

## **ORANGE POLSKA GROUP**

# **IFRS CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2016**

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February 13, 2017

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## CONSOLIDATED INCOME STATEMENT

*(in PLN millions, except for earnings/loss per share)*

	<i>Note</i>	<i>12 months ended</i>	
		<i>31 December 2016</i>	<i>31 December 2015</i>
<b>Revenue</b>	<b>5</b>	<b>11,538</b>	<b>11,840</b>
External purchases	6.1	(6,432)	(6,271)
Labour expense	6.2	(1,636)	(1,713)
Other operating expense	6.3	(587)	(613)
Other operating income	6.3	210	246
Gains on disposal of assets	7	70	71
Employment termination expense	13	-	(129)
Depreciation and amortisation	10,11	(2,725)	(2,871)
(Impairment)/reversal of impairment of non-current assets	8.1,8.2	(1,792)	12
<b>Operating income/(loss)</b>		<b>(1,354)</b>	<b>572</b>
Interest income	16	22	17
Interest expense and other financial charges	16	(282)	(216)
Discounting expense	16	(99)	(92)
<b>Finance costs, net</b>		<b>(359)</b>	<b>(291)</b>
Income tax	23.1	(33)	(27)
<b>Consolidated net income/(loss)</b>		<b>(1,746)</b>	<b>254</b>
Net income/(loss) attributable to owners of Orange Polska S.A.		(1,746)	254
Net income/(loss) attributable to non-controlling interests		-	-
<b>Earnings/(loss) per share (in PLN) (basic and diluted)</b>	<b>30.5</b>	<b>(1.33)</b>	<b>0.19</b>
Weighted average number of shares (in millions) (basic and diluted)	30.5	1,312	1,312

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*(in PLN millions)*

	<i>Note</i>	<i>12 months ended</i>	
		<i>31 December 2016</i>	<i>31 December 2015</i>
<b>Consolidated net income/(loss)</b>		<b>(1,746)</b>	<b>254</b>
<b>Items that will not be reclassified to profit or loss</b>			
Actuarial gains/(losses) on post-employment benefits	15	(1)	9
Income tax relating to items not to be reclassified		-	(2)
<b>Items that may be reclassified subsequently to profit or loss</b>			
Gains on cash flow hedges	20	92	23
Income tax relating to items that may be reclassified		(17)	(4)
<b>Other comprehensive income, net of tax</b>		<b>74</b>	<b>26</b>
<b>Total comprehensive income/(loss)</b>		<b>(1,672)</b>	<b>280</b>
Total comprehensive income/(loss) attributable to owners of Orange Polska S.A.		(1,672)	280
Total comprehensive income/(loss) attributable to non-controlling interests		-	-

**Orange Polska Group**  
**IFRS Consolidated Financial Statements – 31 December 2016**  
*Translation of the financial statements originally issued in Polish*

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

(in PLN millions)

	<i>Note</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015 (see Note 30.5)</i>
<b>ASSETS</b>			
Goodwill	9	2,147	3,940
Other intangible assets	10	5,722	3,010
Property, plant and equipment	11	10,678	11,025
Trade receivables	12	433	215
Derivatives	20	206	89
Other assets		55	52
Deferred tax assets	23.2	929	991
<b>Total non-current assets</b>		<b>20,170</b>	<b>19,322</b>
Inventories		163	228
Trade receivables	12	1,827	1,600
Derivatives	20	36	33
Income tax assets		5	2
Other assets		45	117
Prepaid expenses		80	84
Cash and cash equivalents	19	262	266
<b>Total current assets</b>		<b>2,418</b>	<b>2,330</b>
<b>TOTAL ASSETS</b>		<b>22,588</b>	<b>21,652</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	24.1	3,937	3,937
Share premium		832	832
Other reserves		(29)	(103)
Retained earnings		5,267	7,309
<b>Equity attributable to owners of Orange Polska S.A.</b>		<b>10,007</b>	<b>11,975</b>
Non-controlling interests		2	2
<b>Total equity</b>		<b>10,009</b>	<b>11,977</b>
Trade payables	14.1	682	767
Loans from related party	18.1	7,087	2,849
Other financial liabilities at amortised cost	18.2	66	81
Derivatives	20	76	125
Employee benefits	15	144	251
Provisions	13	280	358
Other liabilities	14.2	15	-
Deferred income	14.3	81	59
<b>Total non-current liabilities</b>		<b>8,431</b>	<b>4,490</b>
Trade payables	14.1	2,433	2,130
Loans from related party	18.1	5	1,273
Other financial liabilities at amortised cost	18.2	36	45
Derivatives	20	-	9
Employee benefits	15	188	188
Provisions	13	850	803
Income tax liabilities		24	60
Other liabilities	14.2	132	191
Deferred income	14.3	480	486
<b>Total current liabilities</b>		<b>4,148</b>	<b>5,185</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>22,588</b>	<b>21,652</b>

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
			Gains/(losses) on cash flow hedges	Actuarial losses on post-employment benefits	Deferred tax	Share-based payments				
<b>Balance at 1 January 2016</b>	<b>3,937</b>	<b>832</b>	<b>(83)</b>	<b>(43)</b>	<b>23</b>	<b>-</b>	<b>7,309</b>	<b>11,975</b>	<b>2</b>	<b>11,977</b>
Total comprehensive loss for the 12 months ended 31 December 2016	-	-	92	(1)	(17)	-	(1,746)	(1,672)	-	(1,672)
Dividend (see Note 24.2)	-	-	-	-	-	-	(328)	(328)	-	(328)
Other movements (see Note 24.3)	-	-	-	-	-	-	32	32	-	32
<b>Balance at 31 December 2016</b>	<b>3,937</b>	<b>832</b>	<b>9</b>	<b>(44)</b>	<b>6</b>	<b>-</b>	<b>5,267</b>	<b>10,007</b>	<b>2</b>	<b>10,009</b>
<b>Balance at 1 January 2015</b>	<b>3,937</b>	<b>832</b>	<b>(106)</b>	<b>(137)</b>	<b>45</b>	<b>79</b>	<b>7,746</b>	<b>12,396</b>	<b>2</b>	<b>12,398</b>
Total comprehensive income for the 12 months ended 31 December 2015	-	-	23	9	(6)	-	254	280	-	280
Dividend (see Note 24.2)	-	-	-	-	-	-	(656)	(656)	-	(656)
Transfer to retained earnings (see Note 24.3)	-	-	-	85	(16)	(79)	10	-	-	-
Other movements (see Note 24.3)	-	-	-	-	-	-	(45)	(45)	-	(45)
<b>Balance at 31 December 2015</b>	<b>3,937</b>	<b>832</b>	<b>(83)</b>	<b>(43)</b>	<b>23</b>	<b>-</b>	<b>7,309</b>	<b>11,975</b>	<b>2</b>	<b>11,977</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS

(in PLN millions)

	Note	12 months ended	
		31 December 2016	31 December 2015 (see Note 30.5)
<b>OPERATING ACTIVITIES</b>			
Consolidated net income/(loss)		(1,746)	254
<i>Adjustments to reconcile net income/(loss) to cash from operating activities</i>			
Gains on disposal of assets	7	(70)	(71)
Depreciation and amortisation	10,11	2,725	2,871
Impairment/(reversal of impairment) of non-current assets	8	1,792	(12)
Finance costs, net		359	291
Income tax	23.1	33	27
Change in provisions and allowances		(126)	(88)
Operational foreign exchange and derivatives gains, net		(10)	(3)
<i>Change in working capital</i>			
(Increase)/decrease in inventories, gross		54	(21)
Increase in trade receivables, gross		(430)	(288)
Increase/(decrease) in trade payables		292	(154)
(Increase)/decrease in prepaid expenses and other receivables		58	(49)
Increase/(decrease) in deferred income and other payables		(29)	134
Interest received		22	17
Interest paid and interest rate effect paid on derivatives, net		(353)	(289)
Exchange rate effect received on derivatives, net		10	4
Income tax paid		(32)	(76)
<b>Net cash provided by operating activities</b>		<b>2,549</b>	<b>2,547</b>
<b>INVESTING ACTIVITIES</b>			
Purchases of property, plant and equipment and intangible assets	10,11	(5,169)	(1,998)
Increase/(decrease) in amounts due to fixed assets suppliers		(42)	262
Exchange rate effect received on derivatives economically hedging capital expenditures, net		15	8
Proceeds from sale of property, plant and equipment and intangible assets		119	143
Proceeds from sale of subsidiaries, net of cash and transaction costs	4	-	8
(Increase)/decrease in other financial instruments		3	(3)
<b>Net cash used in investing activities</b>		<b>(5,074)</b>	<b>(1,580)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of long-term debt		2,702	775
Repayment of long-term debt		(1,225)	(62)
Increase/(decrease) in revolving credit line and short-term debt		1,355	(1,011)
Exchange rate effect received on derivatives hedging debt, net		17	5
Dividend paid	24.2	(328)	(656)
<b>Net cash provided by/(used in) financing activities</b>		<b>2,521</b>	<b>(949)</b>
<b>Net change in cash and cash equivalents</b>		<b>(4)</b>	<b>18</b>
Cash and cash equivalents at the beginning of the period		266	248
<b>Cash and cash equivalents at the end of the period</b>		<b>262</b>	<b>266</b>

