

**Warsaw and London Stock Exchanges  
Report 1-2015 EBI  
Orange Polska SA  
Warsaw 26 March 2015**

Orange Polska SA's Supervisory Board documents related to Corporate Governance to be presented to the Annual General Assembly including: report on the activity of the Supervisory Board of Orange Polska S.A. and its committees and concise assessment of the Orange Polska Group's standing in 2014, including an assessment of the internal control system and the risks management system.

**REPORT**

**on the activity of the Supervisory Board of Orange Polska S.A. and its committees  
and concise assessment of the Orange Polska Group's standing in 2014**

**I. COMPOSITION:**

Composition of the Supervisory Board on January 1, 2014:

1. Maciej Witucki - Chairman
2. Prof. Andrzej K. Koźmiński - Deputy Chairman and Independent Board Member
3. Benoit Scheen - Deputy Chairman and Chairman of the Strategy Committee
4. Marc Ricau - Secretary
5. Timothy Boatman - Independent Board Member and Chairman of the Audit Committee
6. Dr. Henryka Bochniarz - Independent Board Member
7. Jean-Marie Culpin - Board Member
8. Eric Debroeck - Board Member
9. Dr. Mirosław Gronicki - Independent Board Member
10. Sławomir Lachowski - Independent Board Member
11. Marie-Christine Lambert - Board Member
12. Pierre Louette - Board Member
13. Gervais Pellissier - Board Member
14. Gérard Ries - Board Member
15. Dr. Wiesław Rożłucki - Independent Board Member and Chairman of the Remuneration Committee

In 2014 the following changes occurred in the composition of the Supervisory Board:

On April 10 the mandates of Messrs. Benoit Scheen, Timothy Boatman, Pierre Louette and Gérard Ries expired.

On the same day, Messrs. Benoit Scheen, Russ Houlden, Gérard Ries and Ms. Valérie Thérond were appointed by the Annual General Assembly as Members of the Supervisory Board.

On July 10, Mr. Benoit Scheen resigned as a Member of the Supervisory Board, effective on August 31, 2014.

On October 9, Mr. Ramon Fernandez was appointed by the Supervisory Board as a Member.

Composition on December 31, 2014:

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

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| 8. Ramon Fernandez          | - Board Member  |
| 9. Dr. Mirosław Gronicki    | - Independent Board Member  |
| 10. Russ Houlden            | - Independent Board Member and Chairman of the Audit Committee        |
| 11. Sławomir Lachowski      | - Independent Board Member  |
| 12. Marie-Christine Lambert | - Board Member  |
| 13. Gérard Ries             | - Board Member  |
| 14. Dr. Wiesław Rozłucki    | - Independent Board Member and Chairman of the Remuneration Committee |
| 15. Valérie Thérond         | - Board Member  |

At present, the Supervisory Board has six independent members, namely Messrs. Dr. Henryka Bochniarz, Dr. Mirosław Gronicki, Russ Houlden, Prof. Andrzej K. Koźmiński, Sławomir Lachowski and Dr. Wiesław Rozłucki.

Three permanent committees operate within the Supervisory Board. Their composition was the following (as of December 31, 2014):

- **Audit Committee:** Russ Houlden – Chairman, Sławomir Lachowski, Marie-Christine Lambert and Marc Ricau – members;
- **Remuneration Committee:** Dr. Wiesław Rozłucki – Chairman, Prof. Andrzej K. Koźmiński, Marc Ricau and Valérie Thérond – members;
- **Strategy Committee:** Gervais Pellissier – Chairman, Dr Henryka Bochniarz, Eric Debroeck, Dr. Mirosław Gronicki, Sławomir Lachowski and Gérard Ries – members;

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

## II. 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 2014 the Supervisory Board fulfilled its duties resulting from the provisions of the Commercial Companies Code:

1. Evaluation of the Management Board's report on Orange Polska SA operations and the financial statements for the financial year 2013 and the Management Board's motion for distribution of the Company's profit;
2. Evaluation of the Management Board's report on Orange Polska Group's operations and the consolidated financial statements for the financial year 2013;
3. Evaluation of the Management Board's report on PTK Centertel Sp. z o.o. operations and the financial statements for the financial year 2013 and the Management Board's motion for distribution of the Company's profit;
4. Evaluation of the Management Board's report on Orange Polska Sp. z o.o. operations and the financial statements for the financial year 2013 and the Management Board's motion for distribution of the Company's profit;
5. Filing with the General Assembly of the Shareholders reports presenting the results of the above mentioned evaluation.

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 Practices 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 budgets,
- 4) concise assessment of the Orange Polska Group's standing in 2013, including an assessment of the internal control system and the significant risks management system,

- 5) deciding on the composition of the Management Board, its terms of remuneration and the evaluation of its performance.

