

**Attachment**

*to the Supervisory Board resolution  
no. 13/17 dated 16 March 2017*

**THE SUPERVISORY BOARD'S REPORT  
for the 2016 financial year**

The Supervisory Board's report for the 2016 financial year includes:

- 1) the report on the activity of the Supervisory Board of Orange Polska S.A. and its committees,
- 2) the appraisal of the Management Board's report on the Company's activity, the financial statements and the Management Board's motion on offsetting of the loss for the 2016 financial year,
- 3) the opinion on the Management Board's motion on the distribution of profit from previous years,
- 4) the appraisal of the Management Board's report on the activity of Orange Polska Group and the consolidated financial statements for the 2015 financial year,
- 5) the assessment of the Orange Polska Group's standing in 2015,
- 6) the assessment of the Group's system of internal control, risk management, compliance and internal audit,
- 7) the assessment of the compliance with disclosure obligations,
- 8) the assessment of the rationality of the Group's sponsorship and charity policy.

**I. REPORT ON THE ACTIVITY OF THE SUPERVISORY BOARD**

**Composition**

Composition of the Supervisory Board on 1 January 2016:

1. Maciej Witucki - Chairman
2. Prof. Andrzej K. Koźmiński - Deputy Chairman and Independent Board Member
3. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau - Secretary
5. Dr. Henryka Bochniarz - Independent Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. Dr. Mirosław Gronicki - Independent Board Member
10. Russ Houlden - Independent Board Member and Chairman of the Audit Committee
11. Dr. Maria Paśło-Wiśniewska - Independent Board Member
12. Marie-Christine Lambert - Board Member
13. Gérard Ries - Board Member
14. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
15. Valérie Thérond - Board Member

In 2016 the following changes occurred in the composition of the Supervisory Board:

On February 3, 2016, Prof. Andrzej K. Koźmiński resigned from the position as Member of the Supervisory Board with effect on April 12, 2016.

On April 7, 2016, Mr. Gérard Ries resigned from the position as Member of the Supervisory Board with effect on April 7, 2016.

On April 12, 2016, the mandates of Messrs.: Jean-Marie Culpin, Eric Debroeck, Mirosław Gronicki, Gervais Pellissier, Marc Ricau and Maciej Witucki expired.

On the same day, Messrs.: Jean-Marie Culpin, Eric Debroeck, Michał Kleiber, Gervais Pellissier, Marc Ricau and Maciej Witucki were appointed by the Annual General Assembly as Members of the Supervisory Board.

On June 28, 2016, Ms. Marie-Christine Lambert resigned from the position as Member of the Supervisory Board with effect on June 30, 2016.

On July 13, 2016, Messrs. Federico Colom Artola and Patrice Lambert de Diesbach were appointed by the Supervisory Board as Members of the Supervisory Board.

Composition on 31 December 2016:

1. Maciej Witucki - Chairman
2. Gervais Pellissier - Deputy Chairman and Chairman of the Strategy Committee
3. Marc Ricau - Secretary
4. Dr. Henryka Bochniarz - Independent Board Member
5. Federico Colom Artola - Board Member
6. Jean-Marie Culpin - Board Member
7. Eric Debroeck - Board Member
8. Ramon Fernandez - Board Member
9. Prof. Michał Kleiber - Independent Board Member
10. Russ Houlden - Independent Board Member and Chairman of the Audit Committee
11. Patrice Lambert de Diesbach - Board Member
12. Dr. Maria Pasło-Wiśniewska - Independent Board Member
13. Dr. Wiesław Rozłucki - Independent Board Member and Chairman of the Remuneration Committee
14. Valérie Théron - Board Member

At present, the Supervisory Board has five independent members, namely Messrs. Dr. Henryka Bochniarz, Russ Houlden, Prof. Michał Kleiber, Dr. Maria Pasło-Wiśniewska and Dr. Wiesław Rozłucki.