## 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:

<i>Entity</i>	<i>Location</i>	<i>Scope of activities</i>	<i>Share capital owned by the Group</i>	
			<i>31 December 2016</i>	<i>31 December 2015</i>
Integrated Solutions Sp. z o.o.	Warsaw, Poland	Provision of integrated IT and network services.	100%	100%
TP TelTech Sp. z o.o.	Łódź, Poland	Design and development of telecommunications systems, servicing telecommunications network, monitoring of alarm signals.	100%	100%
Telefony Podlaskie S.A.	Sokołów Podlaski, Poland	Local provider of fixed-line, internet and cable TV services.	89.27%	89.27%
Orange Retail S.A.	Modlnica, Poland	Distributor of OPL S.A. products on mass and business market.	100%	100%
Orange Real Estate Sp. z o.o.	Warsaw, Poland	Facilities management and maintenance.	100%	100%
Orange Szkolenia Sp. z o.o.	Warsaw, Poland	Training and hotel services, insurance agent.	100%	100%
Pracownicze Towarzystwo Emerytalne Orange Polska S.A.	Warsaw, Poland	Management of employee pension fund.	100%	100%
Fundacja Orange	Warsaw, Poland	Charity foundation.	100%	100%
Telekomunikacja Polska Sp. z o.o.	Warsaw, Poland	No operational activity.	100%	100%
Orange Customer Service Sp. z o.o. <sup>(1)</sup>	Warsaw, Poland	Post-sale services for OPL S.A. customers.	-	100%
TP Invest Sp. z o.o. <sup>(1)</sup>	Warsaw, Poland	Corporate governance over non-core subsidiaries of Orange Polska.	-	100%
TPSA Eurofinance France S.A. <sup>(2)</sup>	Paris, France	No operational activity.	-	99.99%

<sup>(1)</sup> Companies merged with Orange Polska S.A. in 2016 (see Note 4).

<sup>(2)</sup> The company was liquidated in 2016.



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 2016 and 2015, 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:

Jean-François Fallacher – President of the Management Board,  
Mariusz Gaca – Vice President in charge of Consumer Market,  
Bożena Leśniewska – Vice President in charge of Business Market,  
Piotr Muszyński – Vice President in charge of Strategy and Transformation,  
Jolanta Dudek – Board Member in charge of Customer Care and Customer Excellence,  
Jacek Kowalski – Board Member in charge of Human Resources,  
Maciej Nowohoński – Board Member in charge of Finance.

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

Maciej Witucki – Chairman of the Supervisory Board,  
Gervais Pellissier – Deputy Chairman of the Supervisory Board,  
Marc Ricau – Secretary of the Supervisory Board,  
Dr. Henryka Bochniarz – Independent Member of the Supervisory Board,  
Federico Colom Artola – 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,  
Russ Houlden – Independent Member of the Supervisory Board,  
prof. Michał Kleiber – Independent Member of the Supervisory Board,  
Patrice Lambert – Member of the Supervisory Board,  
Maria Pasło-Wiśniewska – Independent 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 2016 and in the year 2017 until the date of the authorisation of these Consolidated Financial Statements:

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.

On 4 July 2016, Mr Michał Paschalis-Jakubowicz submitted his resignation as the Member of the Management Board of OPL S.A. with immediate effect.

The following changes occurred in the Supervisory Board of the Company in the year ended 31 December 2016 and in the year 2017 until the date of the authorisation of these Consolidated Financial Statements:

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.

On 7 April 2016, Mr Gérard Ries submitted his resignation as the Member of the Supervisory Board of OPL S.A. with effect on the same day.

On 12 April 2016, OPL S.A. Supervisory Board Member's mandate of dr. Mirosław Gronicki expired and was not renewed. On the same day the General Meeting of OPL S.A. appointed prof. Michał Kleiber as the Member of the Supervisory Board of OPL S.A.

On 28 June 2016, Ms Marie-Christine Lambert submitted her resignation as the Member of the Supervisory Board of OPL S.A. with effect on 30 June 2016.

On 13 July 2016, the Supervisory Board of OPL S.A. appointed Mr Patrice Lambert and Mr Federico Colom Artola as the Members of the Supervisory Board of OPL S.A.

## **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 2015 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 13 February 2017 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 2016 are described in Note 30 and are based on:

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

### 3. Segment information

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

Revenue from the Group’s activities is adjusted for the impact of changes in the scope of consolidation. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

EBITDA is the key measure of operating profitability used by the Management Board and corresponds to operating income/loss before depreciation and amortisation expense and impairment of non-current assets. To give a better representation of underlying performance, EBITDA is adjusted for the impact of changes in the scope of consolidation, employment termination programs, restructuring costs, significant claims, litigation and other risks as well as other significant non-recurring items. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

Organic cash flows are the key measure of cash flow generation used by the Management Board and correspond to net cash provided by operating activities decreased by purchases of property, plant and equipment and intangible assets, changes in amounts due to fixed assets suppliers, impact of 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. To give a better representation of underlying performance, organic cash flows are adjusted for the payments for acquisition of telecommunications licences and payments relating to significant claims, litigation and other risks. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

Capital expenditures are the key measure of resources allocation used by the Management Board and represent acquisitions of property, plant and equipment and intangible assets. To give a better representation of underlying performance, capital expenditures are adjusted for the impact of acquisition of telecommunications licences. Adjustments for the 12 months ended 31 December 2016 and 2015 are presented in the table below.

Net financial debt / adjusted EBITDA ratio is the key measure of financial structure and liquidity used by the Management Board. The Management Board believes that this ratio is the most relevant measure and therefore net gearing ratio is no longer used. The calculation of net financial debt is presented in the Note 17.

Basic financial data of the operating segment is presented below:

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Adjusted revenue	11,538	11,826
Adjusted EBITDA	3,163	3,517
Net income/(loss) as per consolidated income statement	(1,746)	254
Adjusted organic cash flows	620	962
Adjusted capital expenditures	2,001	1,998
	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Net financial debt / adjusted EBITDA ratio	2.1	1.1

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

<i>(in PLN millions)</i>	<i>12 months ended</i> <u>31 December 2016</u>	<i>12 months ended</i> <u>31 December 2015</u>
Revenue	11,538	11,840
- adjustment for data of Contact Center Sp. z o.o. <sup>(1)</sup>	-	(14)
Adjusted revenue	11,538	11,826
EBITDA	3,163	3,431
- adjustment for data of Contact Center Sp. z o.o. <sup>(1)</sup>	-	(4)
- adjustment for employment termination expense (see Note 13) net of related curtailment of long-term employee benefits (see Note 15)	-	90
Adjusted EBITDA	3,163	3,517
Organic cash flows	(2,528)	962
- adjustment for payments for acquisition of telecommunications licences (see Note 10)	3,148	-
Adjusted organic cash flows	620	962
Capital expenditures	5,169	1,998
- adjustment for expenditures on acquisition of telecommunications licences (see Note 10)	(3,168)	-
Adjusted capital expenditures	<u>2,001</u>	<u>1,998</u>

<sup>(1)</sup> Adjusted revenue and adjusted EBITDA for the 12 months ended 31 December 2015 do not include data of Contact Center Sp. z o.o. (a subsidiary disposed of in August 2015). Additionally, adjusted EBITDA does not include the gain on disposal of this subsidiary amounting to PLN 3 million.

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

On 30 September 2016, the merger of Orange Polska S.A. and its fully owned subsidiaries – Orange Customer Service Sp. z o.o. and TP Invest Sp. z o.o. – was registered in the Commercial Court. The merger was effected by transferring all assets and liabilities of these subsidiaries to OPL S.A.

On 17 June 2016, the Group liquidated TPSA Eurofinance France S.A., a fully owned subsidiary.

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 and is included in gains on disposal of assets.

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

## 5. Revenue

*(in PLN millions)*

	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
<b>Mobile revenue</b>	<b>6,421</b>	<b>6,141</b>
Retail revenue	4,296	4,589
Wholesale revenue (including interconnect)	1,037	909
Mobile equipment sales	1,088	643
<b>Fixed services</b>	<b>4,662</b>	<b>5,083</b>
Fixed narrowband	1,527	1,746
Fixed broadband, TV and VoIP (Voice over Internet Protocol)	1,490	1,601
Enterprise solutions and networks	892	916
Wholesale revenue (including interconnect)	753	820
<b>Other revenue</b>	<b>455</b>	<b>616</b>
<b>Total revenue</b>	<b>11,538</b>	<b>11,840</b>

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

Revenue is generated mainly in the territory of Poland. Approximately 3.2% and 2.8% of the total revenue for the 12 months ended 31 December 2016 and 2015, respectively, was earned from entities which are not domiciled in Poland, mostly from interconnect services.

From 2016, mobile voice traffic revenue and revenue from data, messaging, content and M2M (machine-to-machine) are presented together as retail revenue. Additionally, revenue from mobile equipment sales is included in mobile revenue line.

