

BOARD OF DIRECTORS' REPORT ON THE
ACTIVITY IN THE NINE-MONTH PERIOD ENDED
SEPTEMBER 30, 2017

Play Communications S.A.
and its subsidiaries

November 13, 2017

PLAY

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INTRODUCTION

This is the Report of Play Communications S.A. (the "**Company**"), a public limited liability company (société anonyme), incorporated and existing under the laws of Luxembourg, having its registered office at 4/6, rue du Fort Bourbon, L 1249 Luxembourg, Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies Register (R.C.S. Luxembourg) under number B183803. This Report summarizes consolidated financial and operating data of Play Communications S.A. and its subsidiaries.

Play Communications S.A. is a holding company (the Company together with all of its subsidiaries, the "Group", "Play Group"). The Company is a parent company of P4 Sp. z o.o. ("Play", "P4"). Play is a telecommunications operator located in Poland.

The shares of the Company have been traded on the Warsaw Stock Exchange since July 27, 2017.

As of November 13, 2017, 54.98% of the outstanding shares are controlled by former shareholders Tollerton Investments Limited and Telco Holdings S.à r.l. The remaining 45.02% is free float. The number of shares held by the investors is equal to the number of votes, as there are no privileged shares issued by the Company.

INDUSTRY, MARKET AND SUBSCRIBER DATA

This Report includes market share and industry data that we obtained from various third-party sources, including reports publicly made available by other mobile network operators, discussions with subscribers as well as data based on our internal estimates. The third-party providers of market and industry data relating to our business include inter alia:

- The Statistical Office of the European Communities (“Eurostat”); unless otherwise indicated, historical GDP, historical real GDP growth rate and harmonized unemployment and inflation rate refer to data retrieved from the Eurostat website. Real GDP growth rate forecast refers to the Spring 2017 European Economic Forecast, published on November 9, 2016;
- The Central Statistical Office of Poland (the “CSO”), Poland’s chief government executive agency charged with collecting and publishing statistics related to Poland’s economy, population and society, at both national and local levels;
- The Polish Office of Electronic Communications (the “UKE”), the Polish regulatory authority for the telecommunications and postal services markets focusing on, among other things, stimulating competition, consumer protection, developing new offerings and technologies, reducing prices and increasing availability of services in Poland;
- The National Bank of Poland (the “NBP”), the central bank of Poland;
- The European Commission (the “EC”), the EU’s executive body, which publishes the Digital Agenda Scoreboard; unless otherwise indicated, the EC’s data should be read as references to the EC’s thematic portal, European Commission Information Society, and;
- SMARTSCOPE S.C. (“Smartscope”), the company, which provides with marketing research, customer satisfaction research, organizational culture and employee satisfaction research and research projects for cultural and public institutions.

Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable. We believe that these industry publications, surveys and forecasts are reliable, but we have not independently verified them, or make any representation or warranty as to their accuracy or completeness. To the extent these industry publications, surveys and forecasts are accurate and complete, we believe we have correctly extracted and reproduced the information from such sources. Additionally, industry publications and such reports generally state that the information contained therein has been obtained from sources believed to be reliable but that the accuracy and completeness of such information is not guaranteed and in some instances state that they do not assume liability for such information. We cannot therefore assure you of the accuracy and completeness of such information and we have not independently verified such information.

In addition, in many cases, statements in this Report regarding our industry and our position in the industry are based on our experience, discussions with subscribers and our own investigation of market conditions, including, with respect to mobile market revenue, number of reported subscribers, number of net additions, churn, mobile data usage per subscriber, percentage of market share, contract/prepaid subscriber mix, offerings, number of retail outlets, numbers ported-in, EBITDA margins and ARPU, the review of information made publicly available by other mobile network operators. Comparisons between our reported financial or operational information and that of other mobile network operators (“MNOs”) using this information may not fully reflect the actual market share or position in the market, as such information may not be defined consistently or reported for all mobile network operators as we define or report such information in this Report.

Key Performance Indicators

The subscriber data included in this Report, including ARPU, unit SAC cash, unit SRC cash, reported subscribers (including contract subscribers and prepaid subscribers), net additions (including contract net additions and prepaid net additions), churn (including contract churn and prepaid churn) and data traffic (collectively, key performance indicators (“KPIs”)) are derived from management estimates, are not part of our financial statements or financial accounting records and have not been audited or otherwise reviewed by independent auditors, consultants or experts.

Our use or computation of the KPIs may not be comparable to the use or computation of similarly titled measures reported by other companies in our industry, by research agencies or by market reports. As mentioned above, we may not define churn or data usage per subscriber in the same way that other mobile network operators do, and as a result, comparisons using this information may not fully reflect the actual market share or position in the market. Other companies, research agencies or market reporters may include other items or factors in their calculation of similar metrics and may use certain estimates and assumptions that we do not use when calculating these metrics. These factors may cause the calculations by others of similar metrics to differ substantially from our calculations and if the methodologies of other were used to calculate our KPIs. The KPIs are not accounting measures, but we believe that each of these measures provides useful information concerning the attractiveness and usage patterns of the services we provide as well as costs related with attracting and retaining subscribers. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Key Performance Indicators.” None of the KPIs should be considered in isolation or as an alternative measure of performance under IFRS.

Certain industry, market and subscriber terms used by the Group

Below are certain industry, market and subscriber terms used by the Group. We present these in related groups.

<u>Term</u>	<u>Usage by Play</u>
Terms related to subscribers	
subscriber	We define a subscriber as any customer that we provide services to until such subscriber is deactivated. We report the number of subscribers as the number of SIM cards which are registered on our network and have not been disconnected.
contract subscribers	We define contract subscribers as subscribers who enter into a contract with us and who have not been deactivated or migrated to a prepaid tariff plan. Contract subscribers include: individual postpaid, business postpaid, mobile broadband postpaid and MIX subscribers (pursuant to which the subscriber purchases a prepaid tariff plan with a subsidized handset against a contractual obligation to make a specific number and value of top-ups at least once a month until the subscriber’s contract expires). After the expiration of a contract, the SIM is still reported as contract-based until the subscriber decides to migrate to a prepaid tariff plan or to terminate its contract. Our reported figures for contract subscribers include a number of SIM cards that have been issued pursuant to family calling plans.
active contract subscribers	We define active contract subscribers as subscribers who enter into a contract with us and who have not been deactivated or migrated to a prepaid tariff plan. Contract subscribers include: individual postpaid, business postpaid, mobile broadband postpaid and MIX subscribers (pursuant to which the subscriber purchases a prepaid tariff plan with a subsidized handset against a contractual obligation to make a specific number and value of top-ups at least once a month until the subscriber’s contract expires). After the expiration of a contract, the SIM is still reported as contract-based until the subscriber decides to migrate to a prepaid tariff plan or to terminate its contract. Our reported figures for active contract subscribers do not include inactive (not used within the last 90 calendar days) technical SIMs and inactive SIM cards which are used in ‘Play Elastyczny’ promotion.
technical SIM (techSIM)	We define techSIM as additional SIM card issued to tariffs which include two or more subscribers. TechSIM can be used by subscribers only for data transfer. The key functionality of the techSIM card, from the Company’s perspective, is to consolidate all family members SIM cards and support the billing structure. A TechSIM which is not used (within the last 90 calendar days) by a subscriber for data transfer becomes inactive. TechSIMs not actively used for data transfer do not represent active contract subscribers.

prepaid subscribers	We define prepaid subscribers as voice prepaid subscribers or mobile broadband prepaid subscribers who have not been deactivated or have not migrated to a contract tariff plan. In all prepaid tariff plans, the SIM card can be topped up at any time. Prepaid tariff plans do not require the payment of monthly subscription fees and subscribers are required to purchase their handsets separately. Prepaid subscribers are generally deactivated if a subscriber fails to top-up the account before the grace period ends, the length of which depends on the prepaid tariff plan chosen and the last top-up value.
active prepaid subscribers	We define active prepaid subscribers as the number of prepaid subscribers who have used the service within the last 30 calendar days from the reporting date (where usage of service is defined as the minimum one-time usage of any of voice call, outgoing or incoming, SMS or MMS sent or use of data transmission (and excluding certain other services)).
reported subscriber base	We define reported subscriber base as the number of subscribers at the end of a given period. If not otherwise stated, subscriber base refers to our reported subscriber base.
active subscriber base	We define active subscriber base as the sum of the number of active contract subscribers and active prepaid subscribers at the end of a given period.
average subscriber base (reported or active)	<p>We define average subscriber base in a reporting period as follows:</p> <ul style="list-style-type: none"> • for a one-month period, the average subscriber base is calculated as our beginning of month subscriber base plus our end of month subscriber base divided by two; and • for over a one-month period (e.g., several months, quarters or annual), the average subscriber base is calculated as the average of the monthly averages (i.e., the sum of monthly averages divided by the number of months in a given period). <p>The above methodology is used to calculate our average reported subscriber base or average active subscriber base.</p>
retained subscribers	We define retained subscribers as every contract subscriber who renewed their contract (by signing a contract extension) in a given period.
net additions	We define net additions as the change in our reported subscriber base in a given period. Net additions for a given period are calculated as the difference between the end of period reported subscriber base and the beginning of period reported subscriber base.
total gross additions	We define total gross additions as the sum of contract gross additions and prepaid gross additions.
contract gross additions	We define contract gross additions as every new contract subscriber added to the subscriber base in a given period (in a standard acquisition or through mobile number portability (“MNP”) as well as through migrations from prepaid tariff plans to contract tariff plans). Other migrations (e.g., between different contract plans) are not recognized as gross additions.
prepaid gross additions	We define prepaid gross additions as every new prepaid subscriber added to the subscriber base (through making a “first call,” defined as the first-time usage of any outgoing voice call, SMS or MMS sent or data transmission). Migrations from contract tariff plans to prepaid tariff plans as well as other migrations (e.g., between different prepaid tariff plans) are not recognized as gross additions.

Term

Usage by Plan

churn

We define churn as the subscribers that we no longer recognize in our reported subscriber base and were disconnected in a given period.

Contract subscribers are recognized as churned when they voluntarily applied to terminate their agreement with us (voluntary churn), where we disconnect them due to a lack of payment (collection churn) or due to certain other events such as the non-renewal of contracts by new subscribers who subscribed for services on a trial basis, or extraordinary events (such as the death of a subscriber).

Prepaid subscribers are recognized as churned when they are deactivated, which generally occurs if a subscriber fails to top-up the account before the grace period ends, the length of which depends on the tariff plan chosen and the last top-up value.