The Supervisory Board met 5 times in 2014. The SVB adopted 33 resolutions, of which 5 were in writing (by correspondence).

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

The reports of the three permanent committees of the Supervisory Board on their activities in 2014 are attached hereto.

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.

### **III. CONCISE ASSESSMENT OF ORANGE POLSKA GROUP'S STANDING IN 2014**

This section contains the Supervisory Board assessment of the Orange Polska Group's performance in 2014 in accordance with the recommendation no. III. 1.1 of the Code of Best Practices for WSE Listed Companies, introduced by the Warsaw Stock Exchange. The assessment is based on the 2014 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.

Throughout 2014, the Supervisory Board focused on the following issues:

- a) Group's financial results and performance in comparison to the budget;
- b) Supervision over implementation of the medium term action plan for 2013–2015;
- c) Participation of Orange Polska in the auction for the reservation of frequencies in the 800 and 2600 MHz bands;
- d) Orange Finanse project;
- e) Orange Energia pilot;
- f) Concluding financing agreements with Orange Group;
- g) Monitoring of the key programs for the Group's future, particularly the program of mobile access co-use with T-Mobile;
- h) Customer satisfaction – the customer excellence programme;
- i) Opportunities regarding investments into fibre access network project
- j) Adoption of the Remuneration Policy.

The Supervisory Board, through the work of its committees and all its members (including six 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 a very challenging market that persisted in 2014 Orange Polska managed to continue good commercial progress from 2013. In particular, commercial momentum was maintained in post-paid services. The number of post-paid subscriber base increased by more than 6% in 2014. Post-paid services have become significantly more affordable for customers, encouraging customers to migrate to this segment from pre-paid in greater numbers during 2014. The growing popularity of mobile broadband and the second mobile brand, nju.mobile, also contributed to this achievement. Mobile broadband performed particularly well, increasing its customer base by more than 30%. It was driven by the proliferation of smartphones and tablets combined with development of 3G and 4G networks. In 2014, Orange Polska continued a strong focus on the convergent offer, Orange Open, combining mobile and fixed line products. Its customer base grew by nearly 90% to 539 thousand and constituted close to 25% of all fixed broadband users. The customer base of fixed broadband decreased by

60,000, with ADSL and CDMA as the sole reasons of the decrease. The number of users of fast VHBB services grew 150%, accounting for 8% of all Orange Polska's DSL customers by the end of the year. In fixed voice, the Group, for another consecutive year, managed to limit churn of fixed voice customers. The net loss of lines came in at 229,000 versus 346,000 in 2013 due to benefits from product bundling and convergence.

In October 2014 the Polish regulator approved partial deregulation of the fixed broadband market, a decision which affects almost 30% of all Polish households. This was an important development for Orange Polska as it means greater price flexibility on the retail market and the introduction of commercial terms of cooperation on the wholesale market. The Group reacted immediately, launching new, more attractive offers in the deregulated areas. The recent deregulation has reinforced the decision to make significant investments in fibre technology in 2015.

Another major event was the completion of the mobile network modernisation project implemented in co-operation with T-Mobile. As a result, 3G network coverage for Orange Polska customers now extends to close to 100% of the population (compared to 63% before the project started), and 95% of Poland's geographical area (up from a mere 12%). The project has already created important savings in terms of operating expenses and allowed us to avoid significant capital expenditure. In terms of 4G LTE network construction, which started in Q3 2013, it covered 61% of the population by the end of 2014. The Group had more than 600 thousand LTE users by the end of the year and the 4G network already carried close to 20% of Orange Polska's mobile data traffic.

In 2014, in line with its strategic plan of seeking growth opportunities outside of the telecom sector, Orange Polska introduced two new commercial initiatives: Orange Finanse and Orange Energia. These products – a mobile banking platform and an energy retail platform – complement the Group's telecom services, and are designed to improve customer loyalty. The initial response to Orange Finanse has been very promising, with 36 thousand customers signing up in the first three months through December 2014. Orange Energia was launched as a pilot service in October and, in February 2015, Management positively assessed its results and decided on full commercial rollout.