## 6. Operating expense and income

### 6.1. External purchases

*(in PLN millions)*

	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Commercial expenses	(2,839)	(2,745)
– <i>cost of handsets and other equipment sold</i>	(1,901)	(1,829)
– <i>commissions, advertising, sponsoring costs and other</i>	(938)	(916)
Interconnect expenses	(1,513)	(1,345)
Network and IT expenses	(670)	(734)
Other external purchases	(1,410)	(1,447)
<b>Total external purchases</b>	<b>(6,432)</b>	<b>(6,271)</b>

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

## 6.2. Labour expense

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Average number of active employees (full time equivalent)	16,424	17,703
Wages and salaries	(1,528)	(1,580)
Social security and other charges	(350)	(362)
Long-term employee benefits (see Note 15)	82	74
Capitalised personnel costs	205	199
Other employee benefits	(45)	(44)
<b>Total labour expense</b>	<b>(1,636)</b>	<b>(1,713)</b>

## 6.3. Other operating expense and income

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Taxes other than income tax	(304)	(301)
Orange brand fee (see Note 28.2)	(127)	(134)
Impairment losses on trade and other receivables, net	(89)	(98)
Other expense and changes in provisions, net	(67)	(80)
<b>Total other operating expense</b>	<b>(587)</b>	<b>(613)</b>
<b>Total other operating income</b>	<b>210</b>	<b>246</b>

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 2016 and 2015, research and development costs expensed in the consolidated income statement amounted to PLN 48 million and PLN 52 million, respectively.

## 7. Gains on disposal of assets

During the 12 months ended 31 December 2016 and 2015, gains on disposal of assets amounted to PLN 70 million and PLN 71 million, respectively, and included mainly gains on disposal of properties.

## 8. Impairment

### 8.1. Cash Generating Unit

Vast majority 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 all telecom operations as a single telecom operator Cash Generating Unit ("CGU").

The Group considers certain indicators, including 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 2016 and 2015 the Group performed impairment tests of the CGU (including goodwill).

In the year 2016 impairment loss amounting to PLN 1,793 million was recognised in the consolidated income statement and allocated solely to goodwill, as required by International Accounting Standard 36. The impairment loss was driven by lower projected cash flows within the business plan resulting from the reassessment

of expected further business performance in light of current market conditions and technological advancements coupled with an increase in the post-tax discount rate.

No impairment loss was recognised in the year 2015.

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

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

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

*Telecom operator CGU*

	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Basis of recoverable amount	Value in use	Value in use
Sources used	Business plan	Business plan
	5 years cash flow projections	5 years cash flow projections
Perpetuity growth rate	1%	1%
Post-tax discount rate	9.25%	8.5%
Pre-tax discount rate <sup>(1)</sup>	10.7%	9.9%

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

### Sensitivity of recoverable amount

Recognition of impairment loss of PLN 1.8 billion decreased the carrying value of the telecom operator CGU to its value in use amounting to PLN 17 billion as at 31 December 2016.

The table below shows impact of hypothetical changes in key assumptions on the telecom operator CGU value in use:

*(in PLN billions)*

	<i>Sensitivity as at 31 December 2016</i>					
	<i>Projected cash flows after fifth year</i>		<i>Perpetuity growth rate</i>		<i>Post-tax discount rate</i>	
	<i>+10%</i>	<i>-10%</i>	<i>+0.5 p.p.</i>	<i>-0.5 p.p.</i>	<i>+0.5 p.p.</i>	<i>-0.5 p.p.</i>
Telecom operator CGU value in use	1.6	(1.6)	0.8	(0.7)	(1.0)	1.1

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

During the 12 months ended 31 December 2016 and 2015, the reversal of impairment loss on property, plant and equipment and intangible assets included in the consolidated income statement amounted to PLN 1 million and PLN 12 million, respectively, primarily as a result of a review of certain of the Group's properties.

## 9. Goodwill

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>			<i>At 31 December 2015</i>		
	<i>Cost</i>	<i>Accumulated impairment<sup>(1)</sup></i>	<i>Net</i>	<i>Cost</i>	<i>Accumulated impairment</i>	<i>Net</i>
<i>CGU</i>						
Telecom operator	3,940	(1,793)	2,147	3,940	-	3,940
<b>Total goodwill</b>	<b>3,940</b>	<b>(1,793)</b>	<b>2,147</b>	<b>3,940</b>	<b>-</b>	<b>3,940</b>

<sup>(1)</sup> See Note 8.1.

The goodwill of PLN 3,909 million arose in 2005 on acquisition of the remaining 34% of non-controlling interest in the mobile business controlled by OPL S.A. and corresponds to the difference between the cost of acquisition of the non-controlling interest and the non-controlling interest in the net book value of the underlying net assets. This approach was allowed under IAS 27 effective in 2005 (i.e. before the effective date of IAS 27 Revised which requires treating the acquisition of non-controlling interest as an equity transaction). The remaining balance of goodwill of PLN 31 million arose on acquisition of certain subsidiaries.

## 10. Other intangible assets

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>			
	<i>Cost</i>	<i>Accumulated amortisation</i>	<i>Accumulated impairment</i>	<i>Net</i>
Telecommunications licences	5,785	(1,725)	-	4,060
Software	5,521	(3,922)	-	1,599
Other intangibles	217	(142)	(12)	63
<b>Total other intangible assets</b>	<b>11,523</b>	<b>(5,789)</b>	<b>(12)</b>	<b>5,722</b>

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

Details of telecommunications licences are as follows:

<i>(in PLN millions)</i>	<i>Acquisition date</i>	<i>Years to expiration<sup>(3)</sup></i>	<i>Net book value</i>	
			<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
450 MHz <sup>(1)</sup>	1991	-	-	-
800 MHz	2016	14.1	2,880	-
900 MHz	2014	12.5	300	324
900 MHz <sup>(2)</sup>	2013	1.6	20	33
1800 MHz <sup>(2)</sup>	2013	11.0	175	191
1800 MHz	1997	10.6	-	-
2100 MHz	2000	6.0	574	669
2600 MHz	2016	14.1	111	-
<b>Total telecommunications licences</b>			<b>4,060</b>	<b>1,217</b>

<sup>(1)</sup> The 450 MHz telecommunication licence expired at the end of 2016. Upon Orange Polska's application for renewal, on 13 January 2017, the President of UKE issued a decision assigning the spectrum for further fifteen years. Based on an expert appraisal, the President of UKE set the assignment fee at PLN 115 million. Orange Polska has appealed against the frequency assignment decision.

<sup>(2)</sup> Licences held under agreements with T-Mobile Polska S.A.

<sup>(3)</sup> Remaining useful life in years as at 31 December 2016.

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 decisions. In February 2016, Orange Polska paid the whole amount less PLN 20 million of deposit paid in 2014 before the auction. The amortisation of the above-mentioned frequencies began on 1 March 2016 and the amortisation charge amounted to PLN 177 million in the 12 months ended 31 December 2016.

Movements in the net book value of other intangible assets for the 12 months ended 31 December 2016 were as follows:

<i>(in PLN millions)</i>	<i>Telecommunications</i>			<i>Total other intangible assets</i>
	<i>licences</i>	<i>Software</i>	<i>Other intangibles</i>	
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>1,217</b>	<b>1,729</b>	<b>64</b>	<b>3,010</b>
Acquisitions of intangible assets	3,168	438	15	3,621
Amortisation	(325)	(568)	(15)	(908)
Reclassifications and other, net	-	-	(1)	(1)
<b>Closing balance</b>	<b>4,060</b>	<b>1,599</b>	<b>63</b>	<b>5,722</b>

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

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

## 11. Property, plant and equipment

*(in PLN millions)*

	<i>At 31 December 2016</i>			
	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Accumulated impairment</i>	<i>Net</i>
	Land and buildings	3,060	(1,833)	(31)
Network	37,499	(29,025)	-	8,474
Terminals	2,126	(1,552)	-	574
Other IT equipment	1,486	(1,149)	-	337
Other	277	(178)	(2)	97
<b>Total property, plant and equipment</b>	<b>44,448</b>	<b>(33,737)</b>	<b>(33)</b>	<b>10,678</b>

*(in PLN millions)*

	<i>At 31 December 2015</i>			
	<i>Cost</i>	<i>Accumulated depreciation</i>	<i>Accumulated impairment</i>	<i>Net</i>
	Land and buildings	3,133	(1,775)	(36)
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
<b>Total property, plant and equipment</b>	<b>44,792</b>	<b>(33,729)</b>	<b>(38)</b>	<b>11,025</b>

As at 31 December 2016 and 2015, the amount of expenditures recognised in the carrying amount of items of property, plant and equipment in the course of their construction amounted to PLN 1,061 million and PLN 937 million, respectively.

Movements in the net book value of property, plant and equipment for the 12 months ended 31 December 2016 were as follows:

(in PLN millions)

	<i>Land and buildings</i>	<i>Network</i>	<i>Terminals</i>	<i>Other IT equipment</i>	<i>Other</i>	<i>Total property, plant and equipment</i>
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>1,322</b>	<b>8,648</b>	<b>572</b>	<b>374</b>	<b>109</b>	<b>11,025</b>
Acquisitions of property, plant and equipment	41	1,161	231	88	27	1,548
Disposals and liquidations	(48)	(5)	-	-	-	(53)
Depreciation	(120)	(1,309)	(233)	(123)	(32)	(1,817)
Impairment	1	-	-	-	-	1
Dismantling costs, reclassifications and other, net	-	(21)	4	(2)	(7)	(26)
<b>Closing balance</b>	<b>1,196</b>	<b>8,474</b>	<b>574</b>	<b>337</b>	<b>97</b>	<b>10,678</b>

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend useful lives for cables and ducts used in fixed line network from 2016. Lives of these assets were verified in light of the launch of FTTH (Fiber To The Home) project and other forecasted technological developments. As a result of the extension of the estimated useful lives, the depreciation expense was lower by PLN 301 million in the 12 months ended 31 December 2016.

