH services by the end of 2018. This plan will be monitored on a current basis for achievement of our commercial objectives.

In terms of finance, our new strategic plan is to bring an increase in consolidated revenue and EBITDA in 2018. The key factors in reversing the negative trends will be improvements in both our mobile and fixed line arms. We expect further significant growth in mobile customer base and further ARPU improvement, driven by rapid demand for data transfer, while EBITDA will be supported by revenue improvement, operating leverage and further cost optimisation initiatives.

Our key commitments, grouped into five categories, are presented in the table below.

leadership in connectivity to guarantee best connectivity, both in mobile and fixed, regardless of geography of customers	**our commitments** – to connect up to 2.8 million of households within the reach of our FTTH network in 2016–2018 – to further develop our LTE coverage based on the newly purchased spectrum and provide best connectivity experience on LTE – to increase LTE coverage in population to more than 99% in 2017 – to improve volume market share statistics in fixed broadband and mobile
leadership in convergence to offer a full palette of services, enriched by non-telco products, available for households in all geographies	**our commitments** – to strengthen our position of unique convergent player in Poland – to adjust our intensive commercial strategy to the specifics of different geographical zones – to have >1 million customers of our convergent offers by 2018 – number of households using 3 or more services to reach ca. 45% penetration in our household customer base in 2018
best customer experience to put our customers at the heart of everything we do	**our commitments** – to improve customer experience by offering attractive products and services, accompanied by improvements in customer service and sales channels, both traditional and on-line – to be innovative and flexible in responding to our competitors' moves – to be among top 2 major operators for Net Promoter Score
agile and efficient company to be an agile and flexible company with a proven ability to find efficiency	**our commitments** – constant transformation of indirect costs – process optimisation and automation, IT spending optimisation as well as facilitation of commercial initiatives, especially in convergence – Social Plan signed with trade unions, enabling up to 2,050 voluntary leaves in 2016–2017 – further optimisation of real estate portfolio
financial outlook to build long term-value for the company and all stakeholders, that will allow us to return to a growth path.	**our commitments** – revenues back to growth in 2018 following success of FTTH and growth in mobile customers – EBITDA back to growth in 2018, driven by revenues improvement, operating leverage and business optimisation

	– in 2016–2018 our net debt-to-restated EBITDA ratio will not be higher than 2.2 – FTTH total capex in 2016–2018 at the level of ca PLN 2.2 bn – ex-FTTH capex down to the level of PLN 1.3–1.4 bn in 2018

3.3 Orange Polska's Strengths

Orange Polska operates in an increasingly challenging market. Due to fierce competition and the market structure, actions taken by the Group need to be determined and consistent. The ability to adapt to the existing conditions and respond to new market trends results from a number of Orange Polska's strengths, the most important of which are as follows:

- Market's broadest portfolio of mobile and fixed line services, including the possibility to render convergent solutions;
- Cost-effective bundles of telecommunication services;
- Market's broadest bundle of services within a single offer (Orange Open);
- Service portfolio expansion to include sales of electric energy and banking services;
- Broadly recognised Orange brand in the telecommunications services market;
- Innovative B-brand mobile offer (under the nju.mobile brand);
- Largest coverage of telecommunication network in Poland;
- The ability to build and develop strategic alliances, e.g. with T-Mobile (see section 4.3 below), *nc+* and mBank;
- Expertise in comprehensive ICT infrastructure management (gained through Integrated Solutions);
- High recognition of corporate social responsibility standards (inclusion in the 2015 RESPECT Index of WSE-listed companies; for three years, top positions in the Ranking of Responsible Companies developed by the Responsible Business Forum, *Gazeta Prawna* weekly and Leona Koźmiński Academy; CSR Golden Leaf award among the companies from the Top 500 List of *Polityka* magazine; EU 2015 Disability Matters award in the Workplace Area category granted by Springboard Consulting, Crystal Statue of the HR Management Leader and Professional HRM Certificate in a competition held by the Institute of Labour and Social Studies), including projects carried out by the Orange Polska Foundation and efforts to ensure web security for minors;
- Poland's largest sales network, enabling professional customer service during and after sales; simultaneously, modern distribution channels, particularly on-line, are being developed;
- Active participation in building the information society through various initiatives, including development of the telecommunication infrastructure in the areas at risk of digital exclusion;
- Broad international co-operation and access to know-how of Orange Polska's partners from the Orange Group, including use of the Buy-In company (a joint venture of Orange Group and Deutsche Telekom) as well as close co-operation and R&D experience sharing within the Orange Labs network;
- One of Poland's top employers in 2015 according to Top Employers Institute's study (awarded with prestigious Top Employer Polska 2015 and Top Employer Europe 2015 certificates) and one of the most attractive companies as a potential employer in the telecommunication industry for students (according to the 'Your Perspective' Programme ranking list);
- Experienced workforce and well-developed work assessment and competence development system.

Owing to these strengths, Orange Polska is the leading provider of an integrated offer and value-added services for telecommunication products nationwide. The Group is able to provide its customers with offers which match their needs, while effectively responding to actions of its rivals.

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 Announcement of the Group's new Medium Term Action Plan

In February 2016, Orange Polska announced its new strategic plan for the years 2016–2018. The plan provides for intensive investments in customer acquisition and ensuring best mobile and fixed connectivity in order to build long-term value and reverse the negative trends in market share, revenue and income evolution. The new plan has been built around four major ambitions: to be the market leader in connectivity, convergence and customer experience and to be an agile and flexible company.

The plan provides for vast network investments and intensive marketing expenditure on customer acquisition. In our opinion, the widely understood market conditions, evolution of customer needs and completion of the auction for mobile frequencies have created favourable environment for a market offensive. We want to improve our market shares and lay the foundation for future growth. We expect that the households which are our customers will start to use much more of our services, contributing to further rapid growth in our convergent customer base.

In terms of finance, our new strategic plan is to bring an increase in consolidated revenue and EBITDA in 2018. The key factors in reversing the negative trends will be improvements in both our mobile and fixed line arms. We expect further significant growth in mobile customer base and further ARPU improvement, driven by rapid demand for data transfer, while EBITDA will be supported by revenue improvement, operating leverage and further cost optimisation initiatives.

4.2 4G Development and Frequency Auction

The most important development related to frequency assignment in 2015 was an auction for frequencies from the 800 MHz and 2600 MHz bands intended for the further increase of coverage and capacity of the 4G network, which was launched on February 10, 2015 and ended in October 2015.

The auction covered 5 blocks in the 800 MHz spectrum (a total of 2×25 MHz) and 14 blocks in the 2600 MHz spectrum (a total of 2×70 MHz). In addition to Orange Polska, five other players, decided to participate in the auction process. These were the other three mobile infrastructure-based operators: T-Mobile, Polkomtel and P4, as well as a subsidiary of Emitel and NetNet.

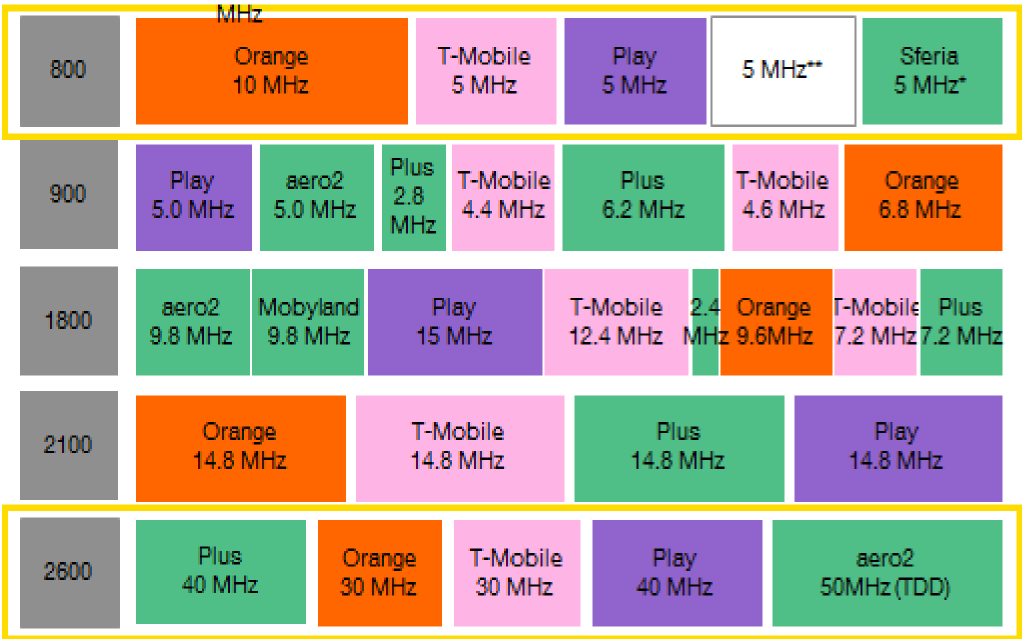
In the auction Orange Polska won two blocks in the 800 MHz spectrum (a total of 2×10 MHz) and three blocks in the 2600 MHz spectrum (a total of 2×15 MHz). The Company offered a total of PLN 3.168 billion for the above-mentioned blocks. The final prices in the Polish auction for this spectrum are among the highest in Europe. However, the prices offered by Orange Polska are lower than the average prices to be paid by competitors.

On January 25, 2016, Orange Polska received decisions in which the President of the UKE has granted Orange Polska the frequencies. The frequency licenses are valid for 15 years from the date of receipt of the decision (the decision is bearing the clause of immediate execution). Orange Polska has paid the required amounts.

President of UKE received the motion from NetNet withdrawing company's request for spectrum reservation. As the result the ultimate shape of 800 MHz spectrum allocation remains unknown as of 15 February 2016.

In 2015, all Polish operators continued to roll-out their data networks using the LTE technology. Until March 2015, the LTE services were commercially provided in Poland mainly using the 1800 MHz spectrum. Then, member companies of the Midas Group concluded agreements with Sferia (holding a licence for one frequency block from the digital dividend), under which Polkomtel launched LTE services in the 800 MHz band. Orange Polska started LTE services using 800 MHz and 2600 MHz frequencies on February 3rd 2016. In 2015 Orange Polska increased its LTE network coverage from 60.9% to 83.7%.

Spectrum map



* As the result of agreement between company and government
** Block allocated to NetNet, which company has withdrawn from

4.3 Network Infrastructure and Frequency Sharing Agreement

Orange Polska continued its RAN sharing co-operation with T-Mobile, which started in 2011. As a result of this co-operation, the Orange Polska's customers can use services provided via about 10,300 base stations, including about 5,000 sites of the Company's partner.

In 2015, Orange Polska focused on increasing its LTE service coverage, using the 1800 MHz spectrum. By the end of 2015, LTE services were provided via about 6,600 base stations, which provided coverage of 83.7% of Poland's population. Furthermore, the channel for provision of LTE services was expanded from 10 to 15 MHz in order to improve customer experience (increase the maximum capacity), so as to match the service quality offered by other players.

4.4 Competition in the Mobile Market

As the mobile market has entered the saturation phase, there are two areas which have the key importance in the activity of infrastructure-based operators, namely (i) customer base increase by winning customers from rival operators in the number portability scheme, and (ii) wholesale revenues.

As a result of aggressive marketing and pricing policy, Play continued to have the biggest, though falling, share in number portability in 2015.

A particularly important development in the wholesale market is further development of infrastructure by companies from the Midas Group, which is controlled by Zygmunt Solorz-Żak. The constructed base stations are subsequently used for providing wholesale data services to other member companies controlled by the businessman, such as Polkomtel, Cyfrowy Polsat and related company Sferia.

4.5 Co-operation with ITI Neovision

Orange Polska continues to co-operate with ITI Neovision in the distribution of its basic TV offering as well as pay-TV packages corresponding to the *nc+* platform offer. In addition to the distribution of *nc+* packages together with the *Neostrada* + TV bundled offer, the companies extended their co-operation to include other product lines: Orange Free Net mobile broadband access as well as *Smart Plan Hello* and *Smart Plan Multi* mobile tariff plans. All the offers aim at strengthening up-selling potential by reciprocal use of customer bases as well as cost synergies.

An extensive TV offer is a very important factor of competitiveness on the fixed broadband market. Its significance is growing in the process of development of services in fiber optic technology.

4.6 Group's Activity in the Area of Information and Communication Technology (ICT) Services

The Group delivers ICT products and services through its own traditional sales channels and through Integrated Solutions ("IS"), a wholly-owned subsidiary of the Group established in June 2011. The Group's strategy provides for the development of the ICT portfolio in both the service-based and project-based model as well as gradual expansion into new market segments. To implement its strategy in the ICT area, the Group uses its infrastructural and technological resources, which enable it to reap the benefits of the economies of scale and offer value to customers in the form of complete and safe service.

The ICT services are also provided in areas such as cloud services for contact center agents and office telephony, as well as IP telephony with additional functionalities, such as Jabber communicator, IVR system, teleconference and tariffing system and call recording.

4.7 Machine to Machine (M2M)

M2M is one of the key growth areas for the Group. This is confirmed by market research studies, which indicate Orange Polska as the leader in the M2M market in Poland. According to PBS data, Orange Polska's position remains stable.

Customers appreciate the flexibility of the M2M portfolio, which is tailored to their individual needs depending on the nature of their activity.

In the fourth quarter of 2015, a service structure dedicated to M2M customers was launched. In this dedicated service, M2M customers are offered customer care on a 24/7/365 basis.

The M2M technology is used in 'Smart City' projects, particularly related to smart metering, smart grid or remote street lighting. Smart metering projects involve the implementation of systems for remote monitoring of water meters. Such systems have already been implemented in Środa Wielkopolska, Józefów (near Otwock) and Mikołów, while a remote lighting control system has been implemented in Gdańsk. Such investments aim mainly at generating savings for municipalities or water supply companies.