Migration of a subscriber:

- from a contract tariff plan to a prepaid tariff plan;
- from a prepaid tariff plan to a contract tariff plan; or
- within a segment (e.g., individual contract subscriber migrating to a business plan),

is not recognized as churn and therefore does not affect the churn rate of a particular segment.

churn rate/churn (%)

We define churn rate (as a percentage) as the churn divided by the average reported subscriber base in a given period. Churn rate (as a percentage) is calculated on a monthly basis, therefore churn rate (as a percentage) for over a one-month period (e.g., quarterly or annual) is calculated as the churn for the period divided by the number of months and further divided by the average reported subscriber base for such period.

migrations

We define migrations as subscribers who switch (i) from contract tariff plans to prepaid tariff plans or from prepaid tariff plans to contract tariff plans; or (ii) within a segment (e.g., an individual contract subscriber migrating to a business plan or the reverse). Movements between tariff plans in the same category are not counted as migrations.

Terms related to service usage

4G LTE Ultra

We define 4G LTE Ultra as aggregate frequency bands (LTE carrier aggregation).

ARPU ("average revenue per user")

We define ARPU as service revenue recognized in accordance with IFRS 15 and divided by the average active subscriber base in a given period. ARPU is calculated on a monthly basis, therefore ARPU for over a one-month period (e.g., quarterly or annual) is calculated as the sum of service revenue divided by the number of months and further divided by the average active subscriber base for a given period. See *"Presentation of Financial Information—Changes in Accounting Policies"* for a discussion of the early adoption of IFRS 15.

In our definition of ARPU, service revenue includes usage revenue (i.e., monthly fees, payments above commitment, one-time payments for minutes, SMS or data bundles, etc.) and charges for incoming traffic (interconnection revenue). We do not take into account roaming services rendered to subscribers of other international networks and transit of traffic services. Unless otherwise stated, we calculate ARPU net of any VAT payable.

data usage per subscriber

We define data usage per subscriber as total billed data transfer from and to our mobile subscribers divided by the average subscriber base (with the average subscriber base for these purposes being the sum of active prepaid subscribers and contract subscribers) in a given period. Data usage per subscriber is calculated on a monthly basis, therefore data usage per subscriber for over a one-month period (e.g., quarterly or annual) is calculated as a sum of data transfer from and to our mobile subscribers over the period divided by the number of months and further divided by the average subscriber base for a given period.

Terms related to costs**subscriber acquisition costs**

We define subscriber acquisition costs as the sum of contract subscriber acquisition costs and prepaid subscriber acquisition costs.

We define contract subscriber acquisition costs as total costs relating to new contract subscribers acquired (or migrated from being prepaid tariff plans to contract tariff plans) in a given period, including: (i) in the case of contracts sold with devices such as handsets, device subsidies equal to cost of goods sold less the amount we receive from the subscriber as payment for the device; (ii) commission costs paid to dealers and our own sales force and (iii) other SAC costs (primarily SIM cards).

We define prepaid subscriber acquisition costs as the total costs relating to the acquisition of new prepaid subscribers in a given period, which mainly consist of the costs of SIM cards and the costs of rebates for distributors of prepaid starter packs.

unit SAC

We define unit SAC as subscriber acquisition costs divided by the total gross additions in a given period.

unit SAC cash

We define unit SAC cash as the sum of the following acquisition costs: in case of contracts sold with devices such as handsets, device subsidies equal to the cost of goods sold less the amount we receive from the subscriber as payment for the device, on the day of signing the contract; commission costs paid to dealers and our own sales force; costs of SIM cards and the costs of rebates for distributors of prepaid starter packs, divided by the total gross additions in a given period.

unit contract SAC

We define unit contract SAC as contract subscriber acquisition costs divided by the total number of contract gross additions in a given period.

unit contract SAC cash

We define unit contract SAC cash as the sum of the following contract acquisition costs: in the case of contracts sold with devices such as handsets, device subsidies equal to cost of goods sold less the amount we receive from the subscriber as payment for the device, on the day of signing the contract; commission costs paid to dealers and our own sales force and the costs of SIM cards, divided by the total number of contract gross additions in a given period.

unit prepaid SAC

We define unit prepaid SAC as prepaid subscriber acquisition costs divided by the total number of prepaid gross additions in a given period.

unit prepaid SAC cash

We define unit prepaid SAC cash as sum of prepaid acquisition costs in a given period (i.e. costs of SIM cards and costs of rebates for distributors of prepaid starter packs), divided by the total number of prepaid gross additions in a given period.

subscriber retention costs

We define subscriber retention costs as the total costs relating to contract subscribers renewing their contracts in a given period, including: (i) in the case of contracts sold with devices such as handsets, device subsidies equal to cost of goods sold less the amount we receive from the subscriber as payment for the device; and (ii) commission costs paid to dealers and our own sales force.

Term

Usage by Play

unit SRC

We define unit SRC as the subscriber retention costs divided by the number of retained subscribers in a given period.

unit SRC Cash

We define unit SRC cash as the sum of the following subscriber retention costs: in case of contracts renewed with devices such as handsets, device subsidies equal to cost of goods sold less the amount we receive from the subscriber as payment for the device, on the day of signing the contract; and (ii) commission costs paid to dealers and our own sales force, divided by the number of retained subscribers in a given period.

The industry, market and subscriber data included herein are produced only as of their respective dates, and may be superseded with the passage of time.

RELATED PARTY TRANSACTIONS

We are not aware of any other related party transactions than those described in the Prospectus under the heading “Certain Relationships and Related Party Transactions” and described in Note 37 “Related party transactions” to Play Communications S.A. and its subsidiaries interim condensed consolidated financial statements prepared in accordance with IAS 34 with early adoption of IFRS 15 and IFRS 16 as at and for the nine-month period ended September 30, 2017 (the “**Financial Statements**”) included elsewhere in this Report.

DEFINITIONS

Unless otherwise required by the context or explicitly stated, the following definitions shall apply throughout the document. Certain terms relating to Play and industry-specific terms are defined in the Glossary of Technical Terms attached hereto as Annex C beginning on page B-1.

“ATO Act”	Refers to the Act dated June 10, 2016 on Anti-terrorist Operations (Journal of Laws 2016, item 904), which came into force in Poland in July 2016 and amended the Polish Telecommunications Act to require the de-anonymization of prepaid phone cards.
“Bank Zachodni WBK Overdraft Facility”	Overdraft agreement between the Group and Bank Zachodni WBK S.A. in an aggregate principal amount of PLN 150 million.
“EC”	European Commission.
“EU”	European Union.
“euro,” “EUR” or “€”	Euro, the single currency of the participating member states in the Third Stage of the European Economic and Monetary Union of the Treaty Establishing the European Community, as amended from time to time.
“Group,” “we,” “us,” “our” or “ourselves”	Refers to the Company and its consolidated subsidiaries.
“HoldCo 1”	Play Holdings 1 S.à r.l., a private limited liability company (<i>société à responsabilité limitée</i>) organized under the laws of Luxembourg, having its registered office at 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg.
“IFRS”	International Financial Reporting Standards, as adopted by the EU.
“IFRS with early adoption of IFRS 15 and IFRS 16”	International Financial Reporting Standards, with early adoption of IFRS 15 ‘Revenue from contracts with customers’ and IFRS 16 ‘Leases’.
“IFRS 15”	International Financial Reporting Standard 15 ‘Revenue from contracts with customers’.
“IFRS 16”	International Financial Reporting Standard 16 ‘Leases’.
“IPO”	Initial Public Offering of shares of the Play Communications S.A. on the Warsaw Stock Exchange
„Millennium Overdraft Facility”	Overdraft agreement between the Group and Millennium S.A. in an aggregate principal amount of PLN 50 million.
“Olympia”	Olympia Development S.A., with its registered office at 25 Ermou St., Nea Kifisia 14564, Attiki, Greece.
“PLN” or “zloty”	Polish zloty, the lawful currency of Poland.
“Prospectus”	Prospectus approved by Luxembourg Financial Supervision Authority (<i>Commission de Surveillance du Secteur Financier</i>) on June 30, 2017
“Refinancing and Recapitalization”	Refers collectively to entry into Senior Facilities Agreement with syndication of banks on March 7, 2017, and issue of the Senior PIK Toggle Notes on March 22, 2017. The entry into the Senior Facilities Agreement and the application of proceeds therefrom to the repayment of EUR bond indebtedness and payments of certain amounts to shareholders of the Parent and payment of fees and expenses related to such transactions.
“Report”	The present report “Board of Directors’ report on the activity in the six-month period ended June 30, 2017”
“Revolving Credit Facility”	The PLN 400,000,000 multi-currency revolving credit facility made available pursuant to the Senior Facilities Agreement.

“SEC”	The United States Securities and Exchange Commission.
“Telco Holdings S.à r.l”	Telco Holdings S.à r.l, a Luxembourg société anonyme with registered office in the Grand Duchy of Luxembourg, at 16, avenue de la Gare, L-1610 Luxembourg, with a share capital of EUR 21,500 and registered with the Luxembourg Trade and Companies Register under number B191962 (formerly known as NTP Limited, a private limited company incorporated in Jersey with registered number 115496 and having its registered office at 13 Castle Street, St Helier, Jersey JE4 5UT).
“U.S.” or “United States”	United States of America.
“U.S. GAAP”	Generally accepted accounting principles in the United States.
“U.S. Securities Act”	The United States Securities Act of 1933, as amended.

PRESENTATION OF FINANCIAL INFORMATION

General

The consolidated financial information presented herein has been prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16 - as presented in the unaudited interim condensed consolidated financial statements that the Group has issued for the nine-month period ended September 30, 2017 (the "**Financial Statements**").

The financial information included in this Report is not intended to comply with the SEC's reporting requirements.

IFRS with early adoption of IFRS 15 and IFRS 16 differs in various significant respects from U.S. GAAP. You should consult your own professional advisors for an understanding of the differences between IFRS with early adoption of IFRS 15 and IFRS 16, on one hand, and U.S. GAAP, on the other hand, and how those differences could affect the financial information contained in this Report. In making an investment decision, you should rely upon your own examination of the financial information contained in the Prospectus as well as in this Report.

The preparation of financial statements in conformity with IFRS with early adoption of IFRS 15 and IFRS 16 requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in those consolidated financial statements.

The Group's consolidated financial statements have been prepared based on a calendar year and are presented in zloty rounded to the nearest thousand. Therefore, discrepancies in the tables between totals and the sums of the amounts listed may occur due to such rounding.

The financial information in this Report is presented in zloty.

Non-IFRS Measures

We have included certain non-IFRS financial measures in this Report, including, among others, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments), Cash Conversion and certain financial ratios.

Under our presentation:

- "EBITDA" means operating profit for a certain period plus depreciation and amortization;
- "Adjusted EBITDA" means EBITDA plus costs of management fees, plus cost/(income) resulting from valuation of retention programs and costs of special bonuses, plus certain one-off items;
- "Adjusted EBITDA margin" means Adjusted EBITDA divided by operating revenue;
- "Free cash flow to equity (post lease payments)" means Adjusted EBITDA less cash capital expenditures (excluding cash outflows in relation to frequency reservation acquisitions), adjusted by total changes in net working capital and other, change in Contract Assets, change in Contract Liabilities and change in Contract costs, less cash interest, less cash taxes less lease payments; and
- "Cash conversion" means Adjusted EBITDA less cash capital expenditures (excluding cash outflows in relation to frequency reservation acquisitions) divided by Adjusted EBITDA.