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)

	<i>Land and buildings</i>	<i>Network</i>	<i>Terminals</i>	<i>Other IT equipment</i>	<i>Other</i>	<i>Total property, plant and equipment</i>
<b>Opening balance net of accumulated amortisation and impairment</b>	<b>1,441</b>	<b>9,279</b>	<b>525</b>	<b>359</b>	<b>111</b>	<b>11,715</b>
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
<b>Closing balance</b>	<b>1,322</b>	<b>8,648</b>	<b>572</b>	<b>374</b>	<b>109</b>	<b>11,025</b>

The carrying value of equipment held under finance leases as at 31 December 2016 and 2015 amounted to PLN 58 million and PLN 64 million, respectively. Leased assets cannot be sold, donated, transferred by title or pledged and are a collateral for the related finance lease liability.

## 12. Trade receivables

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015 (see Note 30.5)</i>
Non-current trade receivables, net	433	215
Current trade receivables, net	1,827	1,600
<b>Trade receivables, net</b>	<b>2,260</b>	<b>1,815</b>

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 mainly to sales of mobile handsets in instalments.

Movement in the impairment of trade receivables during the 12 months ended 31 December 2016 and 2015 is presented below:

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
<b>Beginning of period</b>	<b>138</b>	<b>143</b>
Impairment losses, net	87	92
Utilisation of impairment for receivables sold or written-off	(66)	(97)
<b>End of period</b>	<b>159</b>	<b>138</b>

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

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015 (see Note 30.5)</i>
<b>Trade receivables collectively analysed for impairment, net:</b>		
Not past due	1,501	1,058
Past due less than 180 days	281	282
Past due between 180 and 360 days	8	34
Past due more than 360 days	7	4
<b>Total trade receivables collectively analysed for impairment, net</b>	<b>1,797</b>	<b>1,378</b>
<b>Trade receivables individually analysed for impairment, net:</b> <sup>(1)</sup>		
Not past due	374	303
Past due	89	134
<b>Total trade receivables individually analysed for impairment, net</b>	<b>463</b>	<b>437</b>
<b>Total trade receivables, net</b>	<b>2,260</b>	<b>1,815</b>

<sup>(1)</sup> Mainly includes receivables from related parties (see Note 28.2), telecommunications companies and disputed receivables.

### 13. Provisions

Movements of provisions for the 12 months ended 31 December 2016 were as follows:

<i>(in PLN millions)</i>	<i>Provisions for claims and litigation, risks and other charges</i>	<i>Provisions for employment termination expense</i>	<i>Dismantling provisions</i>	<i>Total provisions</i>
<b>At 1 January 2016</b>	<b>728</b>	<b>132</b>	<b>301</b>	<b>1,161</b>
Increases	43	-	5	48
Reversals (utilisations)	(10)	(71)	(10)	(91)
Reversals (releases)	(7)	-	(32)	(39)
Foreign exchange effect	21	-	-	21
Discounting effect	18	1	11	30
<b>At 31 December 2016</b>	<b>793</b>	<b>62</b>	<b>275</b>	<b>1,130</b>
Current	780	62	8	850
Non-current	13	-	267	280

Movements of provisions for the 12 months ended 31 December 2015 were as follows:

<i>(in PLN millions)</i>	<i>Provisions for claims and litigation, risks and other charges</i>	<i>Provisions for employment termination expense</i>	<i>Dismantling provisions</i>	<i>Total provisions</i>
<b>At 1 January 2015</b>	<b>697</b>	<b>89</b>	<b>307</b>	<b>1,093</b>
Increases	28	132	7	167
Reversals (utilisations)	(2)	(87)	(22)	(111)
Reversals (releases)	(11)	(3)	-	(14)
Discounting effect	16	1	9	26
<b>At 31 December 2015</b>	<b>728</b>	<b>132</b>	<b>301</b>	<b>1,161</b>
Current	728	68	7	803
Non-current	-	64	294	358

The discount rate used to calculate the present value of provisions amounted to 1.75% - 3.73% as at 31 December 2016 and 1.72% - 2.98% as at 31 December 2015.

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

These provisions relate mainly to claims and litigation described in the Note 27. 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 2016 and 2015 consisted of the estimated amount of termination benefits for Group employees scheduled to terminate employment under the 2016 - 2017 Social Agreement. Other movements of these provisions during the 12 months ended 31 December 2015 related mainly to the 2014 - 2015 Social Agreement.

On 2 December 2015, OPL S.A. and Orange Customer Service Sp. z o.o. concluded with Trade Unions the Social Agreement under which up to 2,050 employees were 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.

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

### **14.1. Trade payables**

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Trade payables	1,437	1,138
Fixed assets payables	841	841
Telecommunications licence payables	837	918
<b>Total trade payables</b>	<b>3,115</b>	<b>2,897</b>
Current	2,433	2,130
Non-current <sup>(1)</sup>	682	767

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

As at 31 December 2016 and 2015, trade payables subject to reverse factoring amounted to PLN 132 million and PLN 15 million, respectively. These payables are presented together with the remaining balance of trade payables, as analysis conducted by the Group indicates they have retained their trade nature.

### **14.2. Other liabilities**

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
VAT payables	53	113
Other taxes payables	22	20
Other	72	58
<b>Total other liabilities</b>	<b>147</b>	<b>191</b>
Current	132	191
Non-current	15	-

### **14.3. Deferred income**

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Subscription (including unused balances in post-paid system)	194	189
Unused balances in pre-paid system	206	221
Connection fees	62	47
Other	99	88
<b>Total deferred income</b>	<b>561</b>	<b>545</b>
Current	480	486
Non-current	81	59

## 15. Employee benefits

(in PLN millions)

	At 31 December 2016	At 31 December 2015
Jubilee awards	104	131
Retirement bonuses and other post-employment benefits	52	118
Salaries and other employee-related payables	176	190
<b>Total employee benefits</b>	<b>332</b>	<b>439</b>
Current	188	188
Non-current	144	251

Certain employees of the Group are entitled to long-term employee benefits in accordance with the Group's remuneration policy (see Note 30.21). 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 2016 and 2015 are detailed below:

(in PLN millions)

	12 months ended 31 December 2016			Total
	Jubilee awards	Retirement bonuses	Other post- employment benefits	
<b>Present/carrying value of obligation at the beginning of the period</b>	<b>131</b>	<b>115</b>	<b>3</b>	<b>249</b>
Current service cost <sup>(1)</sup>	7	3	-	10
Past service cost <sup>(1)</sup>	(28) <sup>(2)</sup>	(66) <sup>(2)</sup>	(3)	(97)
Interest cost <sup>(3)</sup>	3	1	-	4
Benefits paid	(14)	(2)	-	(16)
Actuarial losses for the period	5 <sup>(1)</sup>	1 <sup>(4)</sup>	-	6
<b>Present/carrying value of obligation at the end of the period</b>	<b>104</b>	<b>52</b>	<b>-</b>	<b>156</b>
Weighted average duration (in years)	7	11	-	8

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

<sup>(2)</sup> Impact of agreements with Trade Unions (see below).

<sup>(3)</sup> Recognised under discounting expense in the consolidated income statement.

<sup>(4)</sup> Recognised under actuarial gains/losses on post-employment benefits in the consolidated statement of comprehensive income.

In the first quarter of 2016, the Group signed with Trade Unions agreements 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 agreements reduce 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 94 million was recognised in labour expense in the first quarter of 2016 with a corresponding release of the liabilities relating to long-term employee benefits.

(in PLN millions)

12 months ended 31 December 2015

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

<sup>(1)</sup> Recognised under labour expense in the consolidated income statement.<sup>(2)</sup> Curtailment resulting from the Social Agreement concluded on 2 December 2015 (see Note 13).<sup>(3)</sup> Impact of agreements with Trade Unions (see below).<sup>(4)</sup> Recognised under discounting expense in the consolidated income statement.<sup>(5)</sup> 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.

The valuation of obligations as at 31 December 2016 and 2015 was performed using the following assumptions:

	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Discount rate	3.5%	3.1% – 3.5%
Wage increase rate	2.5%	2.0% – 2.5%

A change of the discount rate by 0.5 p.p. would increase or decrease by PLN 6 million the present/carrying value of obligations related to long-term employee benefits as at 31 December 2016.