4.8 CATV Operators

In 2015, cable television (CATV) operators, which hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, continued a strategy of strengthening their market position.

However, the currently used marketing tools, such as offer enhancement, addition of new telecommunication services to bundles and introduction of comprehensive household solutions (including insurance and electricity), concentrated in urban areas where CATV operators were present hitherto, are no longer sufficient to attain their goals.

Due to market saturation in big cities, CATV operators need to seek new growth opportunities in smaller towns. This is effected through both direct infrastructure investments (such as UPC's greenfield investments in Płock, Rzeszów or Tarnów) and acquisitions of smaller players, which are declared by all major CATV operators (UPC, Multimedia Polska and Vectra).

The expansion of CATV operators in local markets, where Orange Polska has had an established position so far, poses a potential risk for the Group. The situation in big cities shows that it is difficult for Orange Polska to compete with CATV operators' comprehensive offer on the basis of its traditional copper infrastructure. Therefore, the Group's FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

It is also worth mentioning that CATV operators have communicated the need to provide fully functional and attractive mobile offer to their customers. This may lead to either a strategic alliance or merger of a CATV operator and a mobile operator. Such a development would 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.

As growing customisation of content (particularly related to entertainment) and expansion of services on demand (such as IPTV, HD channel portfolio, music and video-on-demand) generate increasing demand for high-speed broadband lines, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines. These investments also aim at acquiring customers from the business segment, which has been a growing source of revenue for cable televisions.

4.9 Infrastructure Development

In 2015 the Company commenced massive development of FTTH lines. The FTTH network had reached over 700 thousand households by the end of 2015. By the end of 2015, Orange Polska had over 4.7 million households within reach of the VDSL technology. At the same time, migration of the aggregation network from ATM to the IP standard was continued. As a result, at the end of 2015, over 75% of Neostrada customers and 60% of iDSL customers were handled using access nodes connected via the IP aggregation network.

A two-year project of development of a new convergent backbone IP network, based exclusively on 100 Gbps links, was launched in 2015. As a result of a tender procedure for the new network and the application of new technologies, the costs of maintenance and future expansions were significantly reduced. In addition, a process of migration of international lines to the new backbone network based on 100 Gbps was completed.

As for content management, the Company developed the Content PoP network and commenced the roll-out of the Content Delivery Network (CDN) of a new generation. One of Orange Polska's largest customers is Google with its YouTube servers. The content network considerably improves end user experience, while generating additional revenue and reducing development costs.
In 2015, the Evolved Packet Core (EPC) network was expanded to handle the growing mobile data traffic, which increased by about 120% over 2014.

In addition, the migration of mobile data service access points (APN) for all B2B customers to the new EPC network elements was completed.

The G.fast technology is tested by Orange Labs. It is an access technique standardised by ITU-T at the end of 2014, which makes it possible to achieve high speeds over twisted-pair copper wire. In December, first customers were connected in a pilot network project, which is scheduled for launching in the first quarter of 2016.

In June, Orange Polska launched a pilot network project in the Multimedia over Coax Alliance (MoCA) technology, which involved involved launching of services from the FTTH Orange bundle via coaxial cables on last meters of subscriber lines. The Company plans further works related to the use of the MoCA technology for provision of high-speed services to Orange Polska's customers.

In 2015 there were research activities performed in scope of hybrid access to Interent (DSL+LTE) in Orange Poland. Goal of hybrid service is to reduce churn of Neostrada users and improvement of access to Internet performance by introducing additional radio interface in CPE (Customer Premises Equipment) router. Launching such service takes into account introducing new type of CPE router and proper transport network dimensioning.

In 2015, Orange Polska completed its first connection in the VoLTE technology, which enables higher quality of voice calls on mobile networks. The commercial implementation of this technology should be expected in 2016.

In the second half of 2015, Orange Polska launched the first test connections of IP voice interconnect FUT between mobile networks. This will make it possible to achieve the HD quality of voice calls between operators in 2016.

In 2015, Orange Polska continued the development of its mobile network. Owing to investments in the mobile infrastructure, the 3G (UMTS/HSPA) network covered 99.6% of Poland's population as of the end of 2015. Furthermore, the rollout of the LTE network in the 1800 MHz band, which began in the second half of 2013, continued; by the end of 2015, LTE service coverage had reached 83.7% of Poland's population.

4.10 Group's distribution channels evolution

Actively focused on delivering excellent sales and after sales service to residential and business customers, Group operates various distribution channels: traditional Points of sales (POS), Alternative Channels, Online, Telesales and Active. This distribution network undergoes constant evolution according to changes in customer needs, our own product mix and because of constant efficiency improvement.

Points of sales include currently approximately 800 company-owned sales outlets and franchises, which offer a full portfolio of our products and services. To improve customers experience Group keeps POS up to date by opening a new POS concept - 8 Smart Stores, modernization of 659 POS according to POS New Formats, and implementation of New Intelligent Customer Management System in 5 Orange Centers.
The fastest growing sales channel is online – in 2015 around 15% sales of postpaid B2C acquisition was made in this channel. Telesales channel are also used to contact customers (dedicated mainly to retention) - delivery of the product and agreement are provided by courier.
At the moment we also actively develop door-to-door sales network. This is the most efficient way to compete with cable operators and sell our services based on fibre technology.In line with our strategy, we concentrate on seamless customer experience by implementing cross-channel solution, e.g.: Click To Call, Live Chat, Pick up in store, Stock visibility, Store locator, Voucher online, leading, buy in POS with delivery.
Prepaid sales, offering typical mobile services, employs a comprehensive net of sales points including Orange branded POS and distributors (convenience stores, kiosks, gas stations). Orange prepaid starter sets are widely available in 40 thousand points of sale, but can be recharged in more than 96.5 thousand outlets.

4.11 Orange Polska's Activity within Regional Operational Programmes

Orange Polska, as a beneficiary of EU funds in the 2007–2013 perspective, has developed its own broadband backbone and distribution infrastructure in two regions of Poland, namely Lubuskie Region and Pomeranian Region, within the framework of Regional Operational Programmes, and completed nine local access network projects with funds from the Operational Programme "Development of Eastern Poland". In three regions, where the regional networks became the property of local governments, Group companies carried out works either directly for the Regional Marshal's Office (i.e. TP Teltech and Integrated Solutions in the Łódź Region) or as a subcontractor of the Private Partner of Regional Marshal's Office (i.e. TP Teltech in the Warmia-Mazuria and Subcarpathian Regions). The infrastructure development projects were completed within the deadlines set out in co-financing or development agreements. External audits of the projects implemented by Orange Polska as a beneficiary of EU funds, which were carried out upon request of the Managing Authorities and Intermediate Bodies, resulted in positive assessments.

In the EU financial framework 2014–2020, it will be possible to add new 'last mile' network which will meet the European Digital Agenda requirements, using funds from the Operational Programme 'Digital Poland'.

4.12 Regulatory Obligations

To April 30, 2015, Orange Polska S.A. had certain regulatory obligations in the relevant retail markets 3 to 6 (according to the European Commission's recommendation of 2003), namely:

- market for provision of national telephone services on a fixed public telephone network to consumers (market 3/2003);
- market for provision of international telephone services on a fixed public telephone network to consumers (market 4/2003);
- market for provision of national telephone services on a fixed public telephone network to end users, except consumers (market 5/2003); and
- market for provision of international telephone services on a fixed public telephone network to end users, except consumers (market 6/2003).

Under UKE's decisions of 2007 with respect to the markets 3/2003 to 6/2003, Orange Polska had an obligation to submit costing results and regulatory accounting statements to an independent audit. Orange Polska was also subject to an obligation to submit its price lists and terms of service provision for the President of UKE's approval with respect to services covered by the markets 3/2003 to 6/2003. There was a ban on both underpricing (to restrain competition) and overpricing.

On April 29, 2015, the President of UKE issued decisions lifting regulatory obligations of Orange Polska as from the date of delivery of the decisions (i.e. April 30, 2015) with respect to retail markets for provision of national and international telephone services to consumers and end users (markets 3–6/2003), recognising effective competition in these markets.

Furthermore, pursuant to the President of UKE's decisions issued in 2012, Orange Polska has a significant market power in the following relevant retail markets:

- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to consumers (market 1/2003);
- market for provision of access services to a fixed public telephone network and maintaining readiness to provide telecommunication services to business customers (market 2/2003).

Under the aforementioned decisions, Orange Polska is subject to an obligation to obtain UKE's approval for its price lists and terms of service provision as well as a ban on underpricing, a ban on obligating users to subscribe to services which are unnecessary for them, a ban on unjustified preferences for groups of users and a ban on hindering the market entry of other operators.

Pursuant to decisions designating Orange Polska as an SMP operator in the relevant wholesale markets according to the Commission's Recommendation of 2007, Orange Polska has the following regulatory obligations:

- In the domestic market for call origination on a fixed public telephone network (market 2/2007): obligation to enable end-user service management, offer wholesale services for the purposes of resale (WLR), provide telecommunications infrastructure and enable colocation and other forms of facility sharing (on the terms specified in the reference offer);
- In the domestic market for call termination on Orange Polska's fixed line network (market 3/2007): obligation to provide access to the network on non-discriminatory terms specified in the reference offer, including obligation to charge flat interconnect rates for the service;
- In the domestic market for provision of wholesale (physical) access to network infrastructure, including shared or fully unbundled access, in a fixed location (market 4/2007): The scope of the market was extended to include not only copper but also fibre optic loops and subloops. Orange Polska has an obligation to provide access to this infrastructure on the terms specified by UKE in the reference offer;
- In the domestic market for wholesale broadband access services, excluding 76 local administrative units (market 5/2007), where the market was recognised as competitive; in the deregulated areas, Orange Polska has no regulatory obligations (with respect to either FTTx or xDSL), excluding an interim obligation (to October 2016) to maintain the BSA access provided before. In the regulated area, Orange Polska has an obligation to provide access to its copper and fibre optic infrastructure on the terms specified in the reference offer approved by the President of UKE.

Pursuant to SMP decisions for the markets 2/2007, 3/2007 and 4/2007, Orange Polska has an obligation to charge cost-based telecommunication access fees and an obligation to carry out regulatory accounting in accordance with a manual approved by the President of UKE. The relevant regulatory statements for these markets have to be submitted to an independent audit.

Pursuant to the SMP decision for the market 5/2007, Orange Polska has an obligation to calculate costs of services and charge access fees based on the operator's justified costs. The service costing results for these markets are subject to an independent audit. Until a regulatory audit is conducted, Orange Polska has an obligation to charge cost-based prices.

Under the President of UKE's decision of September 16, 2015, Orange Polska was designated as an SMP operator in the national wholesale market for high quality access services at a fixed location, up to 2 Mbps (market 4/2014 up to 2 Mbps). Consequently, regulatory obligations related to access, non-discrimination and transparency, including obligations to submit a reference offer and carry out regulatory accounting, were imposed on Orange Polska. In addition, the Company has an obligation to charge cost-based wholesale rates.

Until September 21, 2015, Orange Polska had regulatory obligations in the domestic market for leased line terminating segment services (market 13/2003). In particular, these included an obligation to provide services on non-dicriminatory terms and rates specified in the reference offer approved by the President of UKE. Pursuant to the President of UKE's decision of September 16, 2015, these obligations were entirely lifted with respect to lines above 2 Mbps as from the date of delivery of the decision (i.e. September 21, 2015). The regulation with respect to such lines up to 2 Mbps was replaced with the regulation for the market 4/2014 up to 2 Mbps, while the market for lines above 2 Mbps was deregulated.

Until December 21, 2015, Orange Polska had regulatory obligations in the domestic market for leased line trunk segment services (market 14/2003). In particular, these included an obligation to provide services on non-dicriminatory terms and rates specified in the reference offer approved by the President of UKE. Pursuant to the decision of September 16, 2015, these obligations were lifted as from December 21, 2015.

Furthermore, Orange Polska is an SMP operator in the market for call termination on Orange Polska's mobile network (market 7/2007). The key regulatory obligations imposed on Orange Polska in this market are the non-discrimination obligation, the transparency obligation to disclose and publish information on matters related to providing access, the obligation to provide telecommunication access and the obligation to charge rates for call termination on Orange Polska's network according to the time schedule set in the SMP decision of December 14, 2012 (i.e. PLN 0.0429 / minute from July 1, 2013). On December 31, 2012, Orange Polska appealed from the UKE's decision of December 14, 2012, which imposed regulatory obligations on the Company in the market 7/2007. On July 16, 2015, the first-instance Antimonopoly Court cancelled the UKE's decision with respect to rates. The ruling is not final, as both parties to the proceedings appealed against it.

On December 14, 2010, the President of UKE designated Orange Polska as an SMP operator in the market for SMS termination on Orange Polska's mobile network. The most important regulatory obligation imposed by the decision is to provide SMS termination services based on costs. Orange Polska's appeal from the decision was rejected. The Company filed a cassation appeal. On May 6, 2015, the Supreme Court cancelled the Appelate Court's ruling and transferred the case back for re-examination. On August 19, 2015, the Appelate Court revised the SMP decision imposing regulatory obligations on Orange Polska in the market for SMS termination by clarifying access obligations and setting the maximum SMS termination rate at PLN 0.05. Orange Polska filed a cassation appeal against the ruling.

4.13 Proposed Regulatory Changes

UKE is reviewing the local loop unbundling (LLU) market, but no draft decision has been published yet.

4.14 Roaming Regulation

In 2015, Orange Polska charged wholesale and retail rates for its roaming services according to the Regulation of the European Parliament and the Council of May 2012, which set the following caps for roaming service rates (in Euro, net of VAT):

<u>Retail prices</u>, in euro cents ("c"):

Data transfer – 20c/MB; outgoing calls – 19c/minute; incoming calls – 5c/minute; SMS – 6c. On July 1, 2015, roaming rates in PLN were slightly reduced as a result of changes in the EUR/PLN reference exchange rate.