While amounts included in EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments), and Cash conversion are derived from the Financial Statements, EBITDA, Adjusted EBITDA, Free cash flow to equity (post lease payments) and Cash conversion are not financial measures calculated in accordance with IFRS (including IFRS with early adoption of IFRS 15 and IFRS 16).

We present EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments) and Cash conversion because we believe they assist investors and analysts in comparing our performance across reporting periods on a consistent basis by excluding items that we do not believe are indicative of our core operating performance.

EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments) and Cash conversion have limitations as analytical tools. Some of these limitations are:

- EBITDA, Adjusted EBITDA and Adjusted EBITDA margin do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- Free cash flow to equity (post lease payments) and Cash conversion do not reflect our future requirements, for capital expenditures or contractual commitments;
- EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Cash conversion do not reflect changes in, or cash requirements for, our working capital needs;
- Free cash flow to equity (post lease payments) does not reflect future cash requirements for our working capital needs;
- EBITDA, Adjusted EBITDA, Adjusted EBITDA margin and Cash conversion do not reflect the significant interest expense, income taxes, or the cash requirements necessary to service interest or principal payments, on our debts;
- Free cash flow to equity (post lease payments) does not reflect all past expenses and cash outflows as well as does not reflect the future cash requirements necessary to pay significant interest expense, income taxes, or the future cash requirements necessary to service interest or principal payments, on our debts;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA, Adjusted EBITDA and Adjusted EBITDA margin do not reflect any cash requirements for such replacements;
- EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments) and Cash conversion do not reflect the impact of certain cash charges resulting from matters we consider not to be indicative of our ongoing operations; and
- other companies in our industry may calculate EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments) and Cash conversion differently than we do, limiting its usefulness as a comparative measure.

We present EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments) and Cash conversion as we believe they will be useful to investors and analysts in reviewing our performance and comparing our results to other operators. However, none of EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Free cash flow to equity (post lease payments) or Cash conversion are IFRS measures and you are encouraged to evaluate any adjustments to IFRS measures yourself and the reasons we consider them appropriate for supplemental analysis. Because of these limitations, as well as further limitations discussed above, the non-IFRS measures presented should not be considered in isolation or as a substitute for performance measures calculated in accordance with IFRS with early adoption of IFRS 15 and IFRS 16. We compensate for these limitations by relying primarily on our results in accordance with IFRS with early adoption of IFRS 15 and IFRS 16 and using non-IFRS measures only supplementally.

Early Adopted Accounting Standards

The Group early adopted the new standards: IFRS 15 *Revenue from contracts with customers* and IFRS 16 *Leases* which result in changes in accounting policies and consequently in differences between the financial data as included in the Financial Statements and the financial data as included in the financial statements prepared prior to the adoption of IFRS 15 and 16. The early adoption of IFRS 15 and IFRS 16 results in accounting adjustments that do not affect the cash flow profile of our Group.

The rationale for the early adoption, the main differences between our financial statements prepared prior to the adoption of IFRS 15 and IFRS 16 and the Financial Statements and the impact of such early adoption are explained below.

Rationale

The adoption of both accounting standards has been under consideration by us since details of their introduction were published. The rationale for early adoption of the IFRS 15 and IFRS 16 standards is twofold.

Firstly, the rationale is focused on IFRS 15. We believe a key pillar of our commercial success has been our focus on “simplicity” both in terms of products, services and value for money we offer to our customers, but also with respect to the running of our own internal processes. The early adoption of IFRS 15 principles allows for a more streamlined approach to onboarding new customers, and also provides a better basis for comparison of business performance in the future, by applying the same accounting policy to all customer contracts. The application of the current revenue standard, IAS 18, results in a degree of variability in timing of revenue recognition depending on the sales model (subsidy versus installment). For contracts with the same cash flow pattern, higher portion of revenue is allocated to the handset and thus recognized upfront in the installment model than in the subsidy model. Thus, telecommunication companies have over time replaced the subsidy sales model with the installment sales model. A range of the extent of transition of the respective customer bases from one sales model to another, differs across telecommunication companies. The installment contract sales model, which is now widely used, results in a disconnect between the phasing of the accounting recognition of revenue and the timing of cash flows, as a significant portion of customers’ total contractual obligation is recognized as revenue upfront (handset component), whilst the cash is received on a monthly basis over the life of the contract.

Applying IFRS 15 results in comparable allocation of customers’ total contractual obligation between service revenue and handset revenue in both sales models. The early adoption of IFRS 15, also on a retrospective basis, serves to put historical results on a consistent basis and therefore improves comparability, allowing also for historical and forecast information to be consistent with the treatment that will be required when the standard comes into effect. The cash flow profile of the companies remain the same, irrespective of the choice of the accounting policy.

Secondly, the rationale is focused on a consistent reporting regime. The adoption of the IFRS 15 and IFRS 16 will become mandatory for all companies reporting under IFRS as of the 2018 financial year for IFRS 15 and as of the 2019 financial year for IFRS 16. Thus early adoption ensures consistency of historical and prospective financial information going forward. Implementation of IFRS 15 and not IFRS 16 would have required a further change to our reporting standards in the future and a further adjustment for investors to reconcile to historical results. By adopting the IFRS 15 and IFRS 16 standards at the same time, investors will be able to review our future results on a more consistent basis.

IFRS 15 Adjustments

For mobile devices sold in bundled packages, under IAS 18 *Revenue* we previously limited revenue to the amount that was not contingent on the provision of future telecommunications services. That was typically the amount received from the customer on the signing of a contract. Whereas, under IFRS 15, the total consideration with respect to a contract (e.g., for mobile devices, telecommunication services and activation fees) is allocated to all products and services – e.g., mobile devices and mobile telecommunications services – based on their relative stand-alone selling prices. This results in a reallocation of a portion of revenue from service revenue to revenue from sales of goods, which are recognized upfront on signing of the customer contract, and correspondingly a creation of contract asset, which includes also some items previously presented as trade and other receivables.

IFRS 15 also requires reclassification of some items previously presented in deferred income to contract liabilities. Contract liabilities are then netted off against contract assets on a contract-by-contract basis.

Additionally, we also moved the inventories in dealers’ premises from prepaid expenses to inventories.

Under IAS 18 *Revenue*, we capitalized the subscriber acquisition and retention costs (“**SAC**”) relating to postpaid contracts and “mix” contracts in the month of service activation. Components of SAC included: subsidy granted to end customer to price of handset or other device, i.e., cost of sales of handset or other device less price charged to end customer, commission on sale, dispatch cost directly attributable to a contract.

The SAC was capitalized and recognized as intangible assets, and amortized in depreciation and amortization, over the life of the contract.

Under IFRS 15 we solely capitalize the costs of commissions paid to acquire or retain subscribers who enter into a post-paid or mix contract. Capitalized costs of commissions constitute “contract cost” asset and are depreciated on a straight-

line basis in the operating expenses in the “contract costs, net” line.

IFRS 16 Adjustments

Previously, under IAS 17 *Leases*, the Group was required to classify its leases as either finance leases or operating leases and account for those two types of leases differently (either as a lessor or a lessee). Leases classified as a finance lease were recognized as property, plant and equipment. Assets leased under the finance lease agreements comprised mostly vehicles or computers.

Under IFRS 16 *Leases*, the Group implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. Based on the accounting policy applied the Group recognizes a right-of-use asset and a lease liability at the commencement date of the contract for all leases conveying the right to control the use of an identified assets for a period of time. Accordingly, the recurring expenses relating to the use of leased assets, previously presented in general and administrative expenses are now capitalized and depreciated in depreciation and amortization. The discount on lease liability is periodically unwound into finance costs.

Assets previously classified as finance lease agreements as well as asset retirement obligation relating to leased property were reclassified from property, plant and equipment to right-of-use assets.

For further information regarding the specific IFRS 15 and IFRS 16 elements which are adjusted and the relevant line items, please see Note 2.2 to the audited consolidated financial statements for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16, included in the Prospectus.

Impact of adoption

IFRS 15

The adoption of IFRS 15 results in upfront recognition of revenue attributable to handset sales, which is partially offset by lower service revenue from contracts adjusted historically. With respect to the EBITDA there is an increase attributed to higher handset revenue partially offset by lower service revenue, whereas overhead costs increase due to the greater bad debt recognition required against the significant handset receivables recognized on the balance sheet when the handset revenue is recognized upfront.

The adoption of IFRS 15 also results in creation of contract cost assets (which comprise capitalized costs of commissions incurred in relation to acquiring a contract). These costs are amortized over the contract term with the amortization charge recognized within operating expenses.

The implementation of IFRS15 does not impact the quantum or the phasing of cash flows. The adjustments made are purely a timing difference between the cash flows and accounting recognition, with the difference recognized on balance sheet and reflected in the working capital changes and other cash flow line items.

IFRS 16

The adjustment for IFRS 16 has a positive impact on EBITDA as the costs of operating leases that were previously expensed above EBITDA are now moved below EBITDA to depreciation of the ‘right-of-use’ asset and unwind of the discounted lease liability as interest within financial expenses.

Nevertheless, the uplift to EBITDA is largely offset at the profit before tax level, although phasing differences between previous recognition of operating leases and the rate of depreciation of the asset and unwind of the lease liability discount do result in a degree of difference.

The IFRS 16 adjustment also results in a significant increase in net debt, as the discounted future costs of all operating leases are recognized as liabilities on the balance sheet.

FORWARD-LOOKING STATEMENTS AND RISK FACTORS

This Report includes “forward-looking statements” within the meaning of the securities laws of certain applicable jurisdictions. These forward-looking statements include, but are not limited to, all statements other than statements of historical facts contained in this Report, including, without limitation, those regarding our future financial position and results of operations, our strategy, plans, objectives, goals and targets, future developments in the markets in which the Group participates or is seeking to participate or anticipated regulatory changes in the markets in which we operate or intend to operate. In some cases, you can identify forward-looking statements by terminology such as “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “forecast,” “guidance,” “intend,” “may,” “plan,” “potential,” “predict,” “projected,” “should” or “will” or the negative of such terms or other comparable terminology.

By their nature, forward-looking statements involve known and unknown risks, uncertainties and other factors because they relate to events and depend on circumstances that may or may not occur in the future. The Issuer cautions you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industries in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Report. You should not place undue reliance on these forward-looking statements.