## 16. Finance income and expense

(in PLN millions)

	12 months ended 31 December 2016							
	Finance costs, net					Operating loss		
	Interest expense and other financial charges					Interest income	Impairment losses	Foreign exchange gains / (losses)
	Interest income	Interest expense	Foreign exchange gains / (losses)	Discounting expense	Finance income / (costs), net			
Loans and receivables	22	-	1	-	23	11	(89)	2
– including trade receivables	18	-	-	-	18	11 <sup>(1)</sup>	(87)	2
Financial liabilities at amortised cost	-	(134) <sup>(2)</sup>	(106)	(68)	(308)	-	-	(12)
Derivatives	-	(150)	107	5	(38)	-	-	41
– hedging derivatives	-	(117)	105	-	(12)	-	-	-
– derivatives held for trading <sup>(3)</sup>	-	(33)	2	5	(26)	-	-	41
Non-financial items <sup>(4)</sup>	-	-	-	(36)	(36)	-	-	(21)
<b>Total</b>	<b>22</b>	<b>(284)</b>	<b>2</b>	<b>(99)</b>	<b>(359)</b>	<b>11</b>	<b>(89)</b>	<b>10</b>

<sup>(1)</sup> Late payment interest on trade receivables.

<sup>(2)</sup> Includes mainly interest expense on loans from related party.

<sup>(3)</sup> Derivatives economically hedging commercial or financial transactions.

<sup>(4)</sup> Includes mainly provisions and employee benefits.

(in PLN millions)

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

<sup>(1)</sup> Late payment interest on trade receivables.

<sup>(2)</sup> Includes mainly interest expense on loans from related party and bank borrowings.

<sup>(3)</sup> Derivatives economically hedging commercial or financial transactions.

<sup>(4)</sup> Includes mainly provisions and employee benefits.

During the 12 months ended 31 December 2016 and 2015, there was no significant ineffectiveness on cash flow hedges.

## 17. 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)*

	<i>Note</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Loans from related party	18.1	7,092	4,122
Other financial debt	18.2	102	126
Derivatives – net (liabilities less assets)	20	(166)	12
<b>Gross financial debt after derivatives</b>		<b>7,028</b>	<b>4,260</b>
Cash and cash equivalents	19	(262)	(266)
Effective portion of cash flow hedges		9	(83)
<b>Net financial debt</b>		<b>6,775</b>	<b>3,911</b>

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

### 18.1. Loans from related party

*(in millions of currency)*

<i>Creditor</i>	<i>Repayment date</i>	<i>Amount outstanding at <sup>(1)</sup></i>			
		<i>31 December 2016</i>		<i>31 December 2015</i>	
		<i>Currency</i>	<i>PLN</i>	<i>Currency</i>	<i>PLN</i>
<b>Floating rate</b>					
Atlas Services Belgium S.A. (EUR)	31 March 2016	-	-	280	1,193
Atlas Services Belgium S.A. (EUR)	20 May 2019	480	2,119	480	2,043
Atlas Services Belgium S.A. (EUR)	20 May 2021	190	840	190	809
Atlas Services Belgium S.A. (PLN)	20 June 2021	2,695	2,695	-	-
Atlas Services Belgium S.A. (PLN) <sup>(2)</sup>	30 March 2018	1,438	1,438	77	77
<b>Total loans from related party</b>			<b>7,092</b>		<b>4,122</b>
Current			5		1,273
Non-current			7,087		2,849

<sup>(1)</sup> Includes accrued interest and arrangement fees.

<sup>(2)</sup> Revolving credit line is presented in long-term loans from related party as at 31 December 2016 (as at 31 December 2015 it was presented as short-term).

The weighted average effective interest rate on loans from related party, before and after swaps, amounted respectively to 1.87% and 3.36% as at 31 December 2016 (1.21% and 4.16% as at 31 December 2015).

### 18.2. Other financial debt

*(in PLN millions)*

	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Finance lease liabilities	58	64
Bank borrowings and other	44	62
<b>Total other financial debt</b>	<b>102</b>	<b>126</b>
Current	36	45
Non-current	66	81

## 19. Cash and cash equivalents

*(in PLN millions)*

	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Current bank accounts, overnight deposits and cash on hand	151	178
Deposits with Orange S.A.	106	87
Bank deposits up to 3 months	5	1
<b>Total cash and cash equivalents</b>	<b>262</b>	<b>266</b>

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

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

## 20. Derivatives

As at 31 December 2016 and 2015, the Group's derivatives portfolio constituted financial instruments for which there was no active market (over-the-counter derivatives), mainly interest rate swaps, currency swaps 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. The 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:

<i>(in PLN millions)</i>					<i>Fair value</i>	
<i>Type of instrument<sup>(1)</sup></i>	<i>Hedged risk</i>	<i>Hedged item</i>	<i>Nominal amount (in millions of currency)</i>	<i>Maturity</i>	<i>Financial Asset</i>	<i>Financial Liability</i>
<i>At 31 December 2016</i>						
<b>Derivative instruments - cash flow hedge</b>						
CCIRS	Currency and interest rate risk	Loans from related party	667 EUR	2019-2021	193	-
IRS	Interest rate risk	Loans from related party	4,750 PLN	2019-2021	12	(76)
NDF	Currency risk	Commercial transactions	121 EUR	2017	10	-
NDF	Currency risk	Commercial transactions	6 USD	2017	2	-
Total cash flow hedges					217	(76)
<b>Derivative instruments - held for trading<sup>(2)</sup></b>						
CCIRS	Currency and interest rate risk	Loans from related party	3 EUR	2021	1	-
NDF	Currency risk	2100 MHz licence payable	73 EUR	2017	7	-
NDF	Currency risk	Commercial transactions	35 EUR	2017	3	-
NDF	Currency risk	EC proceedings provision	120 EUR	2017	11	-
NDF	Currency risk	Bank borrowing	6 USD	2017	1	-
NDF	Currency risk	Commercial transactions	6 USD	2017	2	-
Total derivatives held for trading					25	-
<b>Total derivative instruments</b>					<b>242</b>	<b>(76)</b>
Current					36	-
Non-current					206	(76)

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

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

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<i>(in PLN millions)</i>					<i>Fair value</i>	
<i>Type of instrument <sup>(1)</sup></i>	<i>Hedged risk</i>	<i>Hedged item</i>	<i>Nominal amount (in millions of currency)</i>	<i>Maturity</i>	<i>Financial Asset</i>	<i>Financial Liability</i>
<i>At 31 December 2015</i>						
<b>Derivative instruments - cash flow hedge</b>						
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	-	-
<b>Total cash flow hedges</b>					<b>108</b>	<b>(129)</b>
<b>Derivative instruments - held for trading <sup>(2)</sup></b>						
CCIRS	Currency and interest rate risk	Loans from related party	83 EUR	2016-2021	1	-
		Forecast loan from related party				
IRS	Interest rate risk		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	-	-
<b>Total derivatives held for trading</b>					<b>14</b>	<b>(5)</b>
<b>Total derivative instruments</b>					<b>122</b>	<b>(134)</b>
Current					33	(9)
Non-current					89	(125)

<sup>(1)</sup> CCIRS – cross currency interest rate swap, IRS – interest rate swap, NDF – non-deliverable forward, Option strategy – purchased call options and written put options.

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

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

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

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>			<i>12 months ended 31 December 2015</i>		
	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>	<i>Before tax</i>	<i>Tax</i>	<i>After tax</i>
Effective part of gains/(losses) on hedging instrument	109	(21)	88	(46)	9	(37)
Reclassification to the income statement, adjusting:	(7)	2	(5)	71	(13)	58
<i>- interest expense presented in finance costs, net</i>	97	(18)	79	100	(19)	81
<i>- foreign exchange differences presented in finance costs, net</i>	(105)	20	(85)	(28)	6	(22)
<i>- external purchases</i>	1	-	1	(1)	-	(1)
Transfer to the initial carrying amount of the hedged item	(10)	2	(8)	(2)	-	(2)
<b>Total gains on cash flow hedges</b>	<b>92</b>	<b>(17)</b>	<b>75</b>	<b>23</b>	<b>(4)</b>	<b>19</b>

Gains on cash flow hedges cumulated in other reserves as at 31 December 2016 are expected to mature and affect the income statement in years 2017 - 2021.

## 21. Fair value of financial instruments

### 21.1. 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 20. The Group classifies derivatives to Level 2 fair value measurements.

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

As at 31 December 2016 and 2015, the carrying amount of cash and cash equivalents, 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, cash nature or immaterial difference between the original effective interest rates and current market rates.

As at 31 December 2016 and 2015, the carrying amount of financial liabilities at amortised cost which bear variable interest rates approximated their fair value.

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

<i>(in PLN millions)</i>	<i>Note</i>	<i>At 31 December 2016</i>		<i>At 31 December 2015</i>	
		<i>Carrying amount</i>	<i>Estimated fair value Level 2</i>	<i>Carrying amount</i>	<i>Estimated fair value Level 2</i>
Telecommunications licence payables	14.1	837	989	918	1,100

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.

## 22. Objectives and policies of financial risk management

### 22.1. 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.

## **22.2. 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 cash flow hedges and the Group applies hedge accounting principles as stated in IAS 39 (see Note 30.17). The 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 not designated as hedging instruments as set out in IAS 39 and hedge accounting principles are not applied to those instruments. The Group considers those derivatives as economic hedges because they, in substance, protect the Group against currency risk and interest rate risk.

Detailed information on derivative financial instruments, including hedging relationship, that are used by the Group is presented in Note 20.

## **22.3. 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 18), 2100 MHz licence payable and provision for the proceedings by the European Commission (see Note 27.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 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.