<u>Wholesale rates</u>, in euro cents ("c"):

Data transfer – 5c/MB; calls – 5c/minute; SMS – 2c.

On November 25, 2015 the European Parliament and the Council passed the Regulation 2015/2120 amending the Regulation 531/2012 on roaming on public mobile communications networks within the Union. The new Regulation introduces new rules on provision of roaming services within EU. The key of these rules are as follows:

a. Retail prices

- As of June 15, 2017, prices of retail services in roaming will become equal to prices of services at home.
    - o After elimination of roaming charges, operators will be protected against abusive use of roaming through the "fair use" policy, which will enable them to cap the volume of roaming services provided at domestic prices and apply small surcharges

to domestic prices, if a roaming provider demonstrates that it is not able to recover its costs by charging domestic rates for roaming services. The decision on an additional surcharge applied by the operator will be made by the regulator. Currently, there are no provisions regulating "fair usage"; the relevant mechanisms and detailed rules are to be determined in a regulation which should be adopted by BEREC bin Q1 2016.

- In a transition period (i.e. until the elimination of roaming charges), that is from April 30, 2016 to June 14, 2017, a mechanism for capping retail roaming charges will be introduced. It will involve surcharges to domestic prices of 5c per minute of call made, 2c per SMS and 5c per MB of data.

  In addition:

  - Roaming retail prices (the sum of the domestic price and any surcharge) cannot be higher than 19c/minute, 6c/SMS and 20c/MB;
  - Surcharges for incoming calls cannot exceed the weighted average of mobile termination rates (MTR) across the EU set out by BEREC, i.e. 0.0114c/minute.

b. Wholesale rates

- Before prices of roaming services become equal to those of domestic services, the European Commission will be mandated to review wholesale rates and propose a new piece of legislation in this respect on the basis of the results of the review.

Considering the fact that in several aspects the Regulation does not set precise implementation procedures, the Polish operators, through the relevant chambers of commerce, are holding talks with UKE regarding the implementation of the new rules as from April 2016. The operators, including Orange Polska, are trying to negotiate procedures that will enable the implementation of the new rules within the set deadline.

4.15 Cost Calculation Results

Under the regulatory obligations resulting from having significant market power in the relevant markets, Orange Polska has an obligation to prepare regulatory accounting statements and submit them to an independent audit.

In performance of its regulatory obligations, on February 16, 2015, Orange Polska submitted a manual for drawing up regulatory statements for 2014 for the President of UKE's approval. On April 2, 2015, the President of UKE issued a decision on approving the manual. Orange Polska applied to the President of UKE for the re-examination of the case, communicating its reservations about the decision. On June 17, 2015, the President of UKE issued a decision with respect to Orange Polska's application for the re-examination of the approval of the manual for drawing up regulatory statements for 2014.

On June 3, 2015, the President of UKE appointed Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. to conduct an audit of Orange Polska. The regulatory audit ended on August 14, 2015 with the audit report and auditor's opinion indicating that Orange Polska had performed all the obligations imposed by the President of UKE with respect to regulatory accounting for 2014. Both the report and opinion were published by the President of UKE on UKE's website.
In performance of its regulatory obligations in the wholesale broadband market (market 5), Orange Polska submitted a manual for drawing up regulatory statements for 2014 and service costing description for the market 5 for the President of UKE's approval. In 2016, the President of UKE will issue a decision approving these documents, which will then constitute the basis for service costing and regulatory statements, which are subject to audit.

4.16 Compensation for Universal Service Costs

On October 10, 2014, the President of UKE determined a list of operators to share in the compensation for 2006 and a uniform percentage rate to determine their respective shares (with reference to their revenues). In 2015, the President of UKE issued individual decisions determining the share of particular operators in the compensation for 2006.

Pursuant to these decisions, between May and October Orange Polska received compensation totalling PLN 132.8 thousand.

The President of UKE's procedures regarding determination of operators to share in the compensation of the USO net cost deficit for the years 2007 to 2011 are pending. Consequently, the procedures to determine the share of individual operators in the compensation have not been initiated yet.

With respect to some operators, Orange Polska has reached an agreement regulating the issue of mutual settlements on the account of the universal service obligation.

4.17 Law Amendments

On March 27, 2015, the Act of February 20, 2015 on amending the Construction Law was promulgated in the Journal of Law (item 443). The bill came into force on June 28, 2015. The introduced simplified procedures may be relevant to broadband network development projects.

On October 1, 2015, the Act of July 24, 2015 on control of certain investments came into force. It provides the Minister of Treasury with control tools for approving significant transactions in shares of selected companies, potentially also in the telecom market. The detailed list of such companies will be determined by the Council of Ministers' decree.

On October 16, 2015, the Act of August 5, 2015 on amending the act on competition and consumer protection and certain other acts was promulgated. This has introduced new tools for influencing companies, including telecom operators, with respect to "abusive clauses". The new act will come into force on April 17, 2016.

The Regulation (EU) 2015/2120 of the European Parliament and of the Council of 25 November 2015 laying down measures concerning open internet access and amending Directive 2002/22/EC on universal service and users' rights relating to electronic communications networks and services and Regulation (EU) 531/2012 on roaming on public mobile communications networks within the Union was promulgated. In addition to regulating roaming services, which eventually (from June 2017) will become equal to domestic rates, the new Regulation provides for ensuring neutrality and openness of the Internet across EU. When providing Internet access services, providers will have to treat all traffic equally, irrespective of the sender and receiver, the content distributed and the applications or services used or provided. They will also have to include information on data download and upload speeds as well as other information in contracts. The Regulation shall apply from 30 April 2016.

On December 30, 2015, the Act of December 22, 2015 on amending the act on government administration branches and certain other acts was promulgated in the Journal of Law (item 2281). Under the Act, the matters concerning telecommunications were transferred from the communication branch to the informatisation branch as a competence of the new Minister of Digitisation.

The most important secondary regulations related to the telecommunication activity and promulgated in 2015 are as follows:

- Decree of the Minister of Administration and Digitisation of January 16, 2015 on radio equipment operator's certificates (Journal of Law of 2015, item 99);
- Decree of the Minister of Administration and Digitisation of December 12, 2014 on the detailed requirements for addressing rules for proper call directing (JoL of 2015, item 12);
- Decree of the Minister of Administration and Digitisation of December 12, 2014 on a contest for a telecommunication operator designated to provide the universal service components (JoL of 2015, item 11);
- Decree of the Minister of Administration and Digitisation of April 21, 2015 on the technical requirements for technological channels (JoL of 2015, item 680);
- Decree of the Minister of Administration and Digitisation of September 16, 2015 on supporting the development of broadband infrastructure within the Operational Programme 'Digital Poland' 2014–2020 (JoL of 2015, item 1466);
- Decree of the Minister of Administration and Digitisation of September 23, 2015 on amending the decree on tender procedures, auctions and competitions for reservation of frequencies or orbit resources (JoL of 2015, item 1472);
- Decree of the Minister of Digitisation of December 3, 2015 on amending the decree on the amount, the procedure for determination and the terms and manner of payment of the annual telecommunication fee (JoL of 2015, item 1777);
- Decree of the Council of Ministers of December 28, 2015 on the organisation and functioning of a system for collecting and providing information and data from telecommunication operators (JoL of 2015, item 2333); and
- Decree of the Minister of Internal Affairs and Administration of December 29, 2015 on the public-safety answering point and emergency service answering points (JoL of 2015, item 2356).

The following bills which may affect the investment activity of telecom operators, including Orange Polska, are currently at various stages of the legislative process:

- Amendment to the act on supporting and development of telecommunication services and networks ('mega-act'), which is to:
    - transpose the Directive on measures to reduce the cost of deploying high-speed electronic communication networks ('Cost Directive') into the Polish legal system, and
    - remove the key legal obstacles in the investment process;
- Draft Construction Code (if a town planning section is incorporated into it as planned, it will become the Town Planning and Construction Code).

Declarations of amendments to tax regulations, including the act on tax on goods and services (VAT) and the act on corporate income tax, should be considered important with respect to business activity.

There are on-going legislative works (at the government level) concerning taxation of retail sales. The draft proposal currently under discussions provides for a new tax on all retail chains (including franchising) and retailers (including the internet retailers).
Based on the current content of the draft, telecommunications sector (incl. Orange Polska) may be also subject to this new tax. Legislative works and proposals concerning this and other amendments of the tax regime are under on-going monitoring and analysis.

Also regulations passed on the EU level will be important. A draft regulation on personal data protection, which introduces common rules in this respect in all EU member states, is at the final stage of the legislative process. Among other changes, the regulation will introduce fines for breaching data protection rules of up to 4% of worldwide turnover of the breaching company in the previous calendar year.
Furthermore, efforts to create the Digital Single Market have been initiated at the EU level. Hence, a fundamental revision of the package of telecom directives, copyright law amendment and introduction of content portability regulations (enabling access to paid Internet content at any place in Europe) are intended.

4.18 Claims and Disputes, Fines and Proceedings

Please see Note 28 to the IFRS Consolidated Financial Statements for detailed information about material proceedings and claims against Group companies as well as fines imposed thereon, including a fine imposed by the European Commission.

5 THE GROUP'S MAJOR ACHIEVEMENTS IN RESEARCH AND DEVELOPMENT

5.1 Research and Development

Orange Labs Poland is a member of the international Orange Labs network, which consists of Orange R&D units and laboratories in 8 countries.

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.

Orange Labs actively promotes innovations inside and outside Orange Polska. Since the launch of the Innovation Gardens programme in 2014, it has presented 57 Orange's prototype or commercial solutions and carried out 130 major events with the participation of representatives of Orange SA, universities, suppliers and government administration. The Innovation Gardens have been attended by a total of over 15,000 visitors.

Orange Labs Poland has been involved in developing an innovative image of Orange Polska by participating in a number of Polish and international discussion panels, conferences (e.g. Innovation Days, Innovative Technology) and presentations as well as by organising or co-organising numerous training workshops and competitions (Telecreator, BIHAPI, Orange Fab, Imagine with Orange).

Orange Labs Poland's Major Achievements in 2015

1. Preparatory works for the implementation of the G.fast technology, resulting in connecting the first Friendly User Test clients (December 2015). The next step will be to launch Field Trial in the first quarter of 2016.
2. A network pilot project of the Multimedia over Coax Alliance (MoCA) technology was carried out at the end of the second quarter and beginning of the third quarter of 2015. As the conclusions are positive, it is intended to make MoCA available in the whole country in the second quarter of 2016. This will enable the Company to offer services of very high capacity, using the coaxial cable over last meters.
3. Implementation of the Content PoP solution, which enables caching of traffic of external and internal content providers in order to enhance QoE of Orange Polska's customers.
4. Implementation of OTN matrices at the interconnection of backbone (ROADM) and Metro Access (OSN1800) networks in order to enable grooming of traffic between Metro Access nodes, which ensures more effective management of the optic channel band.
5. Commencement of the Proof of Concept stage for Label Switch Routers (LSRs) in order to develop the Packet Backbone Network, which will enable quick and flexible provision of band resources for the purpose of provision of Orange Polska services and wholesale customer solutions. The LSR network will be eventually integrated within the Software Defined Network (SDN), which will produce a complete cloud solution with a service layer.
6. Continuation and launch of subsequent co-operation programs dedicated to developers (BIHAPI competition), small and medium-sized enterprises (Orange Fab accelerator program) or the entire environment of Orange (Imagine with Orange crowdsourcing platform) in order to search for trends and new solutions enriching Orange offer.
7. Implementation of the data exposure layer (API Exposure) at Orange Polska, which aims to monetize telecommunications services and data.
8. Extension of the Proactive Fault Center system, providing proactive repairs of broadband services, to B2B market and implementation of new functionality called Eyes Wide Open enabling detection of group PPP session breaks on DSLAM network devices, which allowed to extend the scope of information on all events provided to customers on the IVR (May 2015).

5.2 R&D Co-operation with Orange SA

Key projects for Orange SA (main areas and projects with highest expense):

- Responsibility for development of selected network solutions within Orange SA Group: xDSL, FTTx (GPON, FTTDp), IP routers / BNG, IN Prepaid platform, Open Service Gateway, IMS / Volte AS, Huawei PSCN / EPC evolution, PCEF and MIG evolution, SDM validation / expertise;
- Dynamic Social Network (creation of enabler for the Group for new services and functionalities - social communications services);
- Telco API;
- Mobile VoIP and Voice over LTE (VoLTE) development, Voice over WiFi (VoWiFi), Video over LTE (ViLTE);
- Hybrid Box – a service which combines fixed and mobile access; users with poor DSL lines will be able to use higher band to access the Internet.

CHAPTER III
ORGANISATION AND CORPORATE STRUCTURE

6 CHANGES IN THE GROUP'S STRUCTURE IN 2015

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

There were no major changes in the corporate structure of Orange Polska in 2015.

6.1.1 Management Board of Orange Polska S.A.

As of December 31, 2015, the Management Board is 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 Operations;
- Vice President of the Management Board in charge of Business Market;
- Management Board Member in charge of Finance;
- Management Board Member in charge of Human Resources;
- Management Board Member in charge of Sales and Commercial Digitisation;
- Management Board Member in charge of Customer Care and Customer Excellence; and
- Management Board Member in charge of Marketing.

6.1.2 Business Units of Orange Polska S.A.

The total number of business units within the organisation slightly changed.