#### Committees:

Three permanent committees operate within the Supervisory Board. Their composition was the following (as of 31 December 2016):

1) **Audit Committee:**

Russ Houlden – Chairman  
Federico Colom Artola  
Dr. Maria Pasło-Wiśniewska  
Marc Ricau

2) **Remuneration Committee:**

Dr. Wiesław Rozłucki – Chairman  
Dr. Maria Pasło-Wiśniewska  
Marc Ricau  
Valérie Théron

3) **Strategy Committee:**

Gervais Pellissier – Chairman  
Dr Henryka Bochniarz  
Jean-Marie Culpin  
Eric Debroeck  
Prof. Michał Kleiber  
Patrice Lambert de Diesbach  
Dr. Maria Paśło-Wisniewska

The Audit Committee is chaired by Mr. Russ Houlden, an independent Member of the Supervisory Board having qualifications in accounting and treasury and relevant experience in audit and finance.

Mr. Maciej Witucki, Chairman of the Supervisory Board, and Mr. Russ Houlden, Independent Board Member and Chairman of the Audit Committee, participate in the meetings of the Strategy Committee on a permanent basis.

The reports of the three permanent committees of the Supervisory Board on their activities in 2016 are attached hereto.

### **Operation**

The Supervisory Board, acting in compliance with the provisions of the Commercial Companies Code and the Company's Articles of Association, exercised permanent supervision over the Company's operations in all fields of its activities.

In 2016 the Supervisory Board fulfilled its duties resulting from the provisions of the Commercial Companies Code:

1. Appraisal of the Management Board's report on Orange Polska SA operations and the financial statements for the financial year 2015 and the Management Board's motion for distribution of the Company's profit;
2. Appraisal of the Management Board's report on Orange Polska Group's operations and the consolidated financial statements for the financial year 2015;
3. Filing with the General Assembly reports presenting the results of the above mentioned appraisals.

The Supervisory Board took due care to ensure that the Management Board's reports and the financial statements were in compliance with the law.

The Supervisory Board also executed its rights and obligations arising from the Company's Articles of Association and the Best Practice for Companies listed on the Warsaw Stock Exchange, of which the following should be mentioned:

- 1) expressing opinions on motions addressed to the General Assembly,
- 2) selecting an independent auditor to audit the Company's financial statements,
- 3) preparing opinions on Orange Polska S.A. and Orange Polska Group budget,
- 4) concise assessment of the Orange Polska Group's standing in 2015, including an assessment of the internal control system and the significant risks management system,
- 5) deciding on the composition of the Management Board and the evaluation of its performance.

Throughout 2016, the Supervisory Board focused on the following issues:

- a) implementation of the medium term action plan for 2016–2018;  
In February 2016, the Supervisory Board accepted a new strategic plan of Orange Polska S.A. and Orange Polska Capital Group for 2016-2018, focused on increasing market share. It is a proactive plan built around four strategic priorities: leadership in connectivity and in convergence, best customer experience, and agility. In the years ahead we expect strong

growth in demand for telecom services, fuelled by a surge in data consumption and increasing adoption by Polish households of a convergent approach.

b) investments in the rollout of the fibre network;

Good connectivity, both fixed and mobile, is the key to the success of our strategy. Group's capital expenditures in 2016 increased to more than PLN 2 billion (excluding spectrum payments) and the Group significantly increased investments in the rollout of the fibre network. Plans for the year 2017 assume that the fiber network will cover 2,5 million of households.

c) launch of LTE services on the newly purchased mobile spectrum;

The success in the auction and the purchase of new frequency bands at the beginning of 2016 year became a milestone for our actions improving the quality of mobile network and greatly improved the Company's competitive position in terms of mobile spectrum resources. Nowadays, almost all the residents of our country can benefit from 4G/LTE coverage. Additionally, Orange network has been considered as the fastest in Poland.

d) Group's financial results and performance in comparison to the budget and delivering market guidance for EBITDA and leverage;

Considering the increase in investment and a very strong competition, the Supervisory Board put much attention to the financial results, which were in line with expectations in 2016. The revenues on the level of PLN 11,538 M mean a slight decrease comparing to the previous year (-2.4% vs -2.9% in 2015). On the net result, we can see the impact of the one write-down on financial assets of PLN 1,793 M resulting from over calculation of future cash flow together with an increase of the discount rate in order to reflect the bigger economic risk. The profit EBITDA of PLN -3,163 M is on the expected level, whereas, the volume of the cash flow was the effect of the growth of the investments.

e) customer satisfaction – the customer excellence programme;

The Supervisory Board is satisfied with the further growth and achieving the best Net Promoter Score (NPS) indicator, on both B2C and B2B markets.

f) exploration of convergent opportunities;

One of the key strategic objectives of Orange Polska is to be the convergence leader, providing mobile and fixed line service bundles. In 2016 Orange Polska proved its efficiency in the sales of convergent services (including family offers with several sim cards bundle) and noted a significant increase of the popularity of the mobile Internet for households.

g) organisational changes in the Company and other

On February 4, 2016 the Supervisory Board decided to change the President of Orange Polska S.A. as of 1 May, when Bruno Duthoit was replaced by Jean-François Fallacher.