In addition, even if our results of operations, including our financial condition and liquidity and the development of the industry in which we operate, are consistent with the forward-looking statements contained in this Report, those results or developments may not be indicative of results or developments in subsequent periods. Important risks, uncertainties and other factors that could cause these differences include, but are not limited to:

- the effects of changes in the economic, political and social framework in which we operate;
- high levels of competition in the telecommunications market and our ability to attract new subscribers and retain existing subscribers;
- our national roaming/network sharing agreements with three other Polish MNOs;
- our ability to respond to rapid technological changes and corresponding changes in consumer preferences on a timely basis;
- the necessity of continuous maintenance and upgrade of our existing networks and their proper functioning;
- the capital intensive nature of our business and the future liquidity required to fund our capital expenditure programs and operations;
- operational network infrastructure and base site locations, including our information and telecommunications technology systems;
- the impact of alleged decreased wireless communications usage, litigation or stricter regulation and related health risks of wireless communications devices;
- the effectiveness of our distribution network;
- our dependence on third parties for provision of certain services and risks related to disruptions in the supply of such services;
- the limited availability and disputes over the allocation of radio frequency spectrums;
- currency exchange rate fluctuations;
- the loss or inability to attract experienced management and skilled employees;
- labor disruptions or increased labor costs;

- the status and outcome of disputes and pending litigation;
- alleged health risks of wireless communications devices leading to decreased usage or difficulty in obtaining sites for base stations;
- maintenance of the reputation of our brand and our key intellectual property rights;
- inflation that could adversely affect our earnings;
- tax treatment of transactions and certain of our operations;
- maintenance of operational policies implemented to avoid increases in operating costs;
- significant governmental supervision and changes in the regulatory framework of the mobile telecommunications industry;
- protection of subscriber data;
- the comparability of our results with other telecommunications operators;
- our ability to maintain our licenses and permits necessary for conducting our business;
- European Union and Polish regulation, roaming charges and prices;
- unfavorable decisions from regulatory authorities with respect to our operations or licenses;
- frequent changes in tax regulations and other tax-related risks;
- lack of development of widespread demand for 4G LTE technology in Poland;
- insufficient financing for our 4G LTE network expansion or future frequency tenders;
- our financial profile;
- our structure;
- the Refinancing and Recapitalization;
- potential change of control risk potentially triggering debt covenants¹;
- collection risk; and
- other factors discussed or referred to in this Report.

These risks and others described under “Risk Factors” in the Prospectus are not exhaustive. We urge you to read the section of this Report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations as of June 30, 2017” and the sections entitled “Risk Factors” and “Business” in the in the Prospectus approved by Luxembourg Financial Supervision Authority (*Commission de Surveillance du Secteur Financier*) on June 30, 2017 (“Prospectus”) for a more complete discussion of the factors that could affect our future performance and the markets in which we operate. In light of these risks, uncertainties and assumptions, the forward-looking events described in this Report may not occur. New risks can emerge from time to time, and it is not possible for us to predict all such risks, nor can we assess the impact of all such risks on our business or the extent to which any risks, or combination of risks and other factors, may cause actual results to differ materially from those contained in any forward-looking statements. These forward-looking statements speak only as of the date on which the statements were made. We undertake no obligation to update or revise any forward-looking statement or risk factors, whether as a result of new information, future events or developments or otherwise. Given these risks and uncertainties, you should not rely on forward-looking

¹ As described in Prospectus

statements as a prediction of actual results. We cannot assure you that any of these statements are accurate or correctly reflect our position in the industry, and none of our internal surveys or information has been verified by any independent sources, and we cannot guarantee their accuracy.

RECENT DEVELOPMENTS

No recent developments noted.

CONSOLIDATED FINANCIAL AND OTHER INFORMATION

The tables below set forth certain consolidated financial information and other data of the Group as of the dates and for the periods indicated.

The interim condensed consolidated statement of financial position, interim condensed consolidated statement of comprehensive income and interim condensed consolidated statement of cash flows of the Group set forth below as of and for the nine-month period ended September 30, 2017, and the nine-month period ended September 30, 2016, have been derived from the Financial Statements included elsewhere in this Report.

The Financial Statements were prepared on a basis consistent with the audited consolidated financial statements for the years ended December 31, 2016, December 31, 2015, and December 31, 2014, prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16, included in the Prospectus, and comprise, in our opinion, all adjustments necessary for the fair presentation of the financial information contained in those statements.

The Group has decided to apply IFRS 16: 'Leases' in the Financial Statements although the standard had not been endorsed by the European Union before issuance of the Financial Statements because the Group believes that the consistency between the annual financial statements included in the Prospectus and the Financial Statements in terms of accounting standards applied is crucial for understanding of the financial position and performance of the Group and its development from the year end over the consecutive quarters. The adoption of IFRS 16 by the European Union was announced in the Official Journal of the European Union of November 9, 2017 and is expected to come into force on the twentieth day following that of its publication.

Unless otherwise indicated, the financial information in this Report is presented in Polish zloty in millions.

Interim Condensed Consolidated Statement of Comprehensive Income

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2016	Three-month period ended September 30, 2017	Notes in the Financial Statements
	Unaudited	Unaudited	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)	
Operating revenue	4,497.4	4,930.3	1,566.0	1,720.8	23
Service revenue	3,315.7	3,631.9	1,141.3	1,257.8	
Sales of goods and other revenue	1,181.6	1,298.5	424.6	463.1	
Operating expenses	(3,499.1)	(4,180.7)	(1,231.7)	(1,393.2)	
Interconnection, roaming and other service costs	(1,098.3)	(1,262.3)	(381.3)	(463.6)	24
Contract costs, net	(294.4)	(321.6)	(91.9)	(107.9)	25
Cost of goods sold	(1,019.1)	(1,010.6)	(354.9)	(371.2)	
General and administrative expenses	(615.6)	(992.5)	(230.1)	(266.1)	26
Depreciation and amortization	(471.7)	(593.6)	(173.6)	(184.4)	27
Other operating income	53.3	53.3	16.7	17.9	28
Other operating costs	(122.1)	(56.2)	(36.5)	(34.3)	28
Operating profit	929.5	746.6	314.4	311.3	
Finance income	107.1	172.7	196.4	72.4	29
Finance costs	(304.5)	(555.5)	(80.6)	(137.0)	29
Profit before income tax	732.0	363.9	430.2	246.7	
Income tax charge	(169.5)	(119.4)	(43.8)	(59.8)	30
Net profit for the period	562.5	244.5	386.4	186.9	
Other comprehensive income/(loss) for the period to be reclassified to profit or loss in subsequent periods	-	(2.9)	-	1.5	10
Total comprehensive income for the period	562.5	241.6	386.4	188.4	
Earnings per share (in PLN) (basic equals diluted)	2.25	0.97	1.54	0.74	31
Weighted average number of shares (in millions) (basic equals diluted) ⁽¹⁾	250.5	251.3	250.5	252.8	31

- (1) Basic earnings per share are calculated by dividing the period's profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted by the effects of all dilutive potential ordinary shares. The dilutive potential ordinary shares are Award shares which will potentially be issued under the PIP and VDP4 retention programs – please see Note 19 of the Financial Statements included elsewhere in this Report. As at September 30, 2017 the number of potential PIP and VDP4 Award shares, estimated based on historical performance of the Company's shares in comparison to peer companies for the period from the IPO date to September 30, 2017, amounts to nil.

Interim Condensed Consolidated Statement of Financial Position

	December 31, 2016	September 30, 2017	
		Unaudited	
	(PLN in millions)	(PLN in millions)	Notes in the Financial Statements
ASSETS			
Non-current assets			
Property, plant and equipment	1,089.4	1,253.5	3
Right-of-use assets	745.5	796.8	4
Intangible assets	2,628.8	2,633.0	5
Assets under construction	540.4	324.8	6
Contract costs	350.7	352.2	7
Long-term finance receivables	341.0	-	8
Other long-term receivables	12.2	13.5	9
Other long-term finance assets	134.2	1.6	10
Deferred tax asset	134.4	8.4	30
Total non-current assets	5,976.7	5,383.8	
Current assets			
Inventories	149.7	187.2	11
Short-term finance receivables	0.3	-	8
Trade and other receivables	1,259.9	1,106.6	12
Contract assets	997.8	1,267.5	13
Current income tax receivables	-	34.7	
Prepaid expenses	21.2	30.1	14
Cash and cash equivalents	341.0	331.7	15
Total current assets	2,769.9	2,957.8	
TOTAL ASSETS	8,746.6	8,341.6	
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	0.1	0.1	16
Share premium	5,644.2	3,673.4	
Other reserves	-	20.3	10
Retained losses	(4,301.6)	(4,057.2)	
Total equity	1,342.6	(363.4)	
Non-current liabilities			
Long-term finance liabilities - debt	5,176.4	6,697.1	17
Long-term provisions	47.5	54.7	18
Long-term retention programs liabilities	150.1	7.7	19
Deferred tax liability	0.3	0.3	30
Other non-current liabilities	10.9	10.0	
Total non-current liabilities	5,385.2	6,769.8	
Current liabilities			
Short-term finance liabilities - debt	277.2	573.8	17
Other short-term finance liabilities	-	7.4	10
Trade and other payables	1,177.6	958.0	20
Contract liabilities	44.9	32.9	
Current income tax payable	173.8	16.2	
Accruals	54.4	42.3	21
Short-term provisions	1.0	0.0	18
Short-term retention programs liabilities	17.7	7.8	19
Deferred income	272.2	296.9	22
Total current liabilities	2,018.8	1,935.2	
TOTAL LIABILITIES AND EQUITY	8,746.6	8,341.6	

Interim Condensed Consolidated Statement of Cash Flows

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2016	Three-month period ended September 30, 2017	Notes in the Financial Statements
	Unaudited	Unaudited	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)	
Profit before income tax	732.0	363.9	430.2	246.7	
Depreciation and amortization	471.7	593.6	173.6	184.4	
Change in contract costs	(32.7)	(1.5)	(32.0)	(0.6)	
Interest expense (net)	239.3	271.9	75.9	28.7	
(Gain)/Loss on finance instruments at fair value	(93.7)	169.5	(76.6)	(0.0)	
Foreign exchange (gains)/losses	51.7	(58.9)	(115.2)	35.7	
Gain on disposal of non-current assets	(7.7)	(4.6)	(3.4)	(2.4)	
Impairment of non-current assets	5.3	3.0	3.3	(0.0)	
Change in provisions and retention programs	(24.5)	(130.3)	(8.6)	(240.1)	
Changes in working capital and other	(345.3)	98.9	(34.8)	21.8	33
Change in contract assets	66.6	(269.7)	65.6	(108.0)	
Change in contract liabilities	12.6	(12.0)	13.9	(0.9)	
Cash provided by operating activities	1,075.3	1,023.7	492.0	165.2	
Interest received	0.1	0.2	0.0	0.2	
Income tax paid	(51.9)	(185.0)	(0.4)	(12.8)	
Net cash provided by operating activities	1,023.5	838.9	491.6	152.6	
Proceeds from sale of non-current assets	5.1	2.6	1.4	1.5	
Proceeds from loans given	-	18.3	-	-	8
Proceeds from debt securities (Repayment of notes by Impera Holdings S.A.)	-	388.3	-	-	8
Purchase of fixed assets and intangibles and prepayments for assets under construction	(2,056.6)	(610.6)	(130.3)	(242.6)	
Loans given	(17.9)	-	(17.9)	-	
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	(141.1)	(68.9)	(71.3)	-	8
Net cash used in investing activities	(2,210.4)	(270.3)	(218.1)	(241.1)	
Proceeds from equity increase	-	285.4	-	285.4	
Proceeds from finance liabilities	385.0	6,443.0	20.0	-	34
Repaid finance liabilities and paid costs relating to finance liabilities	(787.4)	(5,078.3)	(193.4)	(135.2)	34
Purchase of notes issued by Impera Holdings S.A.	-	(2,227.9)	-	(0.9)	8, 34
Net cash used in financing activities	(402.4)	(577.8)	(173.4)	149.2	
Net change in cash and cash equivalents	(1,589.3)	(9.3)	100.1	60.7	
Effect of exchange rate change on cash and cash equivalents	0.1	(0.0)	0.1	0.1	
Cash and cash equivalents at the beginning of the period	1,556.8	341.0	(132.6)	270.8	
Cash and cash equivalents at the end of the period⁽¹⁾	(32.4)	331.7	(32.4)	331.7	32

(1) Including overdrafts: PLN 75.2 million in Bank Zachodni WBK S.A. and PLN 12.9 in Bank Millennium S.A. as of September 30, 2016.