As of December 31, 2015, Orange Polska had 77 business units, reporting directly to:
1) President of the Management Board: 6 business units;
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 Operations: 12 business units;
4) Management Board Member in charge of Finance: 6 business units;
5) Management Board Member in charge of Human Resources: 9 business units;
6) Management Board Member in charge of Sales and Commercial Digitisation: 7 business units;
7) Management Board Member in charge of Customer Care and Customer Excellence: 1 business unit;
8) Management Board Member in charge of Marketing: 10 business units;
9) Executive Officer in charge of Corporate Affairs: 6 business units;
10) Executive Director in charge of Shared Services: 4 business units;
11) Executive Director in charge of Effectiveness & Transformation: 3 business units;
12) Executive Director in charge of Carriers Market: 6 business units; and
13) Executive Director in charge of Brand and Marketing Communication.

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

There were no major organisational changes in Orange Polska S.A.'s subsidiaries in 2015.

6.2 Ownership Changes within the Group in 2015

6.2.1 Winding-up of Przedsiębiorstwo Produkcyjne Projektowo-Wdrożeniowe "Telefon 2000" sp. z o.o.

On May 28, 2015, the District Court for the Capital City of Warsaw, XIII Commercial Department for the National Court Register deleted Przedsiębiorstwo Produkcyjne Projektowo-Wdrożeniowe "Telefon 2000" sp. z o.o. in liquidation from the National Court Register. The dissolved company was a wholly-owned subsidiary of TP Invest sp. z o.o.

6.2.2 Sale of Contact Center sp. z o.o.

On July 6, 2015, Orange Polska and Arteria S.A. signed a sale agreement for a 100% stake in Contact Center sp. z o.o., a company specialising in call & contact center and sales support services. The final sale agreement amounting to PLN 9 million was concluded on August 25, 2015.

6.2.3 Increase in the Share Capital of Orange Szkolenia sp. z o.o.

Pursuant to the Resolution 1/15 dated July 14, 2015 of the Extraordinary General Assembly of Orange Szkolenia sp. z o.o., the share capital of the latter was increased by PLN 61,310,000 through the subscription of 122,620 shares of PLN 500 each. The shares were acquired by Orange Polska S.A. in return for a contribution in kind in the form of 140,000 shares in TP Edukacja i Wypoczynek sp. z o.o. of PLN 500 each.

6.2.4 Merger of TP Edukacja i Wypoczynek sp. z o.o and Orange Szkolenia sp. z o.o.

On November 30, 2015, the District Court for the Capital City of Warsaw, XIII Commercial Department for the National Court Register issued a decision on the merger of TP Edukacja i Wypoczynek sp. z o.o. and Orange Szkolenia sp. z o.o. The merger was effected pursuant to Article 492 (1) of the Commercial Companies Code by transferring all assets of TP Edukacja i Wypoczynek sp. z o.o. (the acquired company) to Orange Szkolenia sp. z o.o. (the acquiring company).

6.3 Parent Company's Shareholders

As of December 31, 2015, 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 15, 2016 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 December 31, 2015, 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 €39 billion in 2014 and 157,000 employees worldwide, including 98,000 in France. Present in 28 countries, the Orange Group serves 263 million customers all over the world, including 200 million mobile customers and 18 million fixed broadband customers. Orange S.A. is also the leading provider of global IT and telecommunication services to multinational corporations under its brand Orange Business Services. In March 2015, the Orange Group unveiled its new strategic plan 'Essentials 2020'. Orange is listed on Euronext Paris (symbol: ORA) and on the New York Stock Exchange (symbol: ORAN).

As of December 31, 2015, 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 2015.

7 GROUP'S STRUCTURE AS OF DECEMBER 31, 2015

Please see Note 1.2 to the IFRS Consolidated 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 12 below.

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

Members of the Management Board did not hold any shares of Orange Polska S.A. or related entities as of February 15, 2016.

As part of the Company's incentive program, members of the Management Board of the Company acquired Orange Polska registered A-series first option bonds, giving the right to subscribe for the Company's shares with priority over existing shareholders. The number of first option bonds held by members of the Management Board of the Company on February 15, 2016 was as follows:

Mariusz Gaca	68,839
Piotr Muszyński	190,896
Jacek Kowalski	25,241
Maciej Nowohoński	36,715
Jolanta Dudek	13.768
Bożena Leśniewska	27.536

As of February 15, 2016, Mr. Maciej Witucki Chairman of the Orange Polska Supervisory Board, held 305,557 first option bonds. Other Members of the Supervisory Board of Orange Polska S.A. do not participate in the Company's incentive program and as of February 15, 2016 held no first option bonds. As of February 15, 2016, Mr. Maciej Witucki Chairman of the Orange Polska Supervisory Board, held 4,000 shares of Orange Polska S.A. No other persons who manage or supervise Orange Polska held the Company's shares.

7.1.2 Information on the Remuneration of Persons Who Manage or Supervise Orange Polska

For information on the remuneration (including bonus) paid or payable by the Company to the persons appointed to its management and supervisory bodies please see Note 29.1. to the IFRS Consolidated Financial Statements.

7.1.3 Contracts of Persons Who Manage Orange Polska

Employment contracts of the Members of Orange Polska Management Board include provisions concerning severance pay payable in the case of the contract termination by the Company (or employment termination by mutual agreement of the parties) and provisions concerning compensation payable for the ban on competing activity after the termination of employment. The severance pay related to the employment contract termination is equal to six basic monthly fixed salaries. The compensation for restraining from any activity competitive to that of Orange Polska for a period of twelve months after the termination of employment is six monthly salaries (this applies to the Management Board Members who were in charge as of the date of the Financial Statements).

7.1.4 General Assembly

On April 9, 2015, the Annual General Assembly approved a dividend of PLN 656 million (i.e. PLN 0.5 per share). A total of 1,312,357,479 shares were eligible for dividend. The dividend was paid on July 9, 2015.

7.2 Workforce

As of December 31, 2015, Orange Polska employed 16,599 people (in full-time equivalents), which is a decrease of 8.0% compared to the end of December 2014.

Orange Polska S.A.'s workforce reduction was mainly a result of the implementation of the Social Agreement for the years 2014–2015. Pursuant to it, a total of 1,100 employees left the Company in 2015, 92% of whom under the voluntary departure programme. Severance pay averaged PLN 67 thousand per employee in 2015. The voluntary departure programme was also effected in Orange Customer Service sp. z o.o. (OCS). Pursuant to the Social Agreement for the years 2014–2015 between the OCS Management Board and trade unions, a total of 320 people left the company in 2015, 96% of whom on a voluntary departure basis. Severance pay averaged PLN 53.1 thousand in 2015. Voluntary departures at OCS were effected on the same terms as in Orange Polska S.A.

In 2015, external recruitment in Orange Polska totalled 623 positions. External recruitment was mainly related to sale positions and customer service staff.

7.2.1 Social Agreement

On December 2, 2015, the Management Board of Orange Polska S.A. concluded with trade unions a new Social Agreement for the years 2016–2017, which come into force on January 1, 2016. In particular, the Social Agreement concerns investments in a friendly work environment and pay rises (2.5% both in 2016 and 2017), as well as enabling long-standing employees to leave Orange Polska S.A. with fair compensation and supporting employees in seeking jobs in the market (outplacement).

In the years 2016–2017, up to 2,050 employees of Orange Polska S.A. and Orange Customer Service sp. z o.o. (a wholly-owned subsidiary of Orange Polska S.A.) will be eligible for the voluntary departure package, provided that they have seniority of 10 or more years in the calendar year in which their employment is terminated. In addition, the parties concluded separate agreements with trade unions specifying that up to 730 employees of Orange Polska S.A. and 300 employees of Orange Customer Service sp. z o.o. may use the package in 2016. In Orange Polska S.A., the voluntary departure offer is addressed to the employees who are covered by the Intragroup Collective Labour Agreement.

The package offered to departing employees depends on their seniority in the Group and ranges between 4 and 15 basic monthly salaries. In 2014, this is increased by an additional compensation of PLN 5,000 for employees with seniority of 10 to 15 years, PLN 10,000 for employees with seniority of more than 15 but less than 20 years or PLN 26,000 for employees with seniority of more than 20 years.

CHAPTER IV
KEY RISK FACTORS

8 RISK FACTORS AFFECTING THE ACTIVITIES OF ORANGE POLSKA

The risks mentioned in this report are not intended to constitute an exhaustive list of all possible risks and uncertainties, which could adversely impact the Group's activities, its results, liquidity or capital resources. The system of internal control and risk management in the Group is designed and implemented by the Management. This approach allows to manage the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed) – (please see Note 28 to the IFRS Consolidated Financial Statements for additional information about major outstanding claims and litigations). Our processes are designed to give reasonable, but cannot give absolute assurance that the risks significant to the Group are identified and addressed. There may be risks which are unknown or which are presently judged not to be significant but later prove to be significant. We have included comments on mitigations that are applied to help us manage the risks; however, it is possible that not all of these mitigations will be successful.

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The Group has developed a risk management process which encompasses risk identification, analysis and assessment, implementation of risk mitigation measures and verification of action results. This provides the Management Board with information about the key risks within the Group, so preventive actions may be additionally supported. The Risk Management team provides structure, facilitates communication and reviews external risks reported within the industry. The review and assessment of the identified risks, the identification of the main causes and the implementation of action plans involve the participation of Group's top management.

The major risks are subject to monitoring. For such risks, preventive measures aimed at reducing their vulnerability and limiting their potential impact on the Group's operations are implemented. The top risks are updated and submitted by the Management Board to the Supervisory Board on an annual basis. The internal audit plan for each year is developed also taking into account a list of the major risks identified.

8.1 Implementation of the Group's new Medium Term Action Plan

The new strategic plan provides for intensive investments in customer acquisition and ensuring best mobile and fixed connectivity in order to build long-term value and reverse the negative trends in market share, revenue and income evolution. It also provides for further improvement in customer experience and enhanced agility of our operations. We want to improve our market shares and lay the foundation for future growth. In terms of finance, our new strategic plan is to bring an increase in consolidated revenue and EBITDA in 2018.

The achievement of the new medium term action plan objectives 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 competition. The macroeconomic environment in Poland is currently under the influence of optimistic factors, particularly high GDP growth rate vs. EU benchmarks. 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.

8.2 Regulatory Decisions and Changes in the Regulatory Environment Could Adversely Impact the Group

The Group must comply with various regulatory obligations governing the provision of its services and products, also relating to obtaining and renewing licences. The regulatory obligations result from significant market power of Orange Polska on the relevant markets. If Group companies are unable to satisfy the imposed regulatory requirements or fail to meet the requirements imposed by national or community regulations, there is a risk of administrative fines imposed by Polish or EU bodies.

Power to impose fines can be exercised by:

- The President of UKE, who under the Telecommunications Law of July 16, 2004 can impose on a telecommunications operator a penalty of up to 3% of its prior calendar year's revenues, if the operator does not fulfil certain requirements set out therein;
- The President of the Antimonopoly Office (UOKiK), who according to the Act on Competition and Consumer Protection, in case of non-compliance with the provisions thereof, is empowered to impose on a company a penalty of up to EUR 50 million for refusal to provide requested information (or providing untrue information) and up to 10% of the company's prior year's turnover for a breach of the law;
- The European Commission, which, under EU regulations, in case of proven infringement of competition law can impose on a company a fine of up to 10% of its prior year's turnover as well as a fine of up to 1% of its prior year's turnover for providing untrue or misleading information.

Further information on the regulatory risks is set out in section 9.1 below.

8.3 The Extent of Competition and the Resulting Pressure on Services and Prices

Strong competition on the market and technological developments of new services result in pressure on price reductions in the mobile segment and also in the fixed segment. There is a risk that the effect of further price reductions will not be offset by increased volume of traffic on the network.

Competition could lead to a reduction in the rate at which the Group adds new customers, a decrease in the size of the Group's market share and a decline in ARPU in certain markets.

The Group faces competition from not only telecom and cable network operators, but also players from outside the industry, such as providers of special services (VoIP, video services/TV Over-The-Top).

In response to this competition, the Group strives to better satisfy customer needs in terms of the quality and simplicity of services. The Group is developing an organisation, procedures and systems aimed at offering the latest technological developments and improved products and services to its customers. Perception and trust from customers are one of the top priorities of Orange Polska. In order to enhance customer relations the Group continues its transformation to a customer-centric organisation.

The Group continues to introduce further convergent offers like Family Pack (Pakiet Rodzinny), which combines mobile and home voice plus fixed broadband and TV services.

The Group continues to offer IT and telecommunication system integration services and provides solutions to satisfy business customers' needs. The uncertainty remains with respect to ability to successfully monetize new services offered to customers and adequate return from the significant investments made.

In addition, new products and services require an adjustment of network and IT systems. This is a complex and time-consuming process, which poses a potential risk of delays in the market launch of products and services. The requirement to provide an equivalent offer to alternative operators poses an additional risk to timely implementation thereof. Delays in the launch of new products and services may result in lower than planned take-up, posing a risk of non-achievement of the Group's budgeted financial results.

8.4 Potential Saturation of Networks

The current expansion in broadband usages, such as TV (as part of triple-play) or, above all, growing data consumption by Internet users both on fixed line and mobile networks, has already on occasion resulted in momentary saturation of existing aggregation and backbone networks. As a result of growing use of sophisticated equipment (smartphones, tablets) and development of services which require high capacity, the Group faces a challenge of undertaking significant capital expenditure programmes aimed at development of aggregation and backbone networks in order to ensure proper handling of the growing IP traffic.

8.5 New Investments in Network Infrastructure

In 2015, the Group won an auction launched by the President of UKE with respect to two blocks in the 800 MHz spectrum (of 5 MHz each) and three blocks in the 2600 MHz spectrum (of 5 MHz each). On January 25, 2016, Orange Polska received decisions in which the President of UKE granted Orange Polska the frequencies in the 800 MHz and 2600 MHz bands.

Simultaneously with administrative proceedings for the frequency reservations, proceedings to invalidate the auction have been initiated by some of the auction participants. Therefore, there is still a risk related to the potential cancellation of the auction results by the President of UKE, which may occur even after the frequency reservation decisions are issued (furthermore, the auction may be declared void in the course of subsequent court proceedings following a potential appeal against the President of UKE's refusal to invalidate the auction).