<i>Currency exposure</i>	<i>Hedge ratio</i>	
	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Loans from related party and bank borrowing	99.5%	99.7%
2100 MHz licence payable	51.5%	47.3%
EC proceedings provision (see Note 27.b)	82.2%	73.7%

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.

<i>(in millions of currency)</i>	<i>Effective exposure after hedging</i>		<i>Sensitivity to a change of the PLN against other currencies impacting consolidated income statement</i>					
	<i>At 31 December 2016</i>		<i>At 31 December 2015</i>		<i>At 31 December 2016</i>		<i>At 31 December 2015</i>	
	<i>Currency</i>	<i>PLN</i>	<i>Currency</i>	<i>PLN</i>	<i>+10%</i>	<i>-10%</i>	<i>+10%</i>	<i>-10%</i>
<i>Currency exposure</i>					<i>PLN</i>		<i>PLN</i>	
2100 MHz licence payable (EUR)	69	304	85	361	30	(30)	36	(36)
EC proceedings provision (EUR) (see Note 27.b)	26	115	38	160	12	(12)	16	(16)
Bank borrowing (USD)	3	14	3	13	1	(1)	1	(1)
<b>Total</b>		<b>433</b>		<b>534</b>	<b>43</b>	<b>(43)</b>	<b>53</b>	<b>(53)</b>

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

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

The changes in fair value of derivatives classified as cash flow hedges of forecast transactions affect other reserves. The sensitivity analysis prepared by the 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 56/(56) million and PLN 45/(45) million as at 31 December 2016 and 2015, respectively.

#### 22.4. Interest rate risk

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

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

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

As at 31 December 2016 and 2015, the Group's proportion between fixed/floating rate debt (after hedging activities) was 69/31% and 88/12%, 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 2016				At 31 December 2015			
	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	(20)	20	(2)	2	37	(39)	(3)	4
Other reserves	156	(161)	(14)	13	107	(110)	(15)	17

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 20),
- other reserves include the change in the fair value of derivatives that is determined as effective cash flow hedge (see Note 20),
- as at 31 December 2016, the gross financial debt based on floating rate (after hedging) amounted to PLN 2,172 million (as at 31 December 2015, PLN 487 million).

## 22.5. 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.

The Group also manages liquidity risk by maintaining committed, unused credit facilities, which create a liquidity reserve to secure solvency and financial flexibility. The above-mentioned Cash Management Treasury Agreement with Orange S.A. gives the Group access to back-up liquidity funding with headroom of up to PLN 1,750 million. No drawdown was made on this facility as at 31 December 2016. The Group also has a revolving credit line from the Orange Group for up to EUR 480 million and other credit lines for up to PLN 8 million, of which PLN 1,442 million was used as at 31 December 2016.

Therefore, as at 31 December 2016, the Group had unused credit facilities amounting to PLN 2,435 million (as at 31 December 2015, PLN 3,717 million). These credit lines are sufficient to cover the excess of current liabilities over current assets of PLN 1,730 million as at 31 December 2016.

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)

	<i>Liquidity ratios</i>	
	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Liquidity ratio (incl. derivatives) - next 12 months	1,332%	288%
Unused credit facilities	2,435	3,717
Cash and cash equivalents	262	266
Debt repayments <sup>(1)</sup>	134	1,313
Derivatives repayments <sup>(2)</sup>	69	71
Liquidity ratio (incl. derivatives) - next 18 months	154%	276%
Unused credit facilities	2,435	3,717
Cash and cash equivalents	262	266
Debt repayments <sup>(1)</sup>	1,633	1,329
Derivatives repayments <sup>(2)</sup>	115	113
Current liquidity ratio (incl. unused credit facilities)	117%	117%
Unused credit facilities	2,435	3,717
Total current assets	2,418	2,330
Total current liabilities	4,148	5,185

<sup>(1)</sup> Undiscounted contractual cash flows on loans from related party and bank borrowings.

<sup>(2)</sup> 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 2016 and 2015 is presented below.

As at 31 December 2016 and 2015, 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 2016 and 2015, respectively.

(in PLN millions)

	<i>Note</i>	<i>At 31 December 2016</i>								<i>Total non-current</i>	<i>Total</i>
		<i>Undiscounted contractual cash flows <sup>(1)</sup></i>									
		<i>Carrying amount</i>	<i>Within 1 year</i>	<i>1-2 years</i>	<i>2-3 years</i>	<i>3-4 years</i>	<i>4-5 years</i>	<i>More than 5 years</i>			
Loans from related party	18.1	7,092	125	1,546	2,224	102	3,594	-	7,466	7,591	
Other financial debt	18.2	102	39	32	20	10	4	-	66	105	
– including finance lease liabilities		58	21	20	14	4	1	-	39	60	
Derivative assets	20	(242)	31	59	(78)	10	(70)	-	(79)	(48)	
Derivative liabilities	20	76	38	33	13	(3)	(2)	-	41	79	
<b>Gross financial debt after derivatives</b>		<b>7,028</b>	<b>233</b>	<b>1,670</b>	<b>2,179</b>	<b>119</b>	<b>3,526</b>	<b>-</b>	<b>7,494</b>	<b>7,727</b>	
Trade payables	14.1	3,115	2,439	157	148	148	148	281	882	3,321	
<b>Total financial liabilities (including derivative assets)</b>		<b>10,143</b>	<b>2,672</b>	<b>1,827</b>	<b>2,327</b>	<b>267</b>	<b>3,674</b>	<b>281</b>	<b>8,376</b>	<b>11,048</b>	

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



**Orange Polska Group**  
**IFRS Consolidated Financial Statements – 31 December 2016**  
*Translation of the financial statements originally issued in Polish*

(in PLN millions)

At 31 December 2015

Undiscounted contractual cash flows <sup>(1)</sup>

Non-current

		Carrying	Within	1-2	2-3	3-4	4-5	More	Total non-	Total
	Note	amount	1 year	years	years	years	years	than 5	current	
								years		
Loans from related party	18.1	4,122	1,301	26	33	2,069	9	815	2,952	4,253
Other financial debt	18.2	126	48	31	27	16	7	3	84	132
– including finance lease liabilities		64	22	18	17	10	1	-	46	68
Derivative assets	20	(122)	23	47	47	(7)	11	(36)	62	85
Derivative liabilities	20	134	48	37	29	12	(3)	(2)	73	121
<b>Gross financial debt after derivatives</b>		<b>4,260</b>	<b>1,420</b>	<b>141</b>	<b>136</b>	<b>2,090</b>	<b>24</b>	<b>780</b>	<b>3,171</b>	<b>4,591</b>
Trade payables	14.1	2,897	2,136	157	151	143	143	417	1,011	3,147
<b>Total financial liabilities (including derivative assets)</b>		<b>7,157</b>	<b>3,556</b>	<b>298</b>	<b>287</b>	<b>2,233</b>	<b>167</b>	<b>1,197</b>	<b>4,182</b>	<b>7,738</b>

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

The average duration for the existing debt portfolio as at 31 December 2016 was 3.2 years (2.8 years as at 31 December 2015).

## 22.6. 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 12, 19, 20.

## 23. Income tax

### 23.1. Income tax

(in PLN millions)

	12 months ended 31 December 2016	12 months ended 31 December 2015
Current income tax	12	(80)
Deferred tax	(45)	53
<b>Total income tax</b>	<b>(33)</b>	<b>(27)</b>

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

<i>(in PLN millions)</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
<b>Consolidated net income/(loss) before tax</b>	<b>(1,713)</b>	<b>281</b>
<i>Less: Impairment of goodwill <sup>(1)</sup></i>	<i>1,793</i>	<i>-</i>
Net income before tax, adjusted	80	281
Statutory tax rate	19%	19%
<b>Theoretical tax</b>	<b>(15)</b>	<b>(53)</b>
Tax relief on new technologies	6	39
Not deductible interest expense on intragroup loan	(22)	(2)
Other expense not deductible for tax purposes	(2)	(11)
<b>Total income tax</b>	<b>(33)</b>	<b>(27)</b>

<sup>(1)</sup> See Note 8.1.

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, OPL S.A., TP Invest Sp. z o.o. and Orange Customer Service Sp. z o.o. comprised the Tax Capital Group.

## 23.2. Deferred tax

<i>(in PLN millions)</i>	<i>Consolidated statement of financial position</i>		<i>Consolidated income statement</i>	
	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
Property, plant and equipment and intangible assets	464	537	(73)	24
Unused tax losses	124	4	120	3
Receivables and payables recognised on accrual basis	80	150	(70)	28
Deferred income	94	90	4	3
Employee benefit plans	53	72	(19)	(16)
Provisions	84	96	(12)	11
Net financial debt	5	22	-	4
Accumulated impairment losses on financial assets	34	29	5	(1)
Other	(9)	(9)	-	(3)
<b>Deferred tax assets, net <sup>(1)</sup></b>	<b>929</b>	<b>991</b>		
<b>Total deferred tax</b>			<b>(45)</b>	<b>53</b>
Amount expected to be recovered within 12 months after the end of the reporting period	248	311		

<sup>(1)</sup> During the 12 months ended 31 December 2016 and 2015, PLN (17) million and PLN (6) million of change in deferred tax assets was recognised in the consolidated statement of comprehensive income, respectively. Additionally, 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 24.3).

