

***Attachment No. 1***

*to the Supervisory Board Report  
for the 2017 financial year*

**REPORT**  
**on the 2017 activities of**  
**the Audit Committee**  
**of the Orange Polska S.A. Supervisory Board**

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

The principal tasks of the AC are to advise the Supervisory Board on proper implementation of budgetary and financial reporting and internal control (including risk management) principles in Orange Polska S.A. (the “Company”, “OPL”) and Orange Polska Group (the “Group”), and to liaise with its auditors.

In 2017 the Terms of Reference of the Audit Committee were revised in order to align them to the new Act on auditors and their self-governing body of 11 May 2017 and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014. As a consequence, there were new policies prepared on (i) selection of an audit firm (ii) provision of authorised non-audit services by an audit firm conducting the audit, by entities affiliated with that audit firm and by a member of their networks. Also, a new Independent Director was appointed to the Audit Committee in order to ensure that the majority of the members of the Audit Committee are independent.

**Composition**

In 2017, the AC was composed of the following persons:

Chairman: Mr. Russ Houlden (“Independent Director”)

Members: Mr. Federico Colom Artola  
Dr. Maria Pasło-Wiśniewska (“Independent Director”)  
Mr. Marc Ricau  
from 19 July 2017 prof. Michał Kleiber (“Independent Director”)

The Secretary of the AC was Ms. Jolanta Tropaczyńska.

Chief Executive Officer Mr. Jean-François Fallacher and Chief Financial Officer (Mr. Maciej Nowohoński), as well as Internal Audit Director (Mr. Jacek Chaber) attended all meetings of the AC. Other members of the Management Board, Executive Directors and other managers and invited guests attended the meetings when appropriate. The AC meetings were also attended, when appropriate, by representatives of the Company’s external auditor, Ernst & Young.

## Functions of the Committee

The key functions of the Audit Committee are specified in its Terms of Reference attached to the Regulations of the Supervisory Board and include but are not limited to (i) monitoring the integrity of the financial information reported externally, (ii) reviewing the Group's internal control and risk management systems, (iii) reviewing plans for internal audit and their reports, (iv) reviewing and giving opinions on significant transactions with related parties, (v) recommending on selection the audit firm, (vi) monitoring the independence and objectivity of the Company's external auditors, the nature and scope of the audit and monitoring the auditors' work.

## Activity in 2017

The Audit Committee held 7 regular meetings in 2017. The AC performed in particular the following activities:

- 1) Review of the Group's 2018 budget and addressing recommendations on it to the Supervisory Board;
- 2) Review of the Company's and Group's quarterly and annual financial statements, review of the accounting policies and approaches, and in particular quarterly consideration of all accounting issues, one-offs, estimates and judgments, e.g.:
  - a) Impairment of assets including goodwill. The Audit Committee reviewed the key assumptions used to determine recoverable amounts such as cash flow projections, discount rates, growth rate to perpetuity as well as periodically assessing whether changes in any of the key assumptions or indicators suggest the need to request the impairment test.
  - b) Revenue recognition. The Audit Committee reviewed the accounting approach to significant one-off transactions or new streams of revenue in the current period or anticipated for next periods, including judgements made in allocation of revenue between each separable component of a multiple-element arrangement and recognition of revenue on a net versus gross basis as well as of the application of the IFRS revenue recognition rules; particular attention was paid to those aspects where judgment was required.
  - c) Useful lives of tangible and intangible assets and their valuation. The Audit Committee reviewed assumptions used to determine useful lives of fixed assets and the method of depreciation and amortisation as well as the valuation methodology.
  - d) Provisions for legal, tax and regulatory cases, dismantling and actuarial provisions.
  - e) Fair value of derivatives and other financial instruments. The Audit Committee reviewed assumptions underlying the measurement of fair values of derivatives and other financial instruments in particular hedging instruments relating to the new incentive scheme addressed to the management board and key executives based on phantom shares.
  - f) Deferred tax. The Audit Committee reviewed assumptions underlying the recognition and measurement of deferred tax assets.
  - g) Changes in accounting standards. The Audit Committee reviewed the impact of the new accounting regulations on OPL's accounts.