In connection with the acquisition of new frequencies, the Group intends to invest in further development of the LTE technology using the 800 MHz spectrum, while the 2600 MHz spectrum is to be used mainly to increase the capacity in the spots where the mobile data traffic is particularly high. We expect that the 800 MHz spectrum will enable Orange to extend its LTE service coverage to over 95% of Poland's population by the end of 2016.

Orange Polska will also continue its RAN sharing co-operation with T-Mobile Polska, which has involved the radio access networks consolidation project (finalised in 2014). Furthermore, a joint venture company NetWorkS!, responsible for managing the radio networks owned by Orange and T-Mobile, has been established within the framework of this co-operation. A decision whether to extend RAN sharing co-operation to the 800 MHz and 2600 MHz spectrums has not been taken yet.

In the coming years, mobile traffic growth trends as well as emergence of new residential and business areas and construction of new roads will require Orange to invest in both the existing base stations (e.g. to make them handle additional frequencies) and new sites in order to ensure adequate service coverage and provide additional capacity for data transmission.

Electromagnetic field (EMF) emission limits are among the key risk factors related the LTE technology deployment in the 800 MHz and 2600 MHz spectrums and investments in base stations. Particularly, in case of construction of new radio access network (RAN) infrastructure, a major risk factor is community concerns related to the fact that the new equipment is to be placed in the proximity of houses, which may result in difficulties in obtaining locations for new sites.

In 2016 Orange Polska intends to continue its investments in the FTTH network roll-out. The purpose of the project is to offer customers fast fixed broadband, thereby increasing the Group's share in this market. However, there is a risk that the new project will not meet the objectives regarding the desired number of customers and the assumed return on investment.

8.6 New Services

The Group's growth also depends on a strategy for developing new businesses to cope with the rapid and extensive transformation of the electronic communications sector. This strategy rests on new businesses, particularly fibre-based services, multimedia and TV content, mobile payments, M2M communication or cloud computing. Orange Finance and Orange Energy will also contribute to the Group's diversification potential. Meeting these challenges requires resources, in particular regarding service integration and content development, though there is no guarantee that the use of these services and contents will grow or that they will be monetized reasonably and generate an adequate return on the corresponding costs. Furthermore, the development of these new services could be hampered by regulatory changes or as a result of macroeconomic factors.

Further information on Orange Polska services is set out in section 2.

8.7 Non-availability or Failure of Technical Infrastructure

The technical infrastructure required to offer the Group's products and services is exposed to a risk of destruction and interruption resulting from natural disasters, malfunctions, equipment usage or intentional and non-intentional human actions. Interruptions in technical infrastructure operations have a direct impact on provision of services and supply of products by the Group, which in turn translates into lower revenues from such products and services and a decline in customer satisfaction and the deterioration of the Group's image. This risk is being mitigated by proper network and IT systems development planning, preventive maintenance, implementation of business continuity and crisis management plans and insurance schemes. Orange Polska has been continually investing in developing of the disaster recovery solutions. Orange Polska has become the first telecom operator in Poland to obtain an ISO 22301:2012 Certificate for its Business Continuity Management System in the scope of provision of telecommunication and ICT services. The Group is covered by a property damage and business interruption insurance policy (PD/BI), which should allow it to claim for any reasonable loss or damage of telecom infrastructure and loss of profit. Aerial lines and submarine cables are excluded from the insurance policy; consequently, any damage to these assets or resulting losses will be borne by the Group.

8.8 Non-availability or Failure of IT Systems

As rapid implementation or modification of IT systems has become a necessity to meet customer demand for attractive offers, there may be a risk of malfunctions resulting from insufficient testing of new services or lack of data integrity within connected systems. Potential failures and reduced availability of critical systems, resulting from frequent changes in the applications used, can lead to decreased quality of services and delayed response to changing customer needs.

8.9 System Security and Data Protection

The Group has extended the scope of ISO/IEC 27001:2013 certification. Currently, it covers provision of telecommunication and ICT services, hosting, collocation and cloud computing services, as well as accompanying actions and supporting processes. Furthermore, Orange Polska has maintained European CERT certification (for its CERT) and WebTrust PKI Signet certification. Any material failure in maintaining the security of network infrastructure and IT systems or fraud may significantly damage the Group's reputation and may lead to disruptions in business processes, resulting in revenue losses. Therefore the Group implements measures, as far as it is practicable, to protect its network and IT infrastructure from cyber-attacks, frauds and to detect the disclosure of sensitive data to unauthorised parties and promptly react to security incidents.

8.10 Dependence on External Partners

The Group concludes contracts with external partners, particularly for development and maintenance of its networks, ICT infrastructure and IT systems.

Although adequate safeguard and protection clauses are included in the contracts, there is still a risk of non-performance by the Group's suppliers, resulting in delays and a decrease in quality of the services provided by the Group. At the same time, the Group has partially outsourced operation and supervision of its IT systems and processes to external suppliers. This process is monitored on a regular basis in order to assure its optimum operation and take effective corrective actions, if required.

8.11 Risk Related to Trade Agreements and Strategic Alliances

In order to attain its business objectives and to mitigate the risk, the Group attempts to extend its portfolio through trade agreements and strategic alliances that enable it to use products and services of external partners. It is assumed that such bilateral agreements will bring added value to both the Group and its customers. However, there is a risk that the benefits resulting from them will fall short of the anticipated and planned levels.

At the same time, the Group is at risk of losing a portion of its revenues due to migration of some of the existing customers who may sign beneficial agreements or arrangements with other telecom service providers which are competitive to Orange Polska. In response, Orange Polska has undertaken a number of initiatives to reduce the exposure. In particular, a co-operation agreement with *nc*+ has been continued to satisfy the growing expectations of customers and provide them with as complete an offer as possible.

8.12 Availability of Skilled Employees

The Group operates in a market which is affected by a constant risk related to attracting and retaining skilled employees in all business areas. The risk of unavailability of skilled employees is particularly noticeable in customer service and sales, where personnel turnover is relatively high, and in the technology area, where highly qualified employees need to be attracted. It may pose a threat to the timely performance and quality of the Group’s core business processes and may hinder the achievement of the Group’s business objectives.

8.13 Human Resources Risks and Alignment of Organisation Structure

The Group 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 the Group fails to complete these transformations successfully, its operating margins, financial position and results could be adversely impacted.

The Group has continued a voluntary departure programme and the workforce optimisation process. Regular staff satisfaction surveys are conducted by an outside consultant.

8.14 Issues Related to the Incorporation of Orange Polska S.A.

Orange Polska S.A. was established as a result of the transformation of the state-owned organisation Poczta Polska Telegraf i Telefon (“PPTiT”) into two entities: Poczta Polska (Polish Mail) and Orange Polska. The share premium in the equity of Orange Polska includes an amount of PLN 713 million which, in accordance with the Notary Deed dated 4 December 1991, relates to the contribution of the telecommunication business of PPTiT to the Company. During the transformation process and transfer of ownership rights to 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. Consequently, 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.

8.15 Tax Contingent Liability

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose fines and penalties and charge interest. Value added tax, corporate income tax, personal income tax and other tax or social security regulations are subject to frequent changes, which often leads to lack of reasonable certainty. 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 some of its subsidiaries were subject to audits by the tax office with respect to taxes paid. Some of these audits have not been finalised yet. The Group believes that adequate provisions have been recorded for known and quantifiable risks in this regard.

8.16 Compliance with Personal Data Protection Regulations and Breach of Licence Agreements or Infringement of Copyrights

Orange Polska has a considerable customer base and constantly undertakes actions aimed to ensure protection of its customers’ personal data. In this respect, the Group implements adequate policies, adheres to rules and guidelines, and conducts the relevant training. Orange Polska manages the security of information, including personal data, in line with the world’s best standards, as confirmed by ISO 27001:2013 certification. However, considering the modern threats related to information technologies used for processing of such data, it is not possible to fully exclude the risk of infringement of the security thereof.

There are further risks which arise from the Group's operations as a broadcaster of Orange Sport television channel. These risks include that of infringing copyrights, neighbouring rights or defaming persons or entities. In addition, the broadcasts are subject to regulations regarding the editor's responsibility for the content of programmes comprising the service as well as a number of regulatory obligations imposed by the Polish Broadcasting Act. Orange Polska uses its best efforts to meticulously perform its obligations under Polish copyright law, press law, intellectual property law, Broadcasting Act and Act on Suppression of Unfair Competition. This applies to all content used in all media, including the Internet. Furthermore, some element of risk derives from lack of effective control over broadcast content, in particular during broadcasting of live programmes. However, it should be noted that the Group exercises due diligence in preparing programmes to avoid any unlawful materials from being broadcast.

8.17 Environmental Risks

Orange Polska believes that because its business involves provision of services rather than manufacture of equipment, its activities do not pose a serious threat to the environment. The Group's activities generate waste for which recycling is closely controlled (such as electronic equipment waste, electronics at end-of-life, batteries and storage cells, cables and treated poles as well as other waste). The waste is collected by specialised recycling companies on the basis of framework contracts. Utilisation of waste is subject to strict control.

The Environmental Protection and Contract Management Section has been established within the Group to carry out ongoing supervision regarding regulatory compliance, emission levels, as well as to meet other legal requirements in the area of environmental protection. In addition, Orange Polska has implemented an Environmental Management System with respect to mobile voice services provided, which is subject to ISO 14001 certification on an annual basis.

Exposure to electromagnetic fields from telecommunications equipment raises concerns for possible health risks. If the perception of this risk were to deteriorate or if a health risk was scientifically proven, this could have a material impact on the activity and results of operators such as Orange Polska.

8.18 Risk of Impairment in Value of Assets

Recoverable amounts of the businesses which support the book value of non-current assets, including recorded goodwill, are sensitive to the valuation method and to the assumptions used in the model. They are also sensitive to any change in the business environment that is different to assumptions used. For further information on the impairment of goodwill and the recoverable amounts see the notes in the IFRS Consolidated Financial Statements.

9 TELECOMMUNICATIONS SECTOR RISKS

This section describes potential risks in the telecommunications sector that may affect the Group's operations except for the developments described in the chapter 8 above.

9.1 Regulatory Risks

Pressure on the Group's top line due to changes in the regulatory environment was decreasing in 2015 as compared to previous periods.

Orange Polska continuously makes efforts in order to meet its regulatory obligations in the optimum way, including issues as Wholesale Line Rental (WLR), Bitstream Access (BSA) or Local Loop Unbundling (LLU).

The Group has explored all possible legal means to protect its interests. Orange Polska intends to turn to relevant European Union institutions whenever it believes that European law is being breached.

9.1.1 Single Reference Offer

The single reference offer ("SRO") for RIO, WLR, BSA and LLU services which is currently in force was approved by the President of UKE on September 29, 2010.

In 2015, upon applications of Orange Polska and the Polish Chamber of Electronics and Telecommunications ("the Chamber"), UKE issued the following decisions which modified SRO:

- introduction of the 'up to 80 Mbps' option to the BSA portfolio – decision of May 5, 2015;
- penalty fee provisions – decision of May 7, 2015;
- regulatory obligations in the market 4 (LLU) and market 5 (BSA) – decision of July 3, 2015;
- increased-charge services available in the WLR scheme – decision of August 12, 2015;
- reflecting regulated retail services in wholesale services as a consequence of the TTM process – decisions of June 9, 2015 (IDSL 20 Mbps) and of November 2, 2015 (100–300 Mbps); and
- modifications concerning execution of orders for regulated services related to number porting via the Location and Information Platform with the Central Data Base (PLI CBD) – decision of December 21, 2015.

In particular, pending proceedings at UKE regarding SRO modification concern the following:

- call initiation service in performance of an obligation imposed in the market 2/2007;
- call termination service, particularly with respect to cancellation of division into charge periods, in performance of UKE's decision obligating Orange Polska S.A. to amend its SRO in this respect (status: pending consultation of the draft decision);
- reflecting regulated retail services in wholesale services as a consequence of the TTM process;
- introduction of a shortened process for service delivery (n+1) (status: pending consultation of the draft decision);
- changes in rates for providing fibre lines and fibre local loop (status: pending consultation of the draft decision); and
- number porting processing via the Location and Information Platform with the Central Data Base (PLI CBD).

9.1.2 Leased Lines (RLLO)

The telecommunication access reference offer for the provision of leased line services with respect to terminating segments, trunk segments and end-to-end lines (the Reference Leased Lines Offer – RLLO) which is currently in force was approved by UKE on December 31, 2009. Following the Supreme Administrative Court's decision of December 2013, which reversed the RLLO modifying decision of October 2010, the President of UKE reactivated the proceedings to re-examine her decision of December 2009. The outcome of the proceedings may affect RLLO.

On February 23, 2015, the President of UKE issued a decision in the proceedings initiated by NASK, which obligated Orange Polska to prepare modification to RLLO. In performance of the decision, Orange Polska submitted draft modification to UKE. Nevertheless, Orange Polska applied for the re-examination of the decision.

In addition, two sets of proceedings carried out by UKE may result in the reference offer modification:

- initiated upon Orange Polska's request of April 2013;
- initiated *ex officio* in November 2013 to obligate Orange Polska to modify RLLO by introducing the terms of lease of lines between Ethernet nodes.

In connection with the intended partial deregulation of the wholesale leased lines market, Orange Polska applied for suspension of some of the proceedings.

Futhermore, after UKE decided to partially deregulate the leased lines service, Orange Polska applied to UKE for declaring void the decisions modifying RLLO with respect to leased lines terminating segments above 2 Mbps and leased lines trunk segments.