On September 30, 2016, Orange Polska merged with its subsidiaries by transferring all assets of Orange Customer Service and TP Invest to Orange Polska. The main purpose of the merger was the simplification of the Orange Polska Group management through increase of operational efficiency as well as integration and simplification of processes in the merged companies.

The Supervisory Board met 5 times in 2016 and adopted 37 resolutions, of which 6 were in writing (by circulation).

The Supervisory Board used in its operations opinions of its Committees (the Audit Committee, the Remuneration Committee and the Strategy Committee), wherever applicable.

The Supervisory Board formulated a number of recommendations, remarks and motions to the Management Board, referring to different aspects of the Company's operations.

The Supervisory Board was regularly monitoring the execution of its resolutions and recommendations, analysing the information presented by the Management Board.

## Self-assessment

The Supervisory Board evaluates that:

- knowledge, experience and competence of each member and the composition, organisation and operation of the Supervisory Board and its committees allowed them effective supervision over the activities of Orange Poland,
- properly and with due care performed its duties in 2016.

## II. APPRAISAL OF THE MANAGEMENT BOARD'S REPORT ON THE COMPANY'S ACTIVITY, THE FINANCIAL STATEMENTS AND THE MANAGEMENT BOARD'S MOTION ON OFFSETTING OF THE LOSS FOR THE 2016 FINANCIAL YEAR

The Company's Supervisory Board, acting pursuant to provisions of article 382 § 3 of the Commercial Companies Code and § 23.2.1-3 of the Company's Articles of Association, has examined and appraised the following documents:

- 1) the Management Board's report on the Company's activity in 2016;
- 2) the Company's IFRS financial statements for the 2016 financial year, including:
  - a) balance sheet as at 31.12.2016, with the balance sheet total of PLN 22 390 million (in words: PLN twenty two billion three hundred ninety million),
  - b) profit and loss account for 2016 showing a loss of PLN 1 762 million (in words: PLN one billion seven hundred sixty two million),
  - c) change in equity for 2016 showing a decrease in equity by PLN 1 842 million (in words: PLN one billion eight hundred forty two million),
  - d) cash flow account showing an increase in net cash and cash equivalents by PLN 5 million (in words: PLN five million),
  - e) notes to the financial statement.
- 3) resolution No. 3/17 of the Company's Management Board dated 13 February 2017 on approval of the Management Board's report on the activity of Orange Polska S.A. in the 2016 financial year and IFRS financial statements for 2016;
- 4) resolution No. 4/17 of the Company's Management Board dated 13 February 2017 on Management Board's motion on offsetting of the Orange Polska S.A. loss for the 2016 financial year.

Having analysed the above mentioned documents and taking into consideration the opinion and report of an independent auditor on examination of Orange Polska S.A. financial statements for the year ended 31 December 2016, the Supervisory Board states as follows:

- The Management Board report on the Company's activity and the financial statements for the 2016 financial year are in compliance with the books and documents, and remain in conformity with the factual status and mandatory legal provisions.

The Supervisory Board recommends the Annual General Assembly:

1. to approve the Management Board's report on the Company's activity in 2016 and the financial statements for the 2016 financial year;
2. to adopt a resolution on offsetting of the Company's loss for the 2016 financial year according to the motion of the Management Board included in the resolution 4/17;
3. to grant approval of the performance by the members of the Management Board of Orange Polska S.A. of their duties in 2016.

4. to grant approval of the performance by the members of the Management Boards of TP Invest sp. z o.o. and Orange Customer Service sp. z o.o. of their duties in 2016.

### III. OPINION ON THE MANAGEMENT BOARD'S MOTION ON THE DISTRIBUTION OF THE POFIT FROM PREVIOUS YEARS

The Supervisory Board, acting pursuant to provisions of § 23.2.2 and 7 of the Articles of Association, expresses a positive opinion on the Management Board's motion expressed in the resolution no. 6/17 dated 13 February 2017 and recommends the Annual General Assembly to adopt a resolution on distribution of the Company's profit from previous years.