Other Operating and Financial Information

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2016	Three-month period ended September 30, 2017
	Unaudited	Unaudited	Unaudited	Unaudited
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)
Adjusted EBITDA ⁽¹⁾	1,474.6	1,728.2	517.1	565.2
Adjusted EBITDA margin (%) ⁽¹⁾	32.8	35.1	33.0	32.8
Total cash capital expenditures ⁽²⁾	2,051.5	608.0	128.9	241.1
of which cash outflows in relation to frequency reservation acquisition ⁽³⁾	1,704.4	81.0	-	74.5
Adjusted EBITDA less total cash capital expenditures (excl. cash outflows in relation to frequency reservation acquisition)	1,127.6	1,201.2	388.2	398.7
Cash conversion (%) ⁽¹⁾⁽⁴⁾	76.5	69.5	75.1	70.5
Free cash flow to equity (post repayment of leases) ⁽¹⁾⁽⁵⁾	376.9	367.3	227.9	171.5

(1) The measures presented are not comparable to similarly titled measures used by other companies. We encourage you to review our financial information in its entirety and not rely on a single financial measure. See *"Presentation of Financial Information—Non-IFRS Measures"* for an explanation of certain limitations to the use of these measures.

(2) "Total cash capital expenditures" means cash outflows for purchases of fixed assets and intangibles and prepayments for assets under construction, less proceeds from the sale of non-current assets in each period.

(3) In the nine-month period ended September 30, 2016, the Group acquired frequency reservations in the 800 MHz and 2600 MHz spectrum for the total price of PLN 1,718.4 million, of which PLN 14.0 million was paid in the year ended December 31, 2014, as a deposit securing the frequency and was finally accounted for in the price of the frequency reservation. In the nine-month period ended September 30, 2017, the Group acquired a reservation of the 3700 MHz frequency for the period from October 1, 2017 to December 29, 2019 for the total price of PLN 81.0 million, of which PLN 6.5 million was paid in advance in the three-month period ended 30 June, 2017.

(4) "Cash conversion" is calculated as Adjusted EBITDA less cash capital expenditures (excluding cash outflows in relation to frequency reservation acquisitions) divided by Adjusted EBITDA.

(5) For a reconciliation of Free cash flow to equity (post lease payments) to Adjusted EBITDA less cash capital expenditures (excluding cash outflows in relation to frequency reservation acquisitions) see *"Consolidated Financial and Other Information—Free cash flow to equity (post lease payments) scheme."*

EBITDA and Adjusted EBITDA reconciliation

The following table presents a reconciliation of EBITDA and Adjusted EBITDA to our operating profit for the periods presented:

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2016	Three-month period ended September 30, 2017
	Unaudited	Unaudited	Unaudited	Unaudited
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)
Operating profit	929.5	746.6	314.4	311.3
Add depreciation and amortization	471.7	593.6	173.6	184.4
EBITDA	1,401.1	1,340.3	488.1	495.6
Costs of management fees ^(a)	23.8	49.0	7.8	14.7
Valuation of retention programs and costs of special bonuses ^(b)	1.1	275.7	15.6	23.8
Other one-off costs ^(c)	48.6	63.2	5.7	31.1
Adjusted EBITDA	1,474.6	1,728.2	517.1	565.2

- (a) Costs of management fees comprised: costs in relation to regular advisory services agreements entered into by the Group with Novator Partners LLP and Olympia for the nine-month period ended September 30, 2016, and costs in relation to regular advisory services agreements entered into by the Group with Novator Partners LLP and Tollerton Investments Limited as well as costs resulting from additional advisory services related to the initial public offering of the Company rendered by Novator Partners LLP and Tollerton Investments Limited for the nine-month period ended September 30, 2017. Those additional fees were the main reason of increase of costs of management fees for the nine-month period ended September 30, 2017. Regular advisory services agreements with all partners were terminated on completion of IPO. The additional IPO advisory services agreements with Novator Partners LLP and Tollerton Investments Limited are still in place but they will not generate more costs for the Group. The settlement of payables resulting from these agreements is due in two instalments – the first payable within 6 months from the IPO and the second payable within 12 months from the IPO.
- (b) We estimate the value of our management and employee retention programs based on the triggers affecting the programs and the amounts which may be required to be paid to beneficiaries under cash-settled programs or the amounts of additional shares which may be required to be awarded to beneficiaries under equity-settled programs. The respective charge/benefit is added back to our Adjusted EBITDA. The valuation of retention programs and special bonuses increased in the nine-month period ended September 30, 2017 due to the settlement of certain programs in relation to the Refinancing and Recapitalization as well as the initial public offering of the Company; for more information see Note 19 of the Financial Statements included elsewhere in this Report.
- (c) Other one-off costs for the nine-month period ended September 30, 2017 comprised: (i) costs of the IPO in the amount of PLN 43.1 million; (ii) one-off costs of PLN 11.6 million related to prepaid registration process to comply with new regulations introduced by the Act dated June 10, 2016 on Anti-terrorist Operations, which came into force in Poland on July 25, 2016 and amended the Polish Telecommunications Act to require the de-anonymization of prepaid phone cards; (iii) one-off costs of strategic projects out of usual scope of our business of PLN 7.1 million and other one-off costs of PLN 1.4 million.

Other one-off costs for the nine-month period ended September 30, 2016 comprised: (i) cost of provision for early termination fee related to one of Group's commercial agreements in the amount of PLN 20.4 million; (ii) one-off write-off of interconnection receivables from the years 2011-2013 in the amount of PLN 12.7 million due to unfavorable court ruling; (iii) impairment allowance for other non-current assets in the amount of PLN 4.6 million; (iv) one-off costs of strategic projects out of usual scope of our business of PLN 1.7 million; (v) one-off costs of PLN 1.6 million related to prepaid registration process to comply with new regulations introduced by the Act dated June 10, 2016 on Anti-terrorist Operations, which came into force in Poland on July 25, 2016 and amended the Polish Telecommunications Act to require the de-anonymization of prepaid phone cards and other one-off costs of PLN 7.5 million.

The measures presented are not comparable to similarly titled measures used by other companies. We encourage you to review our financial information in its entirety and not rely on a single financial measure. See “Presentation of Financial Information—Non IFRS Measures” for an explanation of certain limitations to the use of these measures.

Free cash flow to equity (post lease payments) scheme

The following tables present a scheme of calculation of free cash flow to equity (post lease payments) for the periods presented.

	Nine-month period ended September 30, 2016	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2016	Three-month period ended September 30, 2017
	Unaudited	Unaudited	Unaudited	Unaudited
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)
Adjusted EBITDA	1,474.6	1,728.2	517.1	565.2
Cash capital expenditures ⁽¹⁾	(347.0)	(527.0)	(128.9)	(166.5)
Total change in net working capital and other, change in contract assets, change in contract liabilities and change in contract costs ⁽²⁾	(298.8)	(184.4)	12.7	(87.8)
Cash interest ⁽³⁾	(255.0)	(317.3)	(124.2)	(77.7)
Cash taxes	(51.9)	(185.0)	(0.4)	(12.8)
Lease payments	(145.0)	(147.3)	(48.4)	(49.0)
Free cash flow to equity (post repayment of leases)	376.9	367.3	227.9	171.5

(1) Cash capital expenditures excluding cash outflows in relation to frequency reservation acquisitions.

(2) Comprising the separate line items changes in working capital and other, change in contract assets, change in contract liabilities and change in contract costs from the Financial Statements.

(3) Comprising cash interest paid on loans, notes, and other debt.

The measures presented are not comparable to similarly titled measures used by other companies. We encourage you to review our financial information in its entirety and not rely on a single financial measure. See “Presentation of Financial Information—Non IFRS Measures” for an explanation of certain limitations to the use of these measures.

Capitalization

As of September 30, 2017, unaudited

	PLN in millions	xLTM Adjusted EBITDA ⁽¹⁾
Cash and cash equivalents	331.7	0.14x
Senior Facilities ⁽²⁾	6,443.9	2.82x
Leases	892.0	0.39x
Other debt	21.2	0.01x
Total debt	7,357.1	3.21x
Net debt	7,025.4	3.07x

As of June 30, 2017, unaudited

	PLN in millions	xLTM Adjusted EBITDA ⁽¹⁾
Cash and cash equivalents	270.8	0.12x
Senior Facilities ⁽²⁾	6,443.0	2.88x
Leases	873.2	0.39x
Other debt	21.2	0.01x
Total debt	7,337.4	3.27x
Net debt	7,066.5	3.15x

(1) LTM Adjusted EBITDA amounted to PLN 2,288.8 million as of September 30, 2017, and PLN 2,240.7 million as of June 30, 2017. For the purpose of this Report, we define LTM Adjusted EBITDA as the sum of Adjusted EBITDA for the last four quarters preceding the reporting date.

(2) The amount represents the nominal value and interest accrued only, whereas in the Financial Statements the value of finance liabilities is measured at amortized cost.