On December 21, 2015, Orange Polska submitted to the President of UKE a new draft reference offer for services of high-quality access provided at a fixed location with capacity of up to and including 2 Mbps. The ensuing procedure is pending.

9.1.3 New Costing Model for Fixed Termination Rates (FTR)

In 2014, UKE commenced work on a new FTR costing model (LRIC bottom-up) in order to implement the Commission recommendation of 7 May 2009 (2009/396/WE) in the Polish market. On August 28, 2014, UKE announced the results of a bidding procedure for the model development. The winner was Ernst&Young, which subsequently developed the model pursuant to a contract with UKE.

In February 2015, UKE presented the FTR calculation results based on statistical data. However, UKE indicated that the rates determined using a LRIC bottom-up model would not be implemented in 2015. FTR cuts and elimination of asymmetry of rates can be expected in the second half of 2016 at the earliest.

9.1.4 Mobile Termination Rates (MTR)

There have been no intentions articulated by the regulator regarding further MTR changes. Since July 1, 2013, the mobile termination rate has been PLN 0.0429 / minute.

9.2 Competitive Risks

9.2.1 CATV Operators

In 2015, cable television (CATV) operators, which hold a total share of approximately 40% in the pay TV market and control one third of the broadband market, continued a strategy of strengthening their market position.

However, the currently used marketing tools, such as offer enhancement, addition of new telecommunication services to bundles and introduction of comprehensive household solutions (including insurance and electricity), concentrated in urban areas where CATV operators were present hitherto, are no longer sufficient to attain their goals.

Due to market saturation in big cities, CATV operators need to seek new growth opportunities in smaller towns. This is effected through both direct infrastructure investments (such as UPC's greenfield investments in Płock, Rzeszów or Tarnów) and acquisitions of smaller players, which are declared by all major CATV operators (UPC, Multimedia Polska and Vectra).

The expansion of CATV operators in local markets, where Orange Polska has had an established position so far, poses a potential risk for the Group. The situation in big cities shows that it is difficult for Orange Polska to compete with CATV operators' comprehensive offer on the basis of its traditional copper infrastructure. Therefore, the Group's FTTH investment programme covers also smaller towns, where CATV operators have not consolidated their presence yet.

It is also worth mentioning that CATV operators have communicated the need to provide fully functional and attractive mobile offer to their customers. This may lead to either a strategic alliance or merger of a CATV operator and a mobile operator. Such a development would 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.

As growing customisation of content (particularly related to entertainment) and expansion of services on demand (such as IPTV, HD channel portfolio, music and video-on-demand) generate increasing demand for high-speed broadband lines, CATV operators continuously modernise and expand their networks and, more and more frequently, they also lease third party's fibre-optic lines. These investments also aim at acquiring customers from the business segment, which has been a growing source of revenue for cable televisions.

9.2.2 Cross-selling of Cyfrowy Polsat and Polkomtel's Services

In 2015, Cyfrowy Polsat and Polkomtel (both in the Cyfrowy Polsat Group controlled by Zygmunt Solorz-Żak) continued cross-sales of bundled offers combining mobile voice, mobile broadband and TV, coupled with sales of electrical energy and financial services in order to strengthen marketing relationship with both existing and new customers and build a joint customer base. Customers receive a number of benefits in exchange for the simultaneous use of telco-media services offered under both brands. In particular, the 'Smart Home' offers a range of household-dedicated services combined with the 'Passport of Benefits' loyalty programme.

Also other companies controlled by Mr. Solorz-Żak (Mobyland owned by Midas National Investment Fund; Plus Bank; ZE PAK energy group) were often involved in the development of bundled offers of Cyfrowy Polsat and Polkomtel.

9.2.3 New Integrated Operator on the Business Market: T-Mobile Merged with GTS

Since 15 January, 2015 all products of T-Mobile Poland and GTS Poland are provided under one brand (GTS brand disappeared from the market as it was acquired in May 2014). Upon integration of the infrastructure and introduction of a comprehensive portfolio, T-Mobile is now able to offer more converged services targeting business clients - both private firms and public institutions. Its service portfolio includes traditional voice services, data transmission as well as access to the Internet, servers, applications, financial services and data processing. After the merger, T-Mobile Poland offers 15,000 kilometers of fiber network and over 5,000 access points as well as five data centers with a total collocation area of 6,300 square meters. These factors generate increased business risk related to potentially stronger price pressure and increased competitiveness on the B2B market.

9.2.4 Fixed/Mobile Substitution

Fixed/mobile substitution is 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 the mobile infrastructure are generally offered by mobile operators; yet, 2015 demonstrated that also the mobile virtual network operator (MVNO) model is increasingly used for this purpose. Netia, Novum, Telestrada and Tele-Polska intend to migrate their fixed-line customers to a mobile network.

9.2.5 Mobile Broadband Access slows down the Fixed Broadband growth

The upward trend in the mobile broadband segment continued in 2015. Orange Polska estimates that the mobile broadband penetration of Poland’s population reached 17.0% at the end of December 2015. In Poland, mobile broadband access, depending on price options, seems to be partly a substitute to fixed broadband access, and the development of the former has partly slowed down the growth of the latter over the recent years.

Mobile broadband service providers have aimed at enhancing the coverage and technological capacity of their networks in order to offer higher data transmission rates.

9.2.6 WLR, BSA and LLU Wholesale Markets

The terms of provision of regulated wholesale services, WLR, BSA and LLU, are determined by the Single Reference Offer (“SRO”; see section 9.1.1 above).

9.2.7 Leased Lines Market

Orange Polska's main competitors in the wholesale leased lines market are Netia Group, PGE/Exatel Group, GTS/T-Mobile Group, Multimedia Group and ATM. These companies have network resources that enable them to compete with Orange Polska’s offer in terms of quality and price, and have their own nodes in all the sixteen regions of Poland. On the other hand, these operators are the core customers of Orange Polska’s wholesale services. A major part of the leased lines market is the retail segment with additional competition from smaller market players that develop their retail offer on the basis of lines leased from Orange Polska or other large players.

The current reference leased lines offer (RLLO) provides access to this service for a broad group of customers, but the fact that in 2015 the regulation was limited to capacities of up to and including 2 Mbps will enable Orange Polska to freely design its sales offers for high-income capacities in the coming years. The companies that have used the retail leased lines services so far may, upon registration in the register of telecom operators, use the wholesale price list for capacities of up to 2 Mbps and to the nearest Orange Polska’s node only.

There has been an increasingly noticeable shift towards sophisticated data transmission services on managed networks as well as convergent services which combine traditional leased line services with packet network services. For this reason, in Poland, like in other European countries, customers have been migrating from traditional data transmission services to managed solutions. Both Orange Polska and its rival companies have been expanding their service portfolio in this direction. This shift has also been noticed by the regulator. Consequently, a change of the regulatory framework for leased lines is expected in 2016. This should involve the establishment of the new relevant market for high-quality access in a fixed location at up to 2 Mbps, technologically neutral, which will include a portion of the existing market 13 (for speeds up to 2 Mbps). In addition, the deregulation of the existing markets, i.e. a portion of the market 13 above 2 Mbps and the entire market 14, is expected.

9.2.8 Polkomtel's Letters to UOKiK and the European Commission

On April 1, 2014, the European Commission notified Orange Polska regarding a letter it has received from Polkomtel informing about a potential breach by Orange Polska 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 No. 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.

On April 15, 2014, Orange Polska sent to the European Commission a response to Polkomtel's charges, stating that in the Company's opinion they are groundless. In 2014 and 2015 the Commission sent additional questions to Orange Polska and the Company submitted the information and documents requested by the Commission.

On April 11, 2014, UOKiK opened initial proceedings to clarify whether the activity of telecommunication operators related to their co-operation in providing access to, integration of or co-use of telecommunication networks, telecommunication infrastructure or frequencies might have resulted in a breach of the Act on Competition and Consumer Protection. On January 15, 2016, UOKiK announced that it completed the proceedings and would send its findings to the European Commission.

10 RISK FACTORS RELATED TO MACROECONOMIC ENVIRONMENT AND FINANCIAL MARKETS

10.1 Macroeconomic Factors and Factors Related to Poland

10.1.1 Economic Growth

In 2015, the Polish economy continued the growth trend at a slightly faster pace than in 2014. The GDP growth rate reached 3.6% - according to preliminary GUS estimation. The positive condition of economy resulted mainly from stable growth in private consumption supported by continued favourable trends in exports and investments. All these three growth engines should fuel further economic growth in 2016. Improvement in the labour market, growing wages, possible additional social transfers and low interest rates will stimulate an increase in household expenditure, while export, which slightly slowed down in the second half of 2015, should rebound owing to recovery in the Eurozone. 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 the European or German economy may have adverse effects on Poland's GDP growth rate. An internal risk factor that may potentially mitigate economic growth is related to additional state expenditure resulting from the election promises made by the new government. This expenditure may increase the budget deficit, which in turn may reduce the direct contribution of public spending to domestic demand growth and reduce the volume of public investments.

10.1.2 Inflation

Average annual CPI reached -0.9% in 2015, which was well below the inflation target (2.5%). Deflation, which took hold in the middle of the 2015, resulted primarily from lower food, raw materials and fuel prices, which in both cases can be attributed mainly to external factors. Russian sanctions on the EU food exports lowered demand for domestic food products, while a slump in oil prices in international markets contributed to a rapid decrease in fuel prices.

After the Monetary Policy Council cut interest rates to the record low (1.50%) in March, it kept the basic interest rate stable until the end of the year, upholding an opinion that the current stable economic growth limited the risk of inflation remaining below the target in the medium term.

A potential increase in inflation may result from depreciation of the Polish zloty in case of a significant increase in risk aversion in global financial markets.

10.1.3 Unemployment and Labour Costs

The labour market has been positively affected by the economic recovery, which was reflected in an increase in employment and a decrease in unemployment to 9.8% (-1.7 pp y-o-y) at the end of 2015. At the same time, an increase in wages in the enterprise sector was reported between January and December 2015 they were up 3.5% in nominal terms.

A further improvement in the labour market, driven by growing GDP, enhanced mood in the enterprise sector, growing investments and inflow of EU funds, may be expected in 2016.

10.1.4 Political and Economic Factors

Poland has undergone significant political, economic and social transformation in the last twenty five years. Changes in political, economic, social and other conditions may have influence on the economy and the condition of enterprises, including the financial condition and performance of Orange Polska. A trend observed over the recent years shows that the activity of the telecommunication market regulator has much more material effects on the Group and the telecommunication market as a whole than any political changes in Poland do.

Raised sensitivity to personal data protection and the privacy of telecommunication service users in Poland and across the European Union might lead to regulatory decisions with negative economic effects for operators. Another major factor is an on-going discussion about Poland's position in the European Union and the target date for entering the Euro zone as well as potential solutions for the EU economic recovery, particularly a debate on the establishment of a single telecommunications market within the EU by 2015.

10.1.5 Polish Tax System

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 until the end of 2016. 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.

10.2 Factors Related to Financial Markets

10.2.1 General Risks Related to the Polish Market

Poland is still considered a less stable market, which is exposed to higher fluctuations in case of negative developments in global markets. Therefore, investors should exercise caution while assessing the risk of purchase of financial assets of Polish companies. In consideration of the above, investment decisions should be made by experienced investors who are able to fully assess all risks involved in such investments.

10.2.2 Interest Rates

In 2015, the Monetary Policy Council continued its loose monetary policy, cutting the reference interest rate to 1.5%, a historical low. Considering further deflation in Poland, interest rates should not be expected to increase in 2016. Loose monetary policy might continue after new members of the Monetary Policy Council are appointed. However, a potential increase in interest rates should not have any major influence on the Group's debt service costs, due to high hedging ratio.

10.2.3 Foreign Exchange Rates

Foreign exchange rate fluctuations affect Orange Polska's obligations 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 2015, Polish zloty gained 1% against euro and lost 8.4% against the US dollar. The fluctuations of the Polish currency were caused mainly by external factors. Due to higher volatility in the currency market, it is not possible to clearly predict the Polish zloty trend in 2016. On the one hand, appreciation of zloty, supported by improving Poland's macroeconomic data, may be expected; on the other hand, the Polish currency may be affected by the geopolitical risk across Poland's eastern border and outflow of capital from emerging markets. In the reported period, the exchange rate of zloty against euro was in the 3.9822 – 4.3580 bracket, while its exchange rate against the US dollar oscillated between 3.5550 and 4.0400. NBP's mean exchange rates of PLN against the US dollar and euro were 3.7730 and 4.1843, respectively, in 2015.

10.2.4 Situation at the Warsaw Stock Exchange

Since November 1998, shares of Orange Polska (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.

On January 14, 2014, in connection with the change of the Company's name from Telekomunikacja Polska S.A. to Orange Polska S.A., pursuant to a decision of the WSE Board, the abbreviated names used by WSE for the Company's shares were changed in the following manner:

a) the existing abbreviated name: TPSA; the new abbreviated name: ORANGEPL;
b) the existing ticker: TPS; the new ticker: OPL.