### IV. APPRAISAL OF THE MANAGEMENT BOARD'S REPORT ON ACTIVITY OF ORANGE POLSKA GROUP AND THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE 2016 FINANCIAL YEAR

The Company's Supervisory Board, acting pursuant to provisions of article 382 § 3 of the Commercial Companies Code and § 23.2.1-3 of the Company's Articles of Association, has examined and appraised the following documents:

- 1) The Management Board's report on the activity of Orange Polska Group in the 2016 financial year;
- 2) The IFRS consolidated financial statements for 2016 that include:
  - a) consolidated balance sheet as at 31.12.2016, showing the balance sheet total of PLN 22 588 million (in words: PLN twenty two billion five hundred eighty eight million),
  - b) consolidated profit and loss account for 2016 showing consolidated a net loss of PLN 1 746 million (in words: PLN one billion seven hundred forty six million), including a net loss attributable to equity holders of Orange Polska S.A. of PLN 1 746 million (in words: PLN one billion seven hundred forty six million),
  - c) changes in total consolidated equity for 2016 showing a decrease in total consolidated equity by PLN 1 968 million (in words: PLN one billion nine hundred sixty eight million), including a decrease of equity attributable to equity holders of Orange Polska S.A. by PLN 1 968 million (in words: PLN one billion nine hundred sixty eight million),
  - d) consolidated cash flow statement showing a decrease in net cash and cash equivalents by PLN 4 million (in words: PLN four million),
  - e) notes to consolidated financial statement.
- c) Resolution No. 7/17 of the Company's Management Board dated 13 February 2017 on approval of the Management Board report on the activity of Orange Polska Group in the 2016 financial year and IFRS consolidated financial statements for 2016.

Having analysed the abovementioned documents and taking into consideration the opinion and report of an independent auditor on examination of the consolidated financial statements for the year ended 31 December 2016, the Supervisory Board states as follows:

- the Management Board's report on the activity of Orange Polska Group in the 2016 financial year and the consolidated IFRS financial statements for the 2016 financial year are in compliance with the books and documents, and remain in conformity with the factual status and mandatory legal provisions.

The Supervisory Board recommends the Annual General Assembly to approve the Management Board's report on the activity of Orange Polska Group in the 2016 financial year and the consolidated IFRS financial statements for the 2016 financial year.

## **V. ASSESSMENT OF ORANGE POLSKA GROUP'S STANDING**

This section contains the Supervisory Board assessment of the Orange Polska Group's performance in 2016 in accordance with the recommendation no. II.Z10.1 of the Code of Best Practices for WSE Listed Companies 2016, introduced by the Warsaw Stock Exchange. The assessment is based on the 2015 financial results of the Group (the Company and its subsidiaries) as well as on the information obtained by the Supervisory Board during conducting its statutory tasks.

The Supervisory Board, through the work of its committees and all its members (including independent members), was actively engaged in the process of evaluation of the most important initiatives, having in mind the interest of all the Group's stakeholders, including shareholders. In addition, it maintained oversight of the Group's operational and financial goals through management reporting at its quarterly meetings and was able, through the Audit Committee, to review and challenge the control, risk management and budgeting functions performed by the Management.

### **Group's Operational Review**

In 2016 Orange Polska business continued to develop in line with the priorities that were set a year ago. Namely: investments in connectivity and on very proactive customer acquisition on all fronts of our business.

In 2016 Orange Polska continued to make significant investments in fibre network rollout. This strategic priority will differentiate Company's offer on the market and is a key factor in its ongoing transition from a legacy to a modern telecom company. The size of the fibre network doubled last year to close to 1.5 million households. The Company has the largest fibre network in Poland, available in 37 cities. As this technology is still new in Poland, the Company put a lot of effort into marketing communications through the year to build customer awareness. Customer take-up increased in every quarter and reached 31,000 in Q4. Almost 80% of customers acquired in Q4 were new customers to Orange Polska – an evidence that Orange Polska is winning market share from the competition.

Facing a continuing surge in data consumption, Orange Polska continued to improve mobile connectivity based on the newly acquired spectrum, resulting in mobile 4G/LTE network current coverage of almost the entire population and serving more than 60% of mobile data traffic. The volume of data transferred in the network increased by c.130% due to the growing number of customers and much higher traffic per customer, driven by increasing smartphone penetration and evolving customer needs.