Summary of Key Performance Indicators⁽¹⁾

	Three-month period ended		Nine-month period ended	
	September 30, 2016	September 30, 2017	September 30, 2016	September 30, 2017
	unaudited	unaudited	unaudited	unaudited
Reported subscribers (thousands)	14,639.3	14,889.0	14,639.3	14,889.0
Contract	7,999.1	9,203.5	7,999.1	9,203.5
Prepaid	6,640.2	5,685.5	6,640.2	5,685.5
Active subscribers (thousands)	11,672.2	12,354.5	11,672.2	12,354.5
Contract	7,702.3	8,490.2	7,702.3	8,490.2
Prepaid	3,970.0	3,864.3	3,970.0	3,864.3
Net additions (thousands)	21.9	404.6	489.0	474.4
Contract	370.0	261.3	929.4	837.0
Prepaid	(348.1)	143.3	(440.4)	(362.6)
Churn (%)²	3.3%	1.6%	3.4%	2.3%
Contract	0.7%	0.8%	0.7%	0.7%
Prepaid	6.3%	3.1%	6.3%	4.7%
ARPU (PLN)³	31.8	32.3	31.1	31.9
Contract	39.0	38.6	39.0	38.4
Prepaid	18.1	18.7	17.2	17.9
Data usage per subscriber (MB)³	2,739.8	4,151.0	2,580.5	3,889.4
Contract	3,433.4	5,038.9	3,298.5	4,734.0
Prepaid	1,429.6	2,233.6	1,318.6	2,095.2
unit SAC cash (PLN)				
Contract	347.6	369.7	366.5	339.6
Prepaid	3.7	5.9	3.6	4.8
unit SRC cash (PLN)	348.0	349.2	372.6	332.6

(1) See "Industry, Market and Subscriber Data" for definitions of our Key Performance Indicators. We believe that each of our competitors calculates these metrics differently and this may affect comparability.

(2) We present our churn per subscriber on an average reported monthly basis.

(3) We present our ARPU and data usage per subscriber on an average active monthly basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF SEPTEMBER 30, 2017.

The following discussion and analysis of our financial condition and results of operations are based on the interim condensed consolidated statement of financial position, interim condensed consolidated statement of comprehensive income and interim condensed consolidated statement of cash flows as of and for the three-month and nine-month periods ended September 30, 2017, and September 30, 2016, which have been derived from the Financial Statements, which are reproduced elsewhere in this Report. See "Presentation of Financial Information" in this Report. This section should be read in conjunction with the above mentioned interim condensed consolidated financial statements, including the notes thereto, as well as other financial information contained elsewhere in this Report. A summary of certain critical accounting estimates, judgments and policies that have been applied to the interim condensed consolidated financial statements is set forth in the Financial Statements – please see "–Critical Accounting Policies, Estimates and Judgments." In this Management's Discussion and Analysis of Financial Condition and Results of Operations, unless otherwise stated, "we," "us" or "our" refers to the Group.

The financial statements have been prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16, which differ in certain significant respects from U.S. GAAP. Investors should consult their own professional advisors in order to gain an understanding of the differences between U.S. GAAP and IFRS with early adoption of IFRS 15 and IFRS 16 and how these differences might affect the financial statements and information herein. In making an investment decision, you should rely upon your own examination of the financial information contained in the Prospectus as well as in this Report.

Certain financial and operational information presented in tables in this section has been rounded to one decimal place. As a result of this, related information appearing within the narrative under this caption and throughout this Report may vary in minor respects from the information presented in such tables, due to rounding.

The following discussion also contains forward-looking statements. Our actual results could differ materially from those that are discussed in these forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this Report, particularly under "Forward-looking statements and risk factors" in this Report. See "Industry, Market and Subscriber Data" for a discussion of how we define and calculate our KPIs.

Introduction

This Report summarizes consolidated financial and operating data derived from the Financial Statements of Play Communications S.A. (formerly Play Holdings 2 S.à r.l.; hereafter, together with its subsidiaries, the "**Play Group**" or the "**Group**") which was incorporated under the laws of Luxemburg on January 10, 2014. Play Communications S.A. directly holds 100% of its principal operating company, P4 Sp. z o.o. incorporated under the Polish law ("**P4**", the "**Company**") which began providing mobile telecommunications services on March 16, 2007.

Overview

We are a consumer-focused mobile network operator ("**MNO**") in Poland with approximately 14.9 million subscribers as of September 30, 2017. In Q3 2017, we have added over 261 thousands of contract subscriber what allowed us to achieve an overall market share of 28.5% in terms of reported subscribers as of September 30, 2017. The level of our market share resulted from the organic increase of our subscriber base. We have been equally effective in delivering a high level of customer service to our subscribers, managing to achieve a monthly average contract churn rate of just 0.7% for the nine-month period ended September 30, 2017. During the nine-month period ended September 30, 2017, we generated total revenues of PLN 4,930.3 million and an increase of 9.6% year on year in PLN terms, while our Adjusted EBITDA for the nine-month period ended September 30, 2017, amounted to PLN 1,728.2 million, an increase of 17.2% year on year in PLN terms.

We provide mobile voice, messaging, video streaming and data offerings and services to consumers and businesses (in particular to small office/home office subscribers ("**SOHO**") and small/medium enterprises ("**SME**") on a contract and prepaid basis). Our principal focus is contract subscribers, who generate significantly higher ARPU and have lower churn rates than prepaid subscribers. As of September 30, 2017, contract subscribers accounted for 61.8% of our reported subscriber base (a ratio that is in line with the Polish telecommunications market) and 78.9% of our usage revenues for the nine-month period ended September 30, 2017.

We employ one brand and communications platform across all of our offerings, "PLAY," which is well recognized in the Polish market with broad appeal and according to research by Smartscope in the second quarter of 2017, we likely had the highest net promoter score (a ratio measuring the willingness of subscribers to recommend their current provider) of the four major

Polish MNOs. According to research performed by an external agency in the third quarter of 2017, the net promoter score for "PLAY" was 18² (remained stable versus second quarter 2017).

We market our offerings and services primarily through our nationwide distribution network of 844 "PLAY" branded stores, a significant number of which are situated in prime locations across Poland. We exercise significant control over the network, enabling us to deliver a uniform look and feel designed to promote brand recognition and what we believe is a best-in-class retail experience in a cost-efficient manner.

Our growth has been supported by a favorable domestic regulatory framework and industry dynamics, as well as our extensive, modern and cost-efficient 2G/3G/4G LTE and 4G LTE Ultra telecommunications network in Poland, throughout which we provide our mobile voice, messaging, video and data services. Through our own network, we provided coverage to 93.2% of the Polish population as of September 30, 2017, and we extend our available network to 99% of the population through long-term national roaming agreements with the other three major Polish MNOs. In November 2013, we were the second major MNO in Poland to launch its 4G LTE network, and as of September 30, 2017, we provided 4G LTE and 4G LTE Ultra coverage, to 92.2% and 79.4% of the Polish population, respectively.

In Q3, the change of international roaming revenue and international roaming costs amounted to PLN 57m YoY. The traffic generated by our customers is slightly higher than expected. We have filed for sustainability and are awaiting for the response from UKE.

Key Factors Affecting Our Results of Operations and Significant Market Trends

We believe that the following factors and market trends have significantly affected our results of operations for the periods under review, and we expect that such factors and trends may continue to significantly impact our results of operations in the future.

Economic environment in Poland

Our revenue growth is dependent on the overall condition of the Polish economy. In the past, our results of operations were affected by, and we expect that our financial results will continue to be affected by, key macroeconomic factors such as: GDP growth, inflation, interest rates, currency exchange rates, unemployment rates, household disposable income, the rate of corporate insolvencies and the financial position of our competitors.

During the recent economic downturn in EU, the Polish economy performed better than many of the other European economies and was the only economy in the EU which continues to grow in each year. Also in recent years the Polish economy outperformed the EU average, with the real GDP growth of 5.0% in 2011, 1.6% in 2012, 1.3% in 2013, 3.3% in 2014 and 3.6% in 2015 and 2.7% in 2016 compared to the EU average real GDP growth of 1.8% in 2011, a decline of 0.5% in 2012, growth 0.3% in 2013, 1.7% in 2014, 2.2% in 2015 and 1.9% in 2016. With a forecast for Poland announced by Eurostat in Spring 2017 of real GDP growth 3.5% in 2017 and 3.2% in 2018, Poland is expected to continue to grow at a faster rate than the estimated EU average real GDP growth rates of 1.7% in 2017 and 1.8% in 2018.

As of the date of this Report, Moody's Investors Services rated Poland "A2" with a "Stable" outlook, and Standard & Poor's Financial Services LLC rated Poland "BBB+" with a "Stable" outlook, Fitch credit rating for Poland stand at "A-" with a "Stable" outlook. As of August 31, 2017, the harmonized unemployment rate in Poland was approximately 4.7% compared to approximately 7.6% in the EU for 28 countries, according to Eurostat.

While we operate in the telecommunications sector, for which underlying consumer demand has proven to be less cyclical than other aspects of consumer spending during periods of economic downturn, the general macroeconomic environment correlates well with consumer spending. Consumers spend less on an incremental basis, such as by placing fewer calls, sending fewer SMS, using less data or opting for lower tariff plans. In poor economic conditions, consumers are more likely to delay the replacement of their existing handsets, change to less expensive tariff plans or be more likely to disconnect or cancel their services. While we believe that the telecommunications market will grow in line with overall GDP growth in Poland and support our future growth, generally, weak economic conditions may weigh on the growth prospects of the telecommunications market in Poland, which in turn may impact our number of subscribers and ARPU.

² Calculated as quarterly average

In addition, prospects for GDP growth in Poland and other macroeconomic factors are uncertain and strongly dependent, among other things, on the global economic environment, for example, concerns regarding the European sovereign debt crisis could have a material adverse effect on the economy in Poland and, consequently, our business and results of operations.

General regulatory environment

The Polish telecommunications market is subject to extensive regulation at both the European and national levels. There are numerous laws that affect our business. For example, some contracts must undergo verification and certain aspects of tariff plans are fixed or regulated by the authorities. All of these regulations may have an impact on our results of operations.

Since Poland is a member of the EU, we have to comply with certain EU directives that are transposed into Polish legislation concerning maximum rates that may be charged for international roaming services or maximum contract lengths for tariff plans offered to subscribers. Under these legislations, the EC regulates the maximum rates that can be charged to subscribers for voice calls and non-voice services placed and received by subscribers on foreign European mobile networks. In the periods under review these rates have been subject to annual reductions. In relation to contracts, the EC has set 24 months as the maximum length of time an MNO can tie a contract subscriber to a particular contract.

In addition to European regulations, we are subject to national regulations concerning the application of MTRs between operators in the wholesale market. In this respect, the regulatory authorities have the power to determine the MTR, subject to notification to the European Commission. MTRs have not been reduced since July 1, 2013, and remain at the level of PLN 0.0429 per minute, which is equal for all Mobile Network Operators in Poland.

Additionally, since 15th of June 2017, we have to comply with the recent regulation introduced by EU which is roam like at home. RLAH regulation eliminates EU roaming charges and impacts on the European telecoms industry by: 1) decreasing international roaming revenues; and 2) increasing international roaming costs (due to international carrier traffic and wholesale rates). In September 2017, with reference to the roam like at home regulation, we applied for the sustainability. As the procedure indicates, the further steps depend on the Regulator. In case of positive decision of Regulator, all changes, if any, will be analyzed in detail taking into account the best market practice.

We have adopted ARPU as one of the most important Key Performance Indicators. ARPU is more widely used as measure of performance by other Mobile Network Operators, and therefore we have decided to adopt ARPU as a Key Performance Indicator.