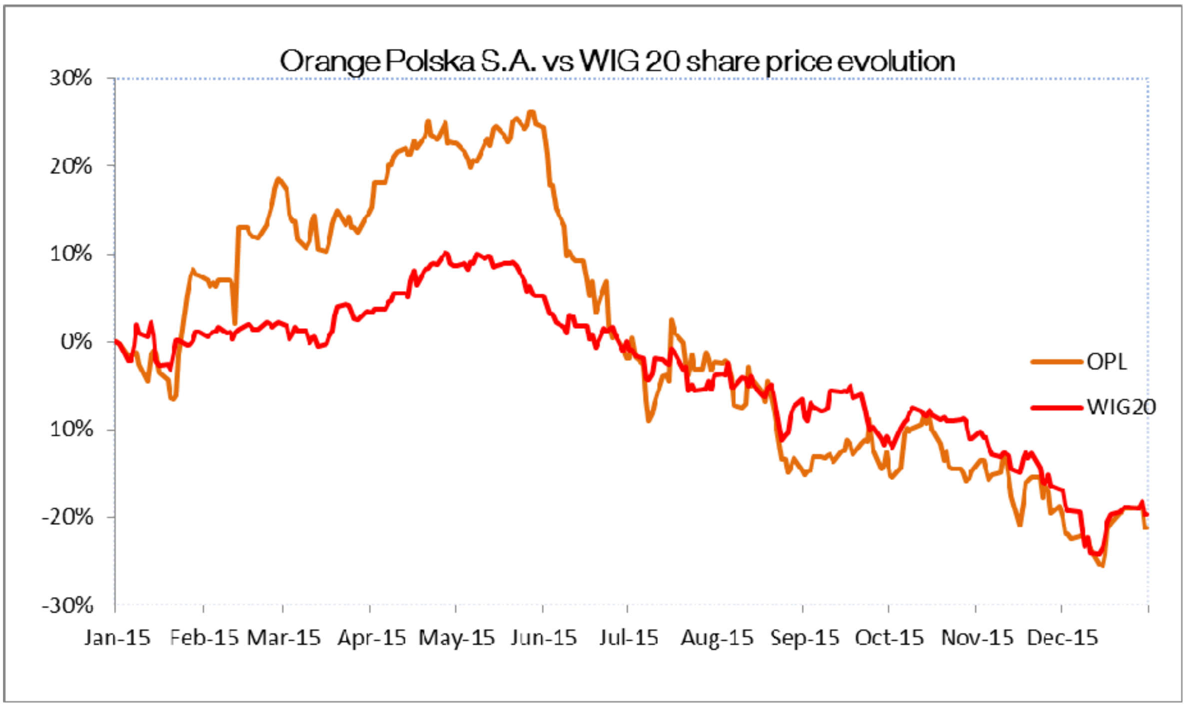
2015 saw drops in the indices on the Warsaw Stock Exchange (WSE). Orange Polska shares were down 21.2% (after the dividend-related reference price change), while the large-cap index, WIG20, lost 19.7% in the period.

In 2015, Orange Polska 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 24 companies. Orange Polska has been present in the index portfolio since its first edition.

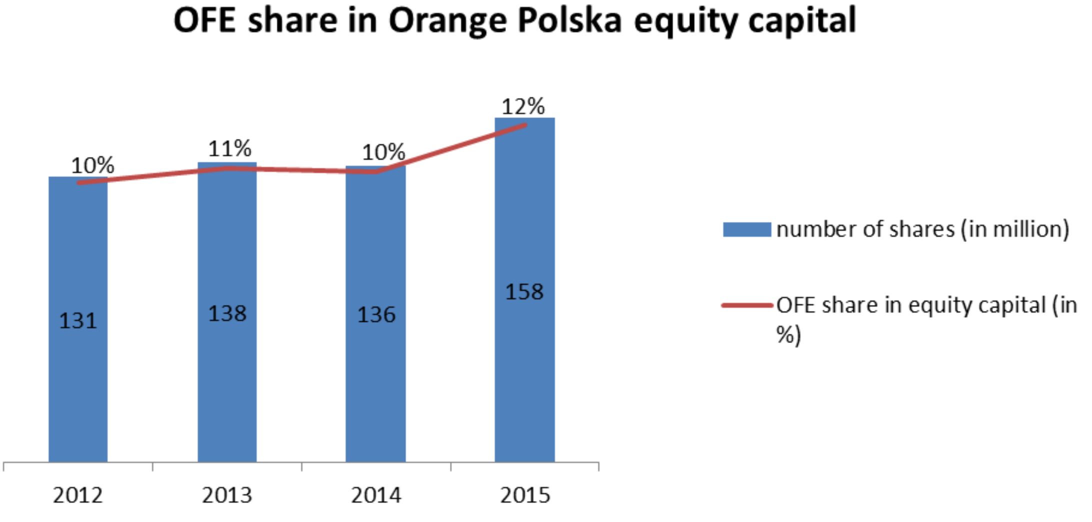
The RESPECT Index was launched in 2009. It is the first index of socially responsible companies in Central and Eastern Europe. It aims to popularise a strategic approach to corporate social responsibility. The index comprises companies which are characterised by comprehensive CSR management and diligent responding to the environment needs and expectations and which follow CSR principles both on the business strategy level and in everyday business practice. Orange Polska has followed a comprehensive approach to the management of CSR area and projects for years. Through a dialogue with its stakeholders, including customers, employees, the regulator or non-governmental organisations, the company can update its knowledge of the needs and expectations of its environment on a current basis and account for them in its business initiatives.

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.

ORANGE POLSKA S.A. SHARE PRICES
in the period from December 31, 2014 to December 31, 2015



A diagram of Polish Open Pension Funds'("OFE") total shareholding in Orange Polska as of the end of 2015 and previous years is shown below. The presented figures indicate that a stake held by these Funds in Orange Polska's share capital has been growing since 2012. At the end of 2015 it was on the historically highest level.



Orange Polska 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 investor 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 2015, the Company held four results presentations and over 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 2015, 21 financial institutions published their reports and recommendations concerning the Company.

On February 23, 2015, Orange Polska answered retail investors' questions during an investor chat held by the Association of Individual Investors (SII). Over thirty 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.

Orange Polska operates a website dedicated to investors and analysts at www.orange-ir.pl.

Orange Polska publishes its Annual Reports and Corporate Social Responsibility (CSR) Reports on-line at www.orange-ir.pl.

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)*:

BASED IN POLAND
DM BZ WBK
ING SECURITIES
DM BOŚ
DM PKOBP
PEKAO IB
DM MBANKU
TRIGON DOM MAKLERSKI S.A.
HAITONG
BASED OUTSIDE POLAND
CITIGROUP
DEUTSCHE BANK
ERSTE BANK INVESTMENT
GOLDMAN SACHS
HSBC
J.P. MORGAN
RAIFFEISENBANK AG
RENAISSANCE CAPITAL
VTB CAPITAL
MORGAN STANLEY

*For an updated list of brokers with the related institution data please visit the Company's website at www.orange-ir.pl

10.2.5 Other 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 Orange Polska share price fluctuations:

- Successful implementation of the Group's Medium Term Action Plan
- Change in the dividend per share;
- Change in the Group's debt;
- Sale or purchase of 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

11 STATEMENTS OF THE MANAGEMENT BOARD

11.1 Statement on Adopted Accounting Principles

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

1. Bruno Duthoit – President of the Board
2. Mariusz Gaca – Vice President in charge of Business Market
3. Piotr Muszyński – Vice President in charge of Operations
4. Jacek Kowalski – Board Member in charge of Human Resources
5. Maciej Nowohoński – Board Member in charge of Finance
6. Jolanta Dudek – Board Member in charge of Customer Care and Customer Excellence
7. Bożena Leśniewska – Board Member in charge of of Sales and Commercial Digitisation
8. Michał Paschalis-Jakubowicz – Board Member in charge of Marketing

hereby confirms that according to its best knowledge the consolidated financial statements and comparable data have been drawn up in compliance with the accounting regulations in force and reflect the Group's property, financial standing and financial result in an accurate, reliable and transparent manner.

This Management Board's Report provides accurate depiction of the development, achievements and standing of the issuer's group, including the description of major threats and risks.

11.2 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 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 in compliance with the relevant regulations and professional standards.

11.3 Agreement with the Licensed Auditor

On June 16, 2015, Orange Polska S.A. concluded an agreement with an entity licensed to audit financial statements for auditing and reviewing its standalone and consolidated financial statements for reporting periods of 2015. Pursuant to this agreement, Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k. has performed the following:

- reviews of the standalone and consolidated financial statements for the first half of 2015;
- the audit of the standalone financial statements of the Company and the consolidated financial statements of the Group for 2015 prepared in accordance with IFRS; and
- agreed procedures concerning audit and reviews of standalone and consolidated financial statements in 2015.

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 (in PLN '000) 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 2015 is presented below:

	2015
Audit of the consolidated financial statements of the Group as well as annual financial statements of Orange Polska S.A. and its subsidiaries	2,090
Other authentication services to the Group, including:	2,100
– Review of standalone financial statements of Orange Polska S.A. and the consolidated financial statements of the Group as of June 30, 2015	485
– Audit of annual regulatory statements of Orange Polska S.A. in line with the Telecommunication Law	1,615
Other services	145
Total amount payable by Group	4,335

The remuneration paid to Ernst & Young spółka z ograniczoną odpowiedzialnością Business Advisory sp. k. i Ernst & Young spółka z ograniczona odpowiedzialnością Academy of Business sp. k. totalled PLN 157 thousand in 2015.

In 2014, the aggregate remuneration for auditing and reviewing the above-mentioned financial statements and other services rendered by Deloitte Polska sp. z o.o. sp. k. was as follows: PLN 3,856 thousand for audits of financial statements of Orange Polska S.A., the Group and subsidiaries; PLN 1,094 thousand for reviews of financial statements of Orange Polska S.A. and the Group; and PLN 8 thousand for other services to Orange Polska S.A.

11.4 Management Board's Position as to the Achievement of the Previously Published Financial Projections for the Given Period

Orange Polska S.A. did not publish any financial projections concerning results of the Group for 2015 pursuant to Article 5(1.25) of the Decree of the Minister of Finance of February 19, 2009 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 (JoL of 2009 No. 33, item 259, as amended).

12 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 *Code of Best Practice for WSE Listed Companies*. The version of the latter in force until December 31, 2015 is available at http://corp-gov.gpw.pl.

(b) Corporate governance compliance

In 2015, the Company complied with the corporate governance best practice referred to above.

Furthermore, referring to the Section I of the *Best Practice*, the Company informs that:

(1) The Company has a remuneration policy as well as rules of defining the remuneration of members of supervisory and management bodies.

(2) One of the Company's priorities is to ensure equal access of women and men to management positions in the Company (section I.9). Therefore, Orange Polska has introduced new recruitment rules and set the proportion of employing men and women in managerial positions. In addition, a related succession index has been set, determining the percentage of TOP 350 positions with at least one female successor. Orange Polska has followed a policy of appointing persons with proper competence, professional experience and expertise to its supervisory and management bodies.

(3) The Company has not decided to implement the rule that a company should enable its shareholders to participate in a General Assembly using means of electronic communication, particularly through real-time bilateral communication, as well as exercise their right to vote during a General Assembly either in person or through a plenipotentiary (sections I.12 and IV.10), due to doubts about its compliance with the Commercial Companies Code.

(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 the Group has been designed and implemented by the Management Board to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Code of Ethics was adopted within the Group in 2008 which encompasses its relationship with customers, shareholders, employees, suppliers, competition and also with respect to the environment in which the Group operates. A warning system related to ethics and reporting of potential and actual fraud has been enhanced by the Group which is co-ordinated by the Ethics Committee. Training on ethics is provided to employees, which is confirmed by a personal certification. Formal channels for whistle blowing have been established, including reporting to the Chairman of the Audit Committee of the Supervisory Board and the Ethics Committee.

In 2013 in accordance with the approach adopted by Orange Group assuming a gradual implementation of subsequent elements of Compliance Program the Anti-Corruption Policy and Guidelines were introduced in Orange Polska. The implemented Anti-corruption Policy, supplemented by the Guidelines, contains detailed rules and standards for its application and references to specific conditions and circumstances relating to the identification and mitigation of risk of corruption. In addition, a number of information and training actions were carried out in order to raise employees' awareness of anti-corruption laws and rules applicable to the Company.

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 2015, the Disclosure Committee had six 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 Group's internal control and risk management system include the following procedures:

(1) An internal audit function, which reports directly to the President of the Management Board. The internal audit programme is annually reviewed by the Audit Committee, which also analyses the Group's Internal Audit reports. In order to promote an appropriate independent outlook for the Internal Audit, Management Board decisions regarding the conclusion and termination of an employment contract with the Group Internal Audit Director as well as his evaluation and remuneration require an opinion of the Audit and Remuneration Committees. The Group Internal Audit Director attends all meetings of the Audit Committee.

(2) The Group conducts ongoing assessments of the quality of the risk management system and controls. This process includes identification and classification of the Group'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 2015, 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, 2015.

(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, economic and financial plans; establishment, transformation and liquidation of the Company's business units; and governance of the Group subsidiaries. Any decisions regarding the issuance or redemption of the Company's shares are exclusively within the competence of the General Assembly.

The powers of the Management Board are detailed in the Management Board by-laws, available at www.orange-ir.pl

(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 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 of the General Assembly 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 2015

Composition on January 1, 2015:

1. Bruno Duthoit – President of the Board
2. Mariusz Gaca – Vice President of the Board
3. Piotr Muszyński – Vice President of the Board
4. Jacek Kowalski – Board Member
5. Maciej Nowohoński – Board Member

On October 8, 2015 the Supervisory Board appointed Ms. Jolanta Dudek, Ms. Bożena Leśniewska and Mr. Michał Paschalis-Jakubowicz as Members of the Management Board.

Composition on December 31, 2015:

1. Bruno Duthoit – President of the Board
2. Mariusz Gaca – Vice President of the Board
3. Piotr Muszyński – Vice President of the Board
4. Jolanta Dudek – Board Member
5. Jacek Kowalski – Board Member
6. Bożena Leśniewska – Board Member
7. Maciej Nowohoński – Board Member
8. Michał Paschalis-Jakubowicz – Board Member

On February 4,2016 the Supervisory Board of Orange Polska appointed Mr. Jean-François Fallacher as the President of the Management Board of Orange Polska effective as of 1 May 2016.

On February 4,2016 Mr. Bruno Duthoit resigned from the position of the Company's CEO with effect from the end of the day of 30 April 2016.