In 2016 the number of mobile post-paid SIM cards increased by more than 1 million or 13% year-on-year, the best achievement in many years. Orange Polska held on to second place on the market in terms of mobile number portability, with a much better net result in post-paid (+152,000) than the year before. This impressive growth was mainly fuelled by two market trends: the success of multi-SIM family offers, and much higher popularity of mobile broadband for use in the home (called LTE for Fixed). Family offers are a powerful market tool to win households who use more and more mobile devices. LTE for Fixed is gaining traction as a substitute for fixed broadband, especially in suburban areas, as a consequence of much better mobile connectivity. Another contributing factor to growth in post-paid was increased migration from pre-paid following a regulatory change that obliged users to register their pre-paid SIM cards.

Introduction of obligation of pre-paid cards registration was an unexpected market event that occurred during 2016 and constituted a new challenge. Handling this challenge required a lot of effort in terms of adjusting our IT systems, redefining relations with distributors, customer education and marketing initiatives. By 1 February 2017 (the deadline for registration of existing cards to avoid disconnection), around 96% of active customers registered, which we deem a success and evidence that we handled this transition well.

In 2016 The Group continued efforts to engage in active dialogue with our customers in line with the new “listening and responding” approach launched in 2015. In 2016 Net Promoter Score (NPS) was once again improved and reached an all-time high as a result of significant improvements in satisfaction among our mobile customers, on both B2C and B2B markets.

### Group’s Financial Overview

The Group’s key goals in 2016 were to:

- Further extension of coverage of LTE technology and launch of services on newly purchased mobile spectrum
- Continue fibre network rollout to cover up to 800,000 new households connectable
- Development of commercial strategy aimed mainly at monetisation of new mobile spectrum, commercialisation of fibre network and actions to strengthen the Company’s position in all of its markets of operation,
- Use of the Group’s unique resources to fully utilise the benefits of convergent opportunities
- Increasing customer satisfaction and loyalty, also by further implementation of the customer excellence program
- Further optimisation of the Company’s assets, including disposal of unused properties
- Development of new cost optimisation initiatives to mitigate impact of revenue pressure
- Maintaining financial stability and monitor closely the level of debt ratios (net debt-to-restated EBITDA not to exceed 2.2)
- Deliver restated EBITDA in the guidance range of PLN 3.15-3.30 billion
- Monitoring and analysing any acquisition opportunities on the market
- Remunerating shareholders at a reasonable level, taking into consideration the Group’s financial structure and future capital requirements

Adjusted revenues totalled PLN 11,538 million in 2016, down -2.4% or PLN 288 million year-on-year. The decline resulted mainly from a fall in fixed services and lower other revenues. Evolution of fixed services reflects primarily structural erosion of legacy business, which impacted fixed voice and wholesale revenues. Fixed broadband revenues were also down as consequence of falling ADSL base and lower ARPU. A decrease in other revenues resulted from completion of infrastructure projects (that generated PLN 127 million revenues in 2015), and lower ICT revenues. These negatives were partially offset by an increase in mobile revenues, which were driven up by post-paid customer base growth and shift towards instalment offers.

Adjusted EBITDA for full year amounted to PLN 3,163 million, down by PLN 354 million or 10.1% year-on-year. Adjusted EBITDA margin stood at 27.4%, down by 2.3 pp year-on-year. Its evolution reflects mainly a fall in revenues, an increase in direct costs (by PLN 249 million) and further optimisation of indirect costs (a fall by PLN 183 million). Direct cost year-on-year evolution was mainly affected by higher interconnect costs as well as growing commercial costs, mainly due to change in mix of handsets and unfavourable FX impact (weaker PLN to EURO). These negatives were partly compensated by improvement in indirect costs, mainly due to ongoing optimisation in the network & IT areas and a headcount decrease following implementation of the social plan.

Net loss for 2016 amounted to PLN 1,746 million versus net income of PLN 254 million in 2015. It was heavily affected by PLN 1,793m non-cash asset impairment loss due to reassessment of future projected cash flows coupled with an increase in the discount rate to reflect higher business risk. It was also impacted by lower EBITDA and higher net financial costs (PLN 68 million above 2015), mainly as a result of higher debt.