The table below presents comparison of ARPU for Play for all historical periods.

<i>expressed in PLN</i>	2014				2015				2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
ARPU	29.7	30.8	31.7	31.7	31.2	32.1	32.1	31.5	30.5	31.0	31.8	32.2	31.0	32.3	32.3
- Contract	40.8	41.7	42.5	41.7	40.9	41.3	41.5	40.3	39.0	39.0	39.0	39.4	38.2	38.5	38.6
- Prepaid	15.1	16.3	17.1	17.2	16.6	17.7	17.6	17.4	16.4	17.1	18.1	17.8	16.3	18.7	18.7

<i>expressed in PLN</i>	2014	2015	2016
	FY		
ARPU	31.0	31.7	31.4
- Contract	41.7	41.0	39.1
- Prepaid	16.4	17.3	17.4

See "ARPU and Contract/Prepaid ARPU" for an explanation of ARPU trends in Q3 2017.

Impact of foreign exchange rate movements

We make significant purchases and incur expenses (including interest payments on debt instruments before Refinancing and Recapitalization) in other currencies, primarily in euro, and as a result, foreign exchange rate movements affect our results of operations.

The euro has historically experienced volatility in relation to the zloty. For the periods under review, the NBP euro/zloty average exchange rate, expressed as zloty per euro, is shown in the table below:

	<u>Nine-month period ended September 30, 2016</u>	<u>Nine-month period ended September 30, 2017</u>
Foreign exchange rates		
Zloty per euro (EOP) ⁽¹⁾	4.3120	4.3091
Zloty per euro (average in period) ⁽²⁾	4.3578	4.2661

(1) The end of period exchange rate published by the NBP, expressed in zloty per euro.

(2) The average exchange rate published by the NBP, expressed in zloty per euro.

Our principal expenditures denominated in euro result from our:

- agreements with suppliers of goods (mainly handsets);
- agreements with suppliers of equipment and software for the mobile telecommunications network;
- charges for international roaming services;
- portions of leases for land on which our telecommunications network is installed;
- office lease agreements and certain stores lease agreements;
- fees for international interconnection agreements; and
- payments under certain of our financing arrangements.

For more details see “Qualitative and Quantitative Information on Market Risks—Currency Risk”.

Growth of subscriber base and subscriber retention

According to the CSO, the Polish mobile telecommunications market grew from 57.3 million reported subscribers (a penetration rate of 148.7%) as of September 30, 2014 to 59.0 million reported subscribers (a penetration rate of 153.4%) as of September 30, 2015 and to 56.2 million reported subscribers (a penetration rate of 146.3%) as of September 30, 2016 and to 52.2 million reported subscribers (a penetration rate of 135.8%) as of September 30, 2017.

The overall decrease in reported subscribers between 2015 and 2016 in the Polish market resulted from T-Mobile’s deactivation of significant amount of prepaid subscribers during the fourth quarter of 2015. This decreased the penetration level at the end of December 2015. At the same time, T-Mobile’s reduction of reported subscribers has changed the market shares of Polish MNOs.

The decrease as of September 30, 2017 compared to September 30, 2016 resulted from the introduction of an anti-terrorist act implementing prepaid registration requirement in Poland, which led to certain subscribers being cancelled by operators. All MNOs experienced subscriber base decrease.

The number of our reported subscriber base was 11.8 million as of September 30, 2014 (market share of 20.6%), 13.5 million as of September 30, 2015 (market share of 23.0%) and 14.6 million as of September 30, 2016 (market share of 26.0%) and 14.9 million as of September 30, 2017 (market share 28.5%). The proportion of contract subscribers to total reported

subscriber base was 46.3% as of September 30, 2014, 49.6% as of September 30, 2015 and 54.6% as of September 30, 2016, and 61.8% as of September 30, 2017.

Since the commercial launch of our operations in 2007 we have been focused on subscriber additions as we sought to establish our market share, and since then we have continued to focus on further subscriber additions and also focusing on subscriber retention, as well as on migrating prepaid subscribers to contract subscribers, which are generally characterized by a more stable revenue profile. In relation to subscriber additions, we have been particularly successful under MNP in attracting new subscribers and we have acquired 50% of all reported subscribers porting mobile numbers since April 2007 till September 30, 2017. In April 2014, we have also introduced “family” plans, whereby family groups of three or more individuals can enjoy discounts on mobile telephones, mobile data and other benefits, which have been successful since their introduction. In June 2016, we have introduced “duo” offers, whereby groups of two can enjoy discounts on mobile telephones, mobile data and other benefits.

While we continue to seek subscriber growth, we believe that focusing on subscriber retention as well as up-selling and cross-selling offerings and services, including new offerings and services such as our high speed data services provided over our 4G LTE and 4G LTE Ultra network, will continue to have a positive impact on our business and results of operations going forward.

Competition

In the periods under review, we faced competition from the other three major mobile network operators, Orange, T-Mobile and Plus, which along with Play, as of September 30, 2017, held approximately 99% of the reported subscriber market share. According to CSO the total number of reported mobile subscribers in Poland as of September 30, 2017 amounted to 52.2 million, and Play with its 14.9 million reported subscriber base had approximately 28.5%.

We believe the Polish mobile telecommunications market is balanced in terms of the relative market share of the largest four MNOs, and the relatively similar manner in which they operate, providing a supportive environment for the four major Polish MNOs (Plus, Orange and T-Mobile and us) to co-exist. Owing to the growth of the market and the successful implementation of our controlled growth strategy that did not target any specific competitor, we have been able to grow our subscriber base through market share gained from competitors roughly equally, while our three main competitors were able to achieve solid financial performance through a rational approach of securing their revenues by protecting ARPU levels rather than trying to maximize market share which would lead to price instability. Rather than focusing on low prices to attract new subscribers and retain existing subscribers which may lead to price instability, we believe that our revenues and profitability will be supported by the continued growth in the number of our subscribers (including in particular, the improvement of our quality mix of subscribers by attracting more contract subscribers), the up-selling of services, increased coverage of the 4G LTE network, the launch of new services including 4G LTE ULTRA mobile broadband and the active management of our subscriber acquisition, maintenance and retention costs, including subsidies and commissions. However, we may be forced to lower our prices for certain offerings and services in response to competitors’ pricing policies, which may have an adverse effect on our future revenues and profitability.

At the same time, we believe that it will be challenging for any new MNO to enter the Polish mobile telecommunications market given the substantial costs of entry in order to effectively compete, as a new entrant would require a substantial amount of radio spectrum (which is currently very limited) and network infrastructure which it would either need to build out or negotiate access to, as well as a distribution network, which, given the exclusivity arrangements the MNOs have with most mobile dealers, is difficult to build out. The low retail margins have contributed to MVNOs not being a major feature of the Polish telecommunications market. The four major MNOs (Play, Orange, Plus, T-Mobile) represented approximately 99% of the market share of subscribers as of September 30, 2017, while MVNOs and other operators represented together approximately 1%. Additionally, bundling has not been very successful in the Polish market due to low mobile price levels, underdeveloped fixed-line infrastructure and a fragmented landscape of fixed broadband and cable television players.

Investment in our network

Investment in our network has been an important component of our strategy. The Group has taken the decision to reduce reliance on national roaming in the coming years by deploying a nationwide network. We are currently executing a strategy of a further nationwide roll-out of our own network, which aims to extend our network to rural areas currently covered by our national roaming agreements. Even though we believe that the existing network (including national roaming) currently more than sufficiently covers the traffic needs of our customers, we are currently executing a strategy of a further nationwide roll-out of our own network. It aims to extend our network to areas currently covered by our national roaming agreements.

In addition to our nationwide roll-out strategy we have in place national roaming/network sharing agreements. Through our own network, we provide coverage to 93.2% of the Polish population as of September 30, 2017, while we also provide 2G/3G/4G LTE coverage under long-term national roaming/network sharing agreements that we have negotiated with the other major Polish MNOs, Plus, Orange and T-Mobile which extends our available network to 99% of the population and provides our subscribers with unmatched network coverage with access to all four major mobile networks in Poland. This allows us to provide wide coverage as well as benefiting from a built-in redundancy, such that if there is a failure of any one network, there are always three back-up networks available, as well as allowing us to manage our level of capital expenditures by being able to choose whether to build out our own network or rely on national roaming/network sharing coverage in a specific area.

Following the acquisition of 1800 MHz technology neutral frequency license in June 2013, we launched a roll-out of our 4G LTE network utilizing the 1800 MHz frequency. We believe we will have sufficient capacity to service our expected subscriber base in the medium term, and our reduced capital expenditures required for further upgrades and new sites following the completion of certain ongoing network investments will further support growth in our free cash flow generation in the medium term, although any new frequency reservations we acquire could require significant capital outlays and additional investments in our networks.

In the fourth quarter of 2015, we won access to the following frequencies in spectrum auction:

- 1 frequency block of 2 x 5MHz bandwidth in the 800 MHz frequency band, for a total of PLN 1,496,079,000
- 4 frequency blocks, each of 2 x 5MHz bandwidth in the 2600MHz frequency band, for a total of PLN 222,354,000

The total payment offered by P4 for above-listed frequency blocks amounted to PLN 1,718,433,000.

In Q3'17, the Group was granted a reservation of the 3700 MHz frequency for the period from October 1, 2017 to December 29, 2019 for the total price of PLN 81.0 million, of which PLN 6.5 million was paid in advance in the three-month period ended 30 June, 2017. Spectrum 3700 MHz will be use in the order to: (i) maximise available volume and utility for MBB using 4G technology; and to (ii) maximise the future spectrum capacity for 5G technology. Additionally any re-farming for these bands should ensure protection for the existing frequency portfolio.

We hold nationwide reservations to provide mobile services in Poland using the following frequencies:

- 800 MHz for 2 x 5 MHz (decision issued on January 25, 2016 and amended on June 23, 2016) that expires on June 23, 2031, which cost the Group PLN 1,496 million
- 900 MHz for 2 x 5 MHz (decision issued on December 9, 2008) that expires on December 31, 2023, which cost the Group PLN 217 million
- 1800 MHz for 2 x 15 MHz (decisions issued on June 14, 2013) that expires on December 31, 2027, which cost the Group PLN 498 million
- 2100 MHz for 2 x 14.8 MHz and 1 x 5 MHz (decision issued originally on August 23, 2005 and re-issued on November 16, 2007 and became effective upon its delivery) that expires on December 31, 2022, which cost the Group PLN 345 million
- 2600 MHz for 2 x 20 MHz (decisions issued on January 25, 2016) that expires on January 25, 2031, which cost the Group PLN 222 million.

We believe our current spectrum position is on a par with our competitors and have no renewals until 2022.

Quality of subscriber base

Our operations are affected by the quality mix of our subscriber base. We have been focused on growing our contract subscribers who provide higher ARPU than prepaid subscribers and security of revenue due to fixed term contracts. The expenses related to contract subscribers are considerable and has been a large portion of our costs in the periods under review. As our growth focuses on increasing the quality of subscriber mix, we believe our SIM- only contract gross additions, contract retentions and migrations will each increase as a proportion of our subscriber base (compared to new contract gross

additions), which, while increasing our subscriber retention costs, will reduce the ratio of subscriber acquisition costs to total revenues, which in turn should have a positive effect on our margin.