Notes regarding Management Board Members:

- Mr. Bruno Duthoit (born in 1953) is a graduate of the French École Polytechnique and École Nationale Supérieure des Télécommunications. He started his professional career as an engineer working for France Telecom SA (currently Orange SA) and soon progressed to become deputy regional director for network development investment in the Lower Normandy Region (until 1983). After six years of work in senior positions in public administration (at DATAR – Délégation à l'aménagement du territoire et à l'action régionale), first at regional and then national level, he returned to Orange SA in 1991 to head the Group's office for Czech Republic and Slovakia. From 1996 to 2013 he held positions of Chief Executive Officer or Management Board Member in several international subsidiaries of the Group. Notably, he was the CEO of Orange Slovensko in Slovakia (1996-1999), Orange Moldova (2006-2008), Orange Armenia (2008-2012), and Ethiopia's Ethiotelecom (2012-2013). He was a Management Board Member of Telekomunikacja Polska S.A. between 2001 and 2006 with a vast scope of responsibilities ranging from transformation to sales, marketing and customer care to investments and strategy.
- Mr. Mariusz Gaca (born in 1973) is a graduate of the Academy of Agriculture and Technology in Bydgoszcz and Warsaw University. He has also earned an MBA degree at the University of Illinois in Urbana Champaign and AMP at INSEAD. He began his professional career in the Elektrim Group (1995-2000), where he was involved in the development of business plans for local telecommunication operators.

In 2001, he joined the TP Group as the Director of Multimedia Branch, responsible for the development of the Internet access portfolio for the mass market. Between 2005 and 2009, he was responsible for TP Group's business market. From 2009 he was the TP Group Executive Director in charge of Sales and Customer Care and CEO of TP Group's mobile arm, PTK Centertel – a position which he held until the recent merger of PTK Centertel with TP S.A. Since November 2013 he has been responsible for Orange Polska's Business Market. Since 2011 he has served as Vice-President of Employers of Poland and the Chairman of the Polish Section of Business Industry Advisory Committee to the OECD.

- Mr. Piotr Muszyński (born in 1963) graduated from the Faculty of Law and Administration of the University of Wrocław and completed the Advanced Management Programme organised by IESE Business School / University of Navarra. He joined Orange Polska (formerly TP S.A.) in 2001, initially as Director of Customer Care Branch, later as Director of Sales and Services Division (2005–2006) and Executive Director in charge of Sales & Services (2006–2008). He was appointed Member of the Management Board in charge of Operations in September 2008 and Vice President in charge of Operations in November 2009. Piotr Muszyński acts also as President of the Council of Foundation for the Development of Radiocommunication and Multimedia Technologies, Vice Chairman of the Supervisory Board of the Association of Listed Companies (SEG), Member of the Committee of Electronics and Telecommunications of the Polish Academy of Sciences (PAN), Member of the Board of The Polish Chamber of Information Technology and Telecommunications (PIIT). In recognition of his career achievements he was awarded, among others, the Golden Antenna Award of the World of Telecommunication for the Manager of the Year in 2010 and 2011, and the Golden Cyborg Award during the National Symposium on Telecommunications and ICT in 2011 for his outstanding contribution to the development of information society.
- Ms. Jolanta Dudek (born in 1964) graduated from the Philology Faculty of the University of Silesia and completed postgraduate studies in European Economic Management, getting a diploma of Ecole des Hautes Etudes Commerciales (HEC), Juy-en Josas and Warsaw School of Economics (SGH) in Warsaw. She is also a graduate of the Academy of Leadership Psychology (2013) and Mentoring Academy (2015) of the Warsaw University of Technology Business School. She has gained experience as Lead Auditor of the ISO 2002 Quality Management System and as Customer Operations Performance Center (COPC®) Coordinator. She started her professional career in telecommunications in 2000 in PTK Centertel in management positions related to mass market customer care management. In 2004–2010 she was the Business Market Customer Care Director of the Orange Mobile Network. In October 2010, Jolanta Dudek became the Business Market Customer Care Director in Orange Customer Service Ltd. and since November 2013 she has been the President of Orange Customer Service. From November 2013 she was has the Executive Director in charge of Customer Care in Orange Polska. Since 2014 she has also been responsible for Orange Polska's Customer Relations.
- Mr. Jacek Kowalski (born in 1964), Orange Polska Management Board Member in charge of Human Resources since January 2011. Mr. Kowalski has worked for the Group for over ten years. From 2009 he served as the TP Group (currently Orange Polska) Executive Director in charge of Human Resources. Mr. Kowalski joined the Group in 2001 as Human Resources Manager for Sales and Marketing in PTK Centertel. From 2005 he was the Director of Employee Competence and Development Management Branch. In 1989 he graduated from the History Faculty of the Warsaw University before moving on to postgraduate studies in local government and non-governmental organisation management also at the Warsaw University, which he completed in 1996. Before joining the Group, he was the Director of the Entrepreneurship and Human Resources School in Infor Training (Infor Media Group) and served as Director of the National In-Service Teacher Training Centre, responsible for the implementation of training programmes supporting the development of education in Poland. Jacek Kowalski is a member of the Programme Board of the Polish Human Resources Management Association.
- Ms. Bożena Leśniewska (born in 1965) is a graduate of the Philology Faculty of the Jagiellonian University, Academy of Leadership Psychology and Mentoring Academy of the Warsaw University of Technology Business School. She started her professional career in the sales area in 1992 in DHL International Ltd. From 1996 she was responsible for sales market in Polkomtel S.A., initially as Sales Director, later as Regional Sales Director, Key Accounts Director and Business Customers Deputy Director. In 2006 she joined Orange Polska in PTK Centertel as Deputy Director of Business Market Sales Branch, and then Director of Business Customers Sales Branch. From 2008 she was Director of Business Customers Branch, and then Sales Director simultaneously in PTK Centertel and Orange Polska. From November 2013 she was the Executive Director in charge of Sales in Orange Polska. Ms. Leśniewska serves as Chairman of the Supervisory Board of Orange Retail S.A. She is a member of the Programme Board of Polish National Sales Awards, Women in Leadership pan-European organisation, THINKTANK Expert Board and PRZEŁOM Mentors Association.
- Mr. Maciej Nowohoński (born in 1973), Orange Polska Management Board Member in charge of Finance since March 2014. He has been with Orange Polska since 2003, in a variety of positions in the area of finance of increasing scope and responsibility, most notably that of Orange Polska Group Controller in 2006–2014. He was also Management Board Member at Emitel in 2010–2011 and the Management Board Member in charge of Finance at PTK Centertel in 2011–2013. Mr. Nowohoński also sits on the supervisory boards of several Orange Polska's subsidiaries. Prior to joining Orange Polska, he worked, among others, in Arthur Andersen and Andersen Business Consulting. He graduated from the Foreign

Trade Faculty of the Economic University of Poznań and from Hogeschool van Arnhem en Nijmegen, a Dutch business school.

- Mr. Michał Paschalis-Jakubowicz (born in 1972) graduated from the Economics Faculty of the University of Warsaw and earned an MBA degree at the Canadian Postgraduate Study of Warsaw School of Economics. He worked for Nicom Consulting, Polkomtel S.A., Wirtualna Polska S.A. (as the Management Board Member) and A.T.Kearney. In 2009 he started his professional career in PTK Centertel sp. z o.o. as the Mobile LoB Director. In November 2013 he joined Orange Polska as the Executive Director in charge of Consumer Marketing. In September 2015 Michał Paschalis-Jakubowicz was appointed as Member of the Supervisory Board of Telefony Podlaskie S.A.

II. Composition of the Supervisory Board and its Committees and changes thereof in 2015

Composition on January 1, 2015:

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

On April 9, 2015, the mandates of Ms. Henryka Bochniarz, Mr. Ramon Fernandez, Mr. Andrzej K. Koźmiński, Mr. Sławomir Lachowski, Ms. Marie-Christine Lambert and Mr. Wiesław Rozłucki expired.

On the same day, Ms. Henryka Bochniarz, Mr. Ramon Fernandez, Mr. Andrzej K. Koźmiński, Ms. Marie-Christine Lambert, Ms. Maria Pasło-Wiśniewska and Mr. Wiesław Rozłucki were appointed by the Annual General Assembly as Members of the Supervisory Board.

Composition on December 31, 2015:

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

At present, Orange Polska has six independent members on the Supervisory Board, namely: Prof. Andrzej K. Koźmiński, Dr. Henryka Bochniarz, Dr. Mirosław Gronicki, Russ Houlden, Maria Pasło-Wiśniewska and Dr. Wiesław Rozłucki.

On February 3, 2016 Prof. Andrzej K. Koźmiński resigned from the position as Member of the Supervisory Board of Orange Polska S.A. with effect on April 12, 2016.

Composition of the Committees of the Supervisory Board on December 31, 2015:

The Audit Committee

1. Russ Houlden – Chairman
2. Marie-Christine Lambert
3. Maria Pasło-Wiśniewska
4. Marc Ricau

The Audit Committee is chaired by Mr. Russ 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. Prof. Andrzej K. Koźmiński
3. Marc Ricau
4. Valérie Thérond

The Strategy Committee

1. Gervais Pellissier – Chairman
2. Dr. Henryka Bochniarz
3. Eric Debroeck
4. Dr. Mirosław Gronicki
5. Maria Pasło-Wiśniewska
6. Gérard Ries

Mr. Maciej Witucki, Chairman of the Supervisory Board, and Mr. Russ 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 General Assembly
1.	Bruno DUTHOIT – President	2016
2.	Mariusz GACA – Vice President	2017
3.	Piotr MUSZYŃSKI – Vice President	2017
4.	Jolanta DUDEK	2018
5.	Jacek KOWALSKI	2017
6.	Bożena LEŚNIEWSKA	2018
7.	Maciej NOWOHOŃSKI	2017
8.	Michał PASCHALIS-JAKUBOWICZ	2018
Supervisory Board		Year of General Assembly

1. Maciej WITUCKI – Chairman	2016
2. Andrzej K. KOŹMIŃSKI – Deputy Chairman	2018
3. Gervais PELLISSIER – Deputy Chairman	2016
4. Marc RICAU – Secretary	2016
5. Henryka BOCHNIARZ	2018
6. Jean-Marie CULPIN	2016
7. Eric DEBROECK	2016
8. Ramon FERNANDEZ	2018
9. Mirosław GRONICKI	2016
10. Russ HOULDEN	2017
11. Marie-Christine LAMBERT	2018
12. Maria PASŁO-WIŚNIEWSKA	2018
13. Gérard RIES	2017
14. Wiesław ROZŁUCKI	2018
15. Valérie THÉROND	2017

III. Operations of the Management Board

The operations of the Management Board is 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, an amendment to the Polish Accounting Act, dated September 29, 1994 was published in 2009 which increased 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 task of the Committee is to advise the Supervisory Board on the proper implementation of budgetary and financial reporting and internal control (including risk management) principles in the Group and to liaise with the auditors of the Group.

The key functions of the Audit Committee include:

1) Monitoring the integrity of the financial information provided by the Company and the Group in particular by reviewing:
    a. The relevance and consistency of the accounting methods used by the Company and the Group, including the criteria for the consolidation of the financial results;
    b. Any changes to accounting standards, policies and practices;
    c. Major areas of financial reporting subject to judgment;
    d. Significant adjustments arising from the audit;
    e. Statements on going concern;
    f. Compliance with the accounting regulations;
2) Reviewing, at least annually, the Group's system of internal control and risk management systems with a view to ensuring, to the extent possible, that the main risks (including those related to compliance with existing legislation and regulations) are properly identified, managed and disclosed;
3) Reviewing annually the Internal Audit programme, including the review of independence of the Internal Audit function and its budget, and coordination between the internal and external auditors;
4) Analyzing reports of the Group's Internal Audit and major findings of any other internal investigations and responses of the Management Board to them;
5) Making recommendations in relation to the engagement, termination, appraisal and/or remuneration (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) Monitoring the independence and objectivity of the Company's external auditors and presentation of recommendations to the Supervisory Board with regard to selection and remuneration of the Company's auditors, with particular attention being paid to remuneration for additional services;
8) Reviewing the issues giving rise to the resignation of the external auditor;
9) Discussing with the Company's external auditors before the start of each annual audit on the nature and scope of the audit and monitoring the auditors' work;
10) Discussing with the Company's external auditors (in or without the presence of the Company Management Board) any problems or reservations, resulting from the financial statements audit;
11) Reviewing the effectiveness of the external audit process, and the responsiveness of the Management Board to recommendations made by the external auditor;
12) Considering any other matter noted by the Audit Committee or the Supervisory Board;
13) Regularly informing the Supervisory Board about all important issues within the Committee's scope of activity.
14) Providing the Supervisory Board with its annual report on the Audit Committee's activity and results.

(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.

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)

ARPU – Average Revenues per User

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

Data user – a customer who used mobile data transmission in a given month

DLD – Domestic Long Distance Calls

DSLAM – Digital Subscriber Line Access Multiplexer

EBITDA – Operating income + depreciation and amortisation + impairment of goodwill + impairment of non-current assets

F2M – Fixed to Mobile Calls

FBB – Fixed Broadband

Fibre access network project – rollout of fixed broadband access network based on fibre technology which provides the end user with speed of above 100Mbps

FTE – Full time equivalent

FTTH – Fibre To The Home

FVNO – Fixed Virtual Network Operator

ICT – Information and Communication Technologies

ILD – International Calls

IP TV – TV over Internet Protocol

LC – Local Calls

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

MAN – Metropolitan Area Network

MPLS – MultiProtocol Label Switching

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

POS – Point-Of-Sale

POTS – Plain Old Telephone Service

RAN agreement – agreement on reciprocal use of radio access networks

RGU – Revenue Generation Unit

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 30Mbps

VoIP – Voice over Internet Protocol

WLL – Wireless Local Loop

WLR – Wholesale Line Rental