Adjusted organic cash flow for 2016 came in at PLN 620 million versus PLN 962 million in 2015. It was mainly as a result of lower EBITDA and higher capital expenditure cash outflows. These were partly offset by much lower requirement for working capital as growing receivables (due to instalment effect) were largely compensated by supply chain optimisation.

In 2016, the Group paid a dividend of PLN 328 million, an equivalent of PLN 0.25 per share, payable in cash.

### **Conclusions and 2017 Recommendations**

In 2016 Orange Polska enhanced its commercial position on the Polish telecom market, especially in mobile post-paid and high-speed fixed broadband. Customers' perception of Orange services further improved. Financial results were in line with objectives. In 2017 key priorities should not change but the focus will be more on improvement of the execution of commercial actions and investment process. Monetisation of the strategy that was announced a year ago is slower than anticipated mainly due to slower than previously expected recovery of the mobile market, high competition in fixed broadband putting pressure on ADSL customers, continued pressure on legacy businesses (PSTN and wholesale) and new situation on the pre-paid market. As such new actions are required to facilitate the strategic goal which is turnaround.

The Supervisory Board's opinion is that in 2017 the Group should focus, in particular, on the following key aspects:

- Drawing benefits from the organisational changes in the company that were introduced recently
- Maximise market opportunities from the newly launched convergence offer Orange Love
- Work out new actions that will improve monetisation of the strategy and business transformation including new cost cutting initiatives
- Consider balance sheet deleveraging initiatives
- Provide during the year an update regarding mid-term strategic and financial outlook
- Continue fibre network rollout to cover more than 1 million new households connectable
- Closely monitor commercial strategy aimed mainly at monetisation of fibre network and develop further actions to strengthen the Company's position in all of its markets of operation
- Implement further improvements in the customer management experience to continue to increase customer satisfaction and loyalty
- Participating in the POPC program
- Deliver restated EBITDA in the guidance range of PLN 2.8-3.0 billion
- Maintaining financial stability and monitor closely the level of debt ratios (net debt-to-restated EBITDA not to exceed 2.6).

## **VI. ASSESSMENT OF THE GROUP'S INTERNAL CONTROL, RISK MANAGEMENT, COMPLIANCE AND INTERNAL AUDIT**

The Supervisory Board is responsible for reviewing the effectiveness of the Group's system of internal control and risk management designed and established by the Management Board, as well as the compliance system and the internal audit function.

This system of internal control and risk management facilitates the management of the risk of failure to achieve business objectives and provides reasonable assurance against material misstatement or loss (risk management does not mean the full elimination of risk, but provides for better risk identification and the implementation of adequate measures as needed). The relevant processes are designed to give reasonable, but cannot give absolute, assurance that the risks significant to the Group are identified and addressed.

The key elements of the system of internal control, including risk management, were presented in the Management Board's Report on the Activity of the Group for 2016, published on 13 February 2017.

In 2015, the Group again completed a comprehensive assessment of its processes of internal control over financial reporting. Main deficiencies both in design and in effectiveness of internal control have been identified and corrected, or appropriate action points have been launched. As a result of the

assessment, the Management concluded that there were no weaknesses that would materially impact the internal controls and financial reporting at 31 December 2016.

Both the internal and external auditors report to the Management Board and also to the Audit Committee on control deficiencies which they identified during their audit. Their recommendations are being implemented.

Most important risks are updated annually by the Management Board and presented to the Supervisory Board.

Matters related to compliance are being reported to the Supervisory Board's Audit Committee in following areas: ethics, general compliance with laws and regulations, anti- fraud, security and anti-corruption. Activities of the Compliance Management function, the results of planned inspections, as well as the results of inspections initiated by notification of irregularities (whistle-blowing) are monitoring on the basis of reports submitted periodically. Applied actions and mechanisms are ensuring the effectiveness of the Group's compliance function.

The internal audit function, ensures objective and independent assessment of the adequacy, effectiveness and quality of the Group's internal controls. The internal audit works in accordance with a charter approved by the Audit Committee, which also reviews annual internal audit program and analyses the Orange Polska's Internal Audit reports.