## **Group's Financial Overview**

The Group's key goals in 2014 were to:

- Draw benefits from the merger of TP S.A. and PTK Centertel Sp. z o.o. and to put further focus on the convergent product strategy and Orange Open;
- Monitor business performance closely so as to be able to react quickly to unfavourable trading conditions caused by the continued volatility of the financial markets;
- Strengthen the leadership in value in fixed voice, mobile and broadband markets;
- Take actions to enable the Group's growth outside the telecommunication business in line with the strategic plan;
- Increase customer satisfaction and loyalty, also by further implementing the customer excellence program;
- Monitor the Group's EBITDA margin;
- Optimise capital expenditure to below PLN 1.8 billion, excluding one-off spectrum;
- Mitigate foreign exchange effect on commercial expenses, financial costs and capital expenditure;
- Intensify the cost base optimisation;
- Maintain financial stability, including taking advantage of Orange S.A. funding opportunities, and monitor the level and prognosis of debt ratios closely;
- Generate organic cash flow of at least PLN 1.1 billion<sup>1</sup>;
- Remunerate shareholders at a reasonable level, taking into consideration the Group's financial structure and future capital requirements;
- Further enhance internal control and risk management measures;

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<sup>1</sup> excluding one-offs: renewal of existing spectrum, at ca. PLN 0.3bn, acquisition of any new spectrum, potential payment of the EC fine, and certain other claims and litigations.

Organic cash flow = Net cash provided by operating activities - (CAPEX + CAPEX payables) + proceeds from sale of property, plant and equipment and intangible assets.

- Continue with the network infrastructure and frequency sharing cooperation with T-Mobile Polska through the NetWorkS! joint venture;
- Pursue the rollout of 4G LTE services and make reasonable efforts to ensure access to the 4G LTE spectrum.

Consolidated revenues totalled PLN 12,212 million in 2014, down by 4.5% or PLN 574 million versus 2013. A substantial part of this decline (PLN 255m) can be attributed to regulatory decisions, MTR cuts (impact on H1) and EU roaming rates cuts. Excluding this regulatory impact, the top-line decline was limited to PLN 319 million or 2.5% year-on-year, compared to PLN 525 million (3.7%) a year ago. The drop was only due to lower fixed services revenues. Both mobile and other revenue categories were up in 2014. Mobile was supported by handset sales on instalments (which boosted equipment revenues), and by the growth of the customer base, both of which offset pricing pressures. Group's restated EBITDA came in at PLN 3,921 million in 2014. In comparison with 2013 it decreased by PLN 125 million, however the margin improved by 0.5 pp to 32.1%. The decline resulted mainly from lower revenue while it was supported by lower direct commercial costs and the cost optimisation program. The Company generated PLN 1,149 million of organic cash flow, 4% more than in 2013. It delivered on its guidance of least repeating the level from 2013.

Group's net debt decreased by close to PLN 400 million to PLN 4,134 million at the end of 2014. The Group has preserved a sound financial structure, with net debt at 1.1 times restated EBITDA (unchanged from the previous year) and net gearing at 25% (reduced from 26% in 2013). In 2014 Orange Polska switched almost fully to intra-group financing which has already generated savings on interest costs. The full impact of the savings will be visible in 2015.

In 2014, the Group paid a dividend of PLN 656 million, an equivalent of PLN 0.5 per share, payable in cash.

## **Conclusions and 2015 Recommendations**

2014 brought new challenges to the business of Orange Polska. While in the mobile mass market there are finally some signs of stabilisation, competitive pressure intensified in the business segment, both on the mobile and fixed markets. Despite these challenges the Company delivered on its cash flow guidance. The Supervisory Board believes that the Management Board will make the appropriate efforts to reach the Group's 2015 objectives.

The Supervisory Board's opinion is that in 2015 the Group should, among others, focus its activities on the following key aspects:

- Drawing benefits from the fixed broadband market deregulation
- Execution of the fibre access network project that includes coverage of up to 650,000 households with the very fast fixed broadband service in fibre technology
- Further growth of LTE network coverage on 1,800MHz
- Participation in the spectrum auction for 800MHz and 2,600MHz frequencies so as to facilitate access to LTE spectrum
- Development of new commercial actions to strengthen the company's position in all of its markets of operation, in particular use of the Group's unique resources to fully utilise the benefits of convergent opportunities
- Launch action to counteract competitive pressure in the business segment
- Continuing the development of the new initiatives – Orange Finanse and Orange Energia
- Increasing customer satisfaction and loyalty, also by further implementation of the customer excellence program
- Generating organic cash flow of around PLN 900 million<sup>2</sup>
- 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
- Further enhancing internal control and risk management measures

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<sup>2</sup> excluding one-offs: acquisition of any new spectrum, potential payment of the EC fine, and certain other claims and litigations

- Monitoring business performance closely to be able to react quickly to unfavourable changes in market environment
- 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

#### **IV. ASSESSMENT OF THE GROUP'S INTERNAL CONTROLS INCLUDING RISK MANAGEMENT**

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.

This system 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 2014, published on February 12, 2015.

In 2014, the Group again completed a comprehensive assessment of its processes of internal control over financial reporting within the framework of the Sarbanes-Oxley Program of Orange S.A. 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 December 31, 2014. Continued efforts by the Management in this regard are also needed in 2015.

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.