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

Unrecognised deferred tax assets relate mainly to those tax losses, which are expected to expire rather than to be realised. As at 31 December 2016 there were no tax losses, for which no deferred tax asset was recognised. As at 31 December 2015, tax losses, for which no deferred tax asset was recognised, amounted to PLN 20 million gross.

## 24. Equity

### 24.1. Share capital

As at 31 December 2016 and 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 as at 31 December 2016 and 2015 was as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>			<i>At 31 December 2015</i>		
	% of votes	% of shares	Nominal value	% of votes	% of shares	Nominal value
Orange S.A.	50.67	50.67	1,995	50.67	50.67	1,995
Other shareholders	49.33	49.33	1,942	49.33	49.33	1,942
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>3,937</b>	<b>100.00</b>	<b>100.00</b>	<b>3,937</b>

### 24.2. Dividend

On 12 April 2016, the General Meeting 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. The total dividend, paid on 7 July 2016, amounted to PLN 328 million.

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.

OPL S.A.'s retained earnings available for dividend payments to the Group's shareholders amounted to PLN 2.8 billion as at 31 December 2016. The remaining balance of the Company's retained earnings is unavailable for dividend payments due to restrictions of the Polish commercial law. Additionally, PLN 0.1 billion of OPL S.A.'s subsidiaries retained earnings as at 31 December 2016 was available for dividend payments by subsidiaries to OPL S.A.

On 13 February 2017, the Management Board of Orange Polska S.A. adopted a resolution not to recommend payment of any dividend in 2017.

### 24.3. Other changes in retained earnings

Certain corrections resulting from immaterial errors in prior periods were recognised by the Group directly in retained earnings and presented as other movements in the consolidated statement of changes in equity. The correction of PLN 32 million (net of PLN (2) million of current income tax) in 2016 relates to recognition of trade receivables. The correction of PLN (45) million (net of PLN 10 million of deferred tax) in 2015 relates to pre-paid revenue recognised in prior periods.

Additionally, PLN 10 million of other reserves was transferred to retained earnings in 2015. This amount consisted 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 and PLN 16 million of related deferred tax.

## 25. 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 Group believes that net financial debt to adjusted EBITDA ratio is the most relevant measure of financial structure and therefore net gearing ratio is no longer used. Management expects that net financial debt to adjusted EBITDA ratio will not exceed 2.6 for the full year 2017.

The Group regards capital as the total of equity and net financial debt. The table below presents the sources of capital and provides net financial debt to adjusted EBITDA ratio monitored by the Group.

<i>(in PLN millions)</i>	<i>Note</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Net financial debt	17	6,775	3,911
Total equity		10,009	11,977
Total equity and Net financial debt		16,784	15,888
Adjusted EBITDA	3	3,163	3,517
<b>Net financial debt / adjusted EBITDA ratio</b>		<b>2.1</b>	<b>1.1</b>

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.

## 26. Unrecognised contractual obligations

### 26.1. 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 2016 and 2015 amounted to PLN 374 million and PLN 372 million, respectively. Most of the agreements are denominated in foreign currencies and some of them are indexed with price indices applicable for a given currency. Some of the agreements can be extended.

Future minimum lease payments under non-cancellable operating leases, as at 31 December 2016 and 2015, were as follows:

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
Within one year	218	205
After one year but not more than five years	474	419
More than five years	145	199
<b>Total minimum future lease payments</b>	<b>837</b>	<b>823</b>

When considering the Group as a lessor, future minimum lease payments under non-cancellable operating leases as at 31 December 2016 and 2015 amounted to PLN 81 million.

## 26.2. Investment commitments

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

<i>(in PLN millions)</i>	<i>At 31 December</i>	<i>At 31 December</i>
	<i>2016</i>	<i>2015</i>
Property, plant and equipment	152	102
Intangibles	100	161
<b>Total investment commitments</b>	<b>252</b>	<b>263</b>
Amounts contracted to be payable within 12 months after the end of the reporting period	231	190

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

## 27. 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 tax 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 revenue for the year prior to the year of fine imposition for a breach of the law.

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

In September 2016, UOKiK commenced proceedings against Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. claiming that rules on the Polish market applied to pre-paid offers, according to which top-ups are annulled in so-called "passive period", may violate consumers rights.

In the opinion of the Management, Orange Polska did not violate the law and offers are in line with rules which are applied also by other sectors having pre-paid offers.

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

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

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 31 March 2017.

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 28 February 2017.

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, in December 2013, a motion with a court for calling the four operators to conclude amicable settlements. Magna Polonia S.A. is the former owner of Info TV FM Sp. z o.o., a telecommunications operator that offered provision of wholesale services of mobile television DVB-H to Orange Polska, T-Mobile Polska S.A., Polkomtel Sp. z o.o. and P4 Sp. z o.o. None of them decided to introduce mobile television services to its customers.

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

On 26 November 2016, Magna Polonia filed with the court a statement of claim against the four operators based in principle on the same grounds as the action of 2013 and for payment of the same amount. Magna Polonia applied to the court for staying of the proceedings until the proceedings regarding PLN 35 million fine imposed by UOKiK are concluded (the Appeal Court scheduled a hearing in those proceedings for 15 March 2017).

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.

As at 31 December 2016, 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. On 27 February 2016, Orange Polska appealed that verdict of the General Court to the Court of Justice.

c. Tax contingent liability

Tax settlements are subject to review and investigation by a number of authorities, which are entitled to impose fines, penalties and interest charges. Value added tax, corporate income tax, personal income tax and other taxes or social security regulations are subject to frequent changes, such as the introduction of the General Anti-Abuse Rule in 2016. These changes often lead to the lack of system stability. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts.

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

d. Proceedings by the tax authorities

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

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 a breach of which, even unintentional, may result in sanctions imposed on the Group. In addition to fines which may be imposed by UOKiK and UKE described in the note 27.a also the President of Energy Regulatory Office may impose a penalty of up to a maximum amount of 15% of the revenues gained in the previous tax year among others for an infringement of certain provisions of Energy Law, a failure in fulfilment of obligations determined by the concession, a refusal to provide information.

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

## 28. Related party transactions

## 28.1. Management Board and Supervisory Board compensation

Compensation (remuneration, bonuses, post-employment and other long-term benefits and termination indemnities - cash and non-monetary benefits) of OPL S.A.'s Management Board and Supervisory Board Members is presented below.

(in PLN thousands)

	12 months ended 31 December 2016		
	Fixed compensation expense	Variable compensation expense <sup>(1)</sup>	Total compensation expense
Short-term benefits excluding employer social security payments	11,887	3,893	15,780
Post-employment benefits	4,255	-	4,255
<b>Total</b>	<b>16,142</b>	<b>3,893</b>	<b>20,035</b>

<sup>(1)</sup> Includes bonuses accrued in 2016 to be paid in 2017, excludes bonuses accrued in 2015 and paid in 2016.

(in PLN thousands)

	12 months ended 31 December 2015		
	Fixed compensation expense	Variable compensation expense <sup>(1)</sup>	Total compensation expense
Short-term benefits excluding employer social security payments	10,820	3,387	14,207
Post-employment benefits	-	-	-
<b>Total</b>	<b>10,820</b>	<b>3,387</b>	<b>14,207</b>

<sup>(1)</sup> Includes bonuses accrued in 2015 and paid in 2016, excludes bonuses accrued in 2014 and paid in 2015.

The increase of compensation expense in 2016 in comparison to 2015 results from an increase of the number of the Members of the Management Board of OPL S.A. and payment of post-employment benefits to Mr Bruno Duthoit and Mr Michał Paschalis-Jakubowicz after their resignation as Members of the Management Board of OPL S.A.

From 2016, section 10.3 of the Management Board's Report on the Activity of the Orange Polska Group and Orange Polska S.A. includes the Remuneration Report, where more details on Management Board and Supervisory Board compensation can be found. As a result, the compensation of individuals is no longer presented in the IFRS financial statements. Additionally, from 2016 bonuses are included in compensation in the period when they are accrued only. Consequently, total compensation in comparative data for 2015 was amended to exclude PLN 1,335 thousand of bonuses accrued in 2014 and paid in 2015.



## 28.2. Related party transactions

As at 31 December 2016, Orange S.A. owned 50.67% of shares of the Company and had the power to appoint the majority of OPL S.A.'s Supervisory Board Members. The Supervisory Board decides about the composition of the Management Board.

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

Orange Polska S.A. operates under the Orange brand pursuant to a licence agreement concluded with Orange S.A. and Orange Brand Services Limited (hereinafter referred to as "OBSL"). The brand licence agreement provides that OBSL receives a fee of up to 1.6% of the Company's operating revenue earned under the Orange brand. 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 670 million, PLN 2,700 million and Revolving Credit Facility Agreement for up to EUR 480 million (see Note 18.1). Additionally, the Group concluded an agreement with Orange S.A. concerning derivative transactions to hedge exposure to foreign currency risk and interest rate risk related to the financing from Atlas Services Belgium S.A. The nominal amount of cross currency interest rate swaps and interest rate swaps outstanding under the agreement as at 31 December 2016 was EUR 670 million and PLN 4,750 million with a total fair value of PLN 130 million (as at 31 December 2015, nominal amount of EUR 950 million and PLN 4,350 million with a total negative fair value of PLN 18 million).