## **VII. ASSESSMENT OF THE COMPLIANCE WITH DISCLOSURE OBLIGATIONS**

This section contains the Supervisory Board assessment of the Company's performance of the obligations concerning compliance with the corporate governance principles defined in the Exchange Rules and the regulations on current and periodic reports published by issuers of securities in 2016 in accordance with the recommendation no. II.Z.10.3 of the Code of Best Practices for WSE Listed Companies 2016.

Orange Polska as an issuer of shares admitted to trading on a regulated market is obliged to follow the rules of "Best Practices of WSE listed companies 2016". Orange Polska accomplished its information duties related to the application of corporate governance which were defined in the WSE Regulations and as well in the decree of the Minister of Finance dated 19 February 2009 concerning the current and periodic information which are passed by issuers of securities and concerning conditions of the consideration as equal of the information required by the law of a state which is not a member.

The rules concerning the transfer of current reports concerning the application of the detailed rules of the Corporate Governance are defined by the Resolution of the WSE Board (n 1309/2015) dated 1712.2005. According to the WSE regulations when the given rule is not applied in a constant way or is broken incidentally, the Company is obliged to publish on its web site a report in the analogical way as it is applied for a transfer of current reports. Reports concerning the application of detailed rules of the corporate governance are passed by mean of EBI (Electronic Basis of Information). The decree of the Minister of Finance dated 19 February 2009 defines which information should be mentioned in the declaration on the application of the Corporate Governance constituting a separate part of the Management Board report about the activity of the Company.

The Supervisory Board analyzed the declaration about the application of the Corporate Governance included in the Management Board report about the activity of Orange Polska S.A. and the Orange Group in 2016. This declaration defines in a detailed way the issues concerning the Corporate Governance and contains the information from the decree of the Minister of Finance dated 19 February 2009 on the current and periodic information passed by issuers of securities and on conditions of the consideration as equal of the information required by the law of a state which is not a member.

In the above mentioned declaration the Management Board informed about the non-application of the recommendation IV.R.2 "Best Practices of WSE listed companies 2016" referring to the providing

the shareholders with the possibility of using the electronic communication during the general assembly meeting

Orange Polska assures the transmission on-line of the session in the real time, but the two side communication is not provided, nor the possibility of voting in another location than this, in which the session of General Assembly takes place. Taking into account legal risks, the Management Board justifies the non-application of this rule by the legal risks related to such a communication.

Apart from the non-application of the above-mentioned recommendations, the Supervisory Board welcomes that the Company complies with all the rules of "Best Practice", including those introduced last year.

Orange Poland in accordance with the principle I.Z. 1. of "Best Practices" runs a website in Polish and English, on which publishes all provided by law and best practice documents and information, including information on the application in the Company of principles and recommendations contained in the "Best Practice of GPW Listed Companies 2016".

3 July 2016 the Directive of the European Parliament and the European Council on market abuse regulation ("MAR") was introduced and, therefore, was revised the Regulation of the Minister of Finance on the current and periodic information published by issuers of securities in terms of the recognition of confidential information as the price-generating information. The Supervisory Board assessed positively the adjustment of the Company's information policy to the changed requirements and the compliance of disclosure obligations.

In the Supervisory Board' opinion, the information provided by Orange Polska is in line with the requirements and honestly follows the rules of the Corporate Governance and the Company duly fulfils the disclosure obligations relating to the application of Corporate Governance principles set out in the Warsaw Stock Exchange Rules and regulations on current and periodic information.

#### **VIII. ASSESSMENT OF THE RATIONALITY OF THE SPONSORSHIP AND CHARITY POLICY**

This section contains the Supervisory Board assessment of the rationality of the Group's sponsorship and charity policy in 2016 in accordance with the recommendation no. II.Z10.4 of the Code of Best Practices for WSE Listed Companies 2016.

The Supervisory Board states that the sponsoring strategy led by the Company and focused on three main areas supporting the brand (which are music, movies and sport) brings the appropriate financial and marketing efficiency. According to the adopted strategy, in these three areas Orange Polska creates complex long term projects on the territory of the whole Poland addressed to the most extensive group of its clients (present and potential) in which OPL plays a part of a titular sponsor. The involvement of Orange Polska is long term and multiple.

The Supervisory Board appreciates the charity activity led by Orange Polska in both forms – this led by the Orange Foundation (created by the Company) and the other led by the Fund of Donations. The Foundation acts for the modern education of children and youths and carries out common authors educational and social programs which support their intensive development.