After appropriate challenge and, where appropriate, adjustment the Audit Committee concurred with the Management Board's conclusions.

- 3) Review of the improvement of alternative performance measures disclosure in line with ESMA guidelines
- 4) Review of reserves available for distribution as dividends and their reconciliation to retained earnings;

- 5) Monitoring the accounting standards evolution and expected relevant changes in the legislation including review of the progress of Management's implementation of IFRS 15 (Revenue from contracts with customers) and preparation for the implementation of IFRS 16 (Leases) and IFRS 9 (Financial Instruments);
- 6) Review of the prior year performance of the external auditor and recommending to the Supervisory Board on the reappointment of the external auditor, its remuneration and terms of engagement. In accordance with the Code of the Best Practices for companies listed on the Warsaw Stock Exchange, the Audit Committee recommended to the Supervisory Board the appointment of Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Spółka komandytowa to the audit of the Company and the Group for the financial year ended 31 December 2017 and to review half-yearly financial statements for the period of six months ended 30 June 30 2017;
- 7) Review of the scope and the results of the external audit, independence and objectivity (including scepticism) of the auditors and reporting its conclusions to the Supervisory Board. Recommendations in relation to an increase of the audit fee justified by additional work from the auditor on the review of implementation of IFRS 15 (Revenue from contracts with customers) and IFRS 16 (Leases). All non-audit services provided by external auditor were approved in advance by the Chairman of the Audit Committee. In addition, the Audit Committee reviewed the external auditors' proposed audit plan for the financial year 2017, including the materiality level set for audit testing, in the light of the Group's present circumstances and changes in accounting and auditing standards and reviewed an additional report to the Audit Committee as referred in art. 11 of EU Regulation No 537/2014. The Committee has also monitored the Company's responsiveness to the recommendations from the external auditor made in its management letter. In addition, the Committee met privately with the lead partner of the statutory audit firm;
- 8) Review of the Group's system of internal control and risk management as reported by the Management Board and, in particular, whether the Management Board sets the appropriate "control culture" and the way risks were identified, managed and disclosed by the Management. The Audit Committee received reports from Management on action plans in response to comments on internal controls from the internal and external auditors;
- 9) Review of the annual plan of Internal Audit, its budget and progress reports, as well as monitoring the responsiveness of management to Internal Audit findings and recommendations. In addition, the Committee met privately with the Director of the Group's Internal Audit and reviewed the independence of Internal Audit. The Committee was also provided with an annual follow-up report confirming the 2016-2019 certification of Internal Audit activities by Institut Français de l'Audit et du Contrôle Internes (IFACI);
- 10) Review of the Company's compliance system in the following areas: overall compliance with laws and regulations; ethics, anti-fraud; security; anti-corruption. The Committee monitored the operations of the Group's Ethics Committee and of the Group's Compliance office, as well as the results of investigations initiated by whistle-blowing;
- 11) Review of and opinions on significant transactions with related parties as defined by the corporate rules, in line with internal regulations and best practices of corporate governance, the independent members of the Committee played the leading role in these considerations;
- 12) Issuing opinions on other matters referred to the Committee by the Supervisory Board and/or the Management Board including one M&A transaction, transactions on financing and granting bank guarantees to an OPL's subsidiary;

- 13) Review of other matters of interest to the Committee, including but not limited to financing from the Orange Group, revenue assurance, hedging and insurance, tax and review of the exposure of the Company resulting from an amendment to the Tax Law which introduced a general anti-abuse rule;
- 14) Review of the new Act on auditors and their self-governing body of 11 May 2017 and Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 and recommendation as to the required changes to the composition of the Audit Committee, its members' independence and the functions of the Audit Committee in order to comply with the above mentioned acts.

Russ Houlden  
Chairman of the Audit Committee of the Supervisory Board