Financial receivables, payables, financial costs, net and other comprehensive income concerning transactions with the Orange Group relate mainly to the above-mentioned agreements. Cash and cash equivalents deposited with Orange S.A. relate to the Cash Management Treasury Agreement (see Note 22.5).

(in PLN millions)

	<i>12 months ended 31 December 2016</i>	<i>12 months ended 31 December 2015</i>
<b>Sales of goods and services and other income:</b>	<b>208</b>	<b>205</b>
Orange S.A. (parent)	124	113
Orange Group (excluding parent)	84	92
<b>Purchases of goods (including inventories, tangible and intangible assets) and services:</b>	<b>(258)</b>	<b>(265)</b>
Orange S.A. (parent)	(91)	(84)
Orange Group (excluding parent)	(167)	(181)
- including Orange Brand Services Limited (brand licence agreement)	(127)	(134)
<b>Financial costs, net:</b>	<b>(246)</b>	<b>(185)</b>
Orange S.A. (parent)	(11)	(72)
Orange Group (excluding parent)	(235)	(113)
<b>Other comprehensive income:</b>	<b>76</b>	<b>30</b>
Orange S.A. (parent)	76	30
<b>Dividend paid:</b>	<b>166</b>	<b>332</b>
Orange S.A. (parent)	166	332

<i>(in PLN millions)</i>	<i>At 31 December 2016</i>	<i>At 31 December 2015</i>
<b>Receivables:</b>	<b>47</b>	<b>44</b>
Orange S.A. (parent)	29	29
Orange Group (excluding parent)	18	15
<b>Payables:</b>	<b>68</b>	<b>81</b>
Orange S.A. (parent)	32	32
Orange Group (excluding parent)	36	49
<b>Financial receivables:</b>	<b>206</b>	<b>110</b>
Orange S.A. (parent)	206	110
<b>Cash and cash equivalents deposited with:</b>	<b>106</b>	<b>87</b>
Orange S.A. (parent)	106	87
<b>Financial payables:</b>	<b>7,168</b>	<b>4,250</b>
Orange S.A. (parent)	76	128
Orange Group (excluding parent)	7,092	4,122

## 29. Subsequent events

On the basis of an annual review of estimated useful lives of fixed assets, the Group decided to extend from 2017 the estimated useful lives for certain terminals, network assets and items of software. As a result, depreciation and amortisation expense in 2017 relating to these assets is expected to be lower by approximately PLN 150 million.

## 30. 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 2016.

### 30.1. Use of estimates and judgement

In preparing the Group's accounts, the Company's management is required to make estimates, because 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 2016 may be subsequently changed. The main estimates and judgements made are described in the following notes:

<i>Note</i>		<i>Estimates and judgements</i>
5, 14.3, 30.9	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.
8., 30.16	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.
10, 11, 30.13, 30.14	Useful lives of tangible and intangible assets	The useful lives and the method of depreciation and amortisation.
12, 30.17	Impairment of loans and receivables	Methodology used to determine recoverable amounts.
13, 27, 30.20	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.
13	Dismantling costs	The assumptions underlying the measurement of provision for the estimated costs for dismantling and removing the asset and restoring the site on which it is located.
15, 30.21	Employee benefits	Discount rates, salary increases, retirement age, staff turnover rates and other.
20, 21, 30.17	Fair value of derivatives and other financial instruments	Model and assumptions underlying the measurement of fair values.
23, 30.19	Income tax	Assumptions used for recognition of deferred tax assets.
30.18	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 8) and provisions for claims, litigation and risks (see Notes 13 and 27).

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.

### 30.2. Application of new standards and interpretations

#### Adoption of standards or interpretations in 2016

No new standards or interpretations were adopted by the Group since 1 January 2016.

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

- 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 been endorsed by the European Union on 22 November 2016. In general (besides some limited exemptions), the standard is applicable on a retrospective basis in case of classification, measurement and impairment and prospectively in case of hedge accounting. IFRS 9 modifies the recognition criteria for hedging transactions and main financial

assets and liabilities categories: given the nature of the Group's transactions, no major change is expected. IFRS 9 requires also the change in the credit risk recognition using the expected losses approach versus the incurred losses one. For the Group, this would imply impairment of non-matured receivables. 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 been endorsed by the European Union on 22 September 2016.

This standard relates to revenue recognition and is applicable on a retrospective basis either limited to the cumulative effect of the new method at the opening date of the annual reporting period that includes the date of initial application (1 January 2018) or by adjusting the reported comparative periods.

For the Group, this standard would mainly impact the accounting for bundled offers which include a handset component with a discounted price and a communication service component: the cumulative revenue during the contract with customer will not change but its allocation between the handset sold and the communication service will change (more equipment revenue and less service revenue). The acceleration of the revenue recognition would lead to the recognition of a contract asset in the statement of financial position which would be settled against an asset receivable as the communication service is provided.

In addition, some incremental subscriber acquisition and retention costs (i.e. payments to distributors directly attributable to a contract, excluding subsidies) will be recognized over the duration of the bundled offer.

The effects of implementation of IFRS 15 is being analysed as part of the project implementing the new standard.

- IFRS 16 "Leases" was issued on 13 January 2016 and has not yet been endorsed by the European Union. This standard relates to the accounting for leases and will be compulsory applicable from 1 January 2019 or on a retrospective basis from 1 January 2018 together with IFRS 15. It is retrospective either at the first application date or at the opening date of the reported comparative period. Assuming that the standard will be endorsed by the European Union, the Group is going to apply this standard from 1 January 2019 and is still analysing the retrospective application provisions. The standard introduces a new basis for splitting supplier arrangements based on a new accounting definition of a lease and a service arrangement.

It will mainly change the lease accounting for lessees with the recognition of an asset which represents the right of use at the delivery date granted by the lessor against a financial liability.

It will also impact the presentation of the income statement (depreciation and interest expense instead of operating expense) and the statement of cash flows (interest expense will only impact the operating cash flows whereas the debt repayment will affect the financing cash flows in accordance with Group's policy).

In the statement of financial position, the net equity will be reduced at the beginning of the arrangement (due to the acceleration of expenses attributable to the interest component) and the intangible and tangible assets as well as the lease liability will increase.

The effects of implementation of IFRS 16 is being analysed as part of the project implementing this new standard.

- IFRIC Interpretation 22 „Foreign Currency Transactions and Advance Consideration". This interpretation was issued on 8 December 2016 and will be effective for annual periods beginning on or after 1 January 2018. The interpretation has not yet been endorsed by the European Union.

IFRIC 22 clarifies that in the case of receipt or payment of advance consideration in a foreign currency the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

The impact of interpretation is currently being analysed by the Management.

### 30.3. 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 30.9 *Separable components of packaged and bundled offers*).

### 30.4. 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:

<i>Standards</i>		<i>Option used</i>
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.

### 30.5. Presentation of the financial statements

#### Presentation of the statement of financial position

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

#### Presentation of the income statement

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

#### Earnings/loss per share

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

#### Changes in presentation of the statement of financial position and the statement of cash flows

From the second quarter of 2016, the Group classifies finance lease receivables as trade receivables and cash inflows from finance lease are presented as net cash provided by operating activities. As a result, PLN 14 million was reclassified from other assets to trade receivables in the consolidated statement of financial position as at 31 December 2015. The comparative amounts in the consolidated statement of cash flows were adjusted accordingly: cash inflows from finance lease repaid by a lessee were reclassified from net cash used in investing

activities to the line presenting increase/decrease in trade receivables, gross in net cash provided by operating activities.

### **30.6. 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 Group loses control over the subsidiary.

Intercompany transactions and balances are eliminated on consolidation.

### **30.7. 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.

### **30.8. Effect of changes in foreign exchange rates**

The functional currency of Orange Polska is the Polish zloty.

#### *Transactions in foreign currencies*

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

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

### **30.9. 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 recognised for the handset sale is generally limited to the amount 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 recognised 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 recognised 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 (such as 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".

### **30.10. 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.

### **30.11. 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.

### **30.12. 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 acquiree.
- (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.

### **30.13. 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.

### **30.14. 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/loss and equals the difference between the net disposal proceeds, if any, and the carrying amount of the item.

#### *Depreciation*

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

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

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

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

### **30.15. 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.

### **30.16. 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 2016 the Group identified a single major CGU (see Note 8.1). For the purpose of impairment testing the Group allocates the whole goodwill to this CGU.

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

#### *Recoverable amount*

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

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

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

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

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

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

### **30.17. 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.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and include trade receivables 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.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include derivative assets not designated as hedging instruments as set out in IAS 39. Financial assets classified in this category are measured at fair value.

#### *Recognition and measurement of financial liabilities*

#### Financial liabilities at amortised cost

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

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

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

#### Financial liabilities at fair value through profit or loss

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

### **30.18. 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.

### **30.19. 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.

### 30.20. 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.

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

- the Group's decision to terminate an employee's employment before the normal retirement date; or

- an employee's decision to accept an offer of benefits in exchange for the voluntary termination of employment.

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

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

### **30.22. 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.