Refinancing and Recapitalization

Please find below the description of key conditions referring to the Senior Facility Agreement signed in March 2017 and Amendments to the Senior Facilities Agreement signed in May 2017 (due to the essential changes which needed to be made in anticipation of the offering of the Shares and application for admission to trading on the WSE). We renegotiated part of financing conditions. Key changes are reflected in Amendments to Senior Facility Agreement part.

Senior Facilities Agreement

On March 7, 2017 we signed Senior Facilities Agreement (the "**Senior Facilities Agreement**") with a principal amount of PLN 6,600m in term loans and a PLN 400m revolving credit facility. On March 20 and 21, 2017, we drew down PLN 6,443m from Senior Facilities and the remaining amount under the term loans was cancelled. The bank debt is now divided into three tranches:

- Tranche A amounting to PLN 2,443m which has an amortising repayment profile, maturing in 2022
- Tranche B amounting to PLN 2,732m which has a bullet repayment profile, maturing in 2022
- Tranche C amounting to PLN 1,268m which has a bullet repayment profile, maturing in 2023.

Margins over WIBOR are a subject to total leverage ratio at the level of Group.

We used the net proceeds from Senior Facilities Agreement towards repayment of Notes and, via acquisition of intercompany notes between the Company and Impera Holdings S.A. (amounting to EUR 524,000,000), repayment of EUR 415,000,000 of senior PIK toggle notes issued in August 2014 (and repayment of intercompany debt).

The facilities initially bear interest at a rate per annum equal to WIBOR (or EURIBOR or LIBOR, as applicable) (in each case subject to zero floor) and an initial margin of:

- (a) in relation to any Facility A, 2.50% per annum;
- (b) in relation to any Facility B, 3.00% per annum;
- (c) in relation to Facility C, 3.75% per annum; and
- (d) in relation to Revolving Facility, 2.50% per annum,

provided that if no event of default is continuing and a period of at least two complete financial quarters expired after the first utilization under the Senior Facilities Agreement, the margin will be determined by reference to the total leverage ratio.

The facilities under the Senior Facilities Agreement are required to be secured (subject to the security principles agreed in the Senior Facilities Agreement) by security including (as applicable for the relevant grantor of security) over the shares in each borrower and guarantor, assignments of intra group receivables, pledges over bank accounts and pledges over assets (including material intellectual property and insurance). On the date of first utilization of the Senior Term Facilities, such security shall include a share pledge over the shares in Company, a share pledge over the shares in Play (On June 16, 2017 the pledge over the shares was released by virtue of a release agreement executed in connection with the amendment agreement to the Senior Facilities Agreement), a financial pledge over bank accounts by Play, and a registered pledge over all assets (including material intellectual property and insurance) by Play.

The Senior Facilities Agreement contains three financial covenants requiring Play to ensure that:

- (a) senior secured leverage: the ratio of consolidated senior secured net debt (limited to borrowings ranking pari passu with the facilities under the Intercreditor Agreement) to consolidated EBITDA shall not exceed certain thresholds on each relevant quarter test date, the threshold starting from the level 4.25:1 and gradually decreasing to 3.75:1
- (b) total leverage: the ratio of consolidated total net leverage to consolidated EBITDA shall not exceed certain thresholds on each relevant quarter test date, the threshold starting from the level 5.25:1 and gradually decreasing to 3.75:1; and

- (c) cashflow cover: the ratio of consolidated cashflow to net debt service shall not be less than 1.0 to 1.0 on each relevant quarter test date starting from 30 June 2017.

In connection with entering into the Senior Facilities Agreement, Play Holdings 1 S.à r.l., the Company, Play, Bank Zachodni WBK S.A. as facility agent, Bank Zachodni WBK S.A. as the security agent (the “**Security Agent**”) and certain other entities entered into an intercreditor agreement (the “Intercreditor Agreement”) to govern the relationships and relative priorities among: (a) the lenders under the Senior Facilities Agreement; (b) any persons that accedes to the Intercreditor Agreement as counterparties to certain hedging agreements; (c) certain future creditors of the Company and its subsidiaries; (d) the Security Agent; (e) intra-group creditors and debtors; and (f) Play Holdings 1 S.à r.l. as a creditor of the Company. Impera Holdings SA is not a party to the Intercreditor Agreement.

Amendments to the Senior Facilities Agreement

On May 11, 2017, Play requested certain amendments to the Senior Facilities Agreement in anticipation of the offering of the Shares and application for admission to trading on the WSE. These included:

- certain technical amendments in order to facilitate an initial public offering of Shares of the Issuer and consequential amendments to reflect that this had occurred throughout the Senior Facilities Agreement³
- a waiver of a mandatory prepayment with the proceeds of the offering of the Shares
- certain technical amendments to the information undertakings of the Senior Facilities Agreement in connection with the admission to trading on the WSE
- an amendment to the financial covenants to include an interest cover ratio and an amendment to the testing of the cashflow cover. Testing of the cashflow cover would be updated so that for any testing period in respect of which consolidated total net leverage is equal to or less than 2.75:1, the interest cover ratio shall be tested and the cashflow cover shall not be tested; and for any testing period in respect of which consolidated total net leverage is greater than 2.75:1, the cashflow cover shall be tested and the interest cover ratio shall not be tested
- the deletion of certain permitted payments on equity and to shareholders. This included deleting the ability to (i) pay a EUR 5,000,000 monitoring fee each financial year, (ii) a EUR 35,000,000 dividend, return of capital, capital contribution or other distribution in each financial year and (iii) following the initial public offering, the deletion of the ability to pay any fees to each shareholder and/or each service provider named under any management services agreement. There was an additional amendment to permit a one-off deal fee to be paid to certain shareholders in connection with the arrangement and/or implementation of the initial public offering
- waivers and amendments to permit the Conversion and actions related thereto (including a release of security over the shares in the Issuer (to facilitate the listing)).

A consent fee will be paid to lenders who consented simultaneously with the closing of the Offering.

Consents for the above amendments were obtained, and the Senior Facilities Agreement was amended and restated on June 14, 2017.

Senior PIK Toggle Notes

On March 22, 2017, Impera Holdings S.A., the indirect 100% shareholder of Play Communications S.A. as of the end of June 2017, has issued EUR 500,000,000 in the aggregate principal amount of 5.375%/6.125% Senior PIK Toggle Notes („Senior PIK Toggle Notes”) due 2022. Impera Holdings S.A. used the net proceeds from the issuance of Senior PIK Toggle Notes towards a shareholder distribution. According to the best knowledge of the Company, Impera Holdings S.A. has redeemed the Senior PIK Toggle notes in July 2017.

³ Including updating change of control definition

Key Performance Indicators

We consider the following key performance indicators (“KPIs”) in evaluating our business. Our revenue is principally driven by the number of reported new and retained subscribers, the mix of subscriber base between prepaid and contract.

See “Industry, Market and Subscriber Data” for a discussion of how we define and calculate our KPIs.

Our KPIs are derived from management estimates, are not part of our financial statements or financial accounting records and have not been audited or otherwise reviewed by independent auditors, consultants or experts.

Our use or computation of KPIs may not be comparable to the use or computation of similarly titled measures reported by other companies in our industry, by research agencies or by market reports. Other companies, research agencies or market reporters may include other items or factors in their calculation of similar metrics and may use certain estimates and assumptions that we do not use when calculating these metrics. These factors may cause the calculations by others of similar metrics to differ substantially from our calculations and if the methodologies of other were used to calculate our KPIs. The KPIs are not accounting measures, but we believe that each of these measures provides useful information concerning the attractiveness and usage patterns of services as well as costs related with attracting and retaining subscribers. None of the KPIs should be considered in isolation or as an alternative measure of performance under IFRS.

Reported and active subscriber base

We report our number of subscribers on the basis of the number of SIM cards which are registered on our network at the end of a given period.

The following table presents our subscriber base breakdown by the number of contract and prepaid subscribers:

	As of September 30,		
	2016	2017	Change
Reported subscribers (thousands)	14,639.3	14,889.0	1.7%
Contract	7,999.1	9,203.5	15.1%
Prepaid	6,640.2	5,685.5	(14.4%)
Active subscribers (thousands)	11,672.2	12,354.5	5.8%
Contract	7,702.3	8,490.2	10.2%
Prepaid	3,970.0	3,864.3	(2.7%)

As of September 30, 2017, the total number of our reported subscriber base was approximately 14.9 million, of which 61.8% were contract subscribers. Our reported subscriber base represents approximately 28.5% of the total number of reported subscribers in the Polish mobile market compared to 26.0% as of the end of September 2016. The decrease of prepaid reported subscriber base is a result of the mandatory prepaid registration due to the ATO Act. On July 25, 2016, we began the registration of prepaid SIM cards in compliance with the ATO Act. The process of registration ended on February 1, 2017, after which date unregistered subscribers’ SIM cards were blocked until those customers registered. As a result, there was high volatility in our prepaid base. As of February 1, 2017, we had registered approximately 90% of our active prepaid base. According to CSO, there was a total of 52.2 million subscribers at the end of September, in 2017 meaning, the total number of subscribers on Polish market decreased by 4.0 million (at the end of September 2016, there were 56.2 million subscribers). During the periods described herein, we have successfully gained subscriber market share by continuously focusing on our “value-for-money” positioning by effectively promoting our brand and by maintaining what we believe is a best-in-class distribution network.

Our contract subscriber base increased from 8.0 million as of September 30, 2016, to 9.2 million as of September 30, 2017. This increase the share of contract subscribers as a proportion of our total reported subscriber base from 54.6% as of September 30, 2016, to 61.8% as of September 30, 2017.

As of September 2017, the total number of our active subscriber base was approximately 12.4 million, of which 68.7% were contract subscribers. It increased from 7.7 million as of September 30, 2016 to 8.5 million as of September 30, 2017. This change is in line with our strategy to increase the number of contract subscribers, who generate higher ARPU on average compared to prepaid subscribers and provide greater revenue security through fixed-term contracts.

Net additions and Churn

For the three months ended September 30, 2017, contract net additions were 261.3 thousand, representing a decrease of 29.4% relative to the comparable period in 2016.

For the last nine months ended September, 2017, contract net additions were 837.0 thousands, which represented an decrease of 9.9% relative to the comparable period in 2016.

In the three months ended September 30, 2017, we continued adding new subscribers. We believe that the growth in contract net additions was driven by the “family” plans and “duo” offers whereby groups of two or more individuals can enjoy discounts on mobile telephones, mobile data and other benefits. These offerings have been successful since their introduction. Additionally, in 2016 we experienced the impact of the ATO, which partially shifted net additions from prepaid to contract.

Total net additions in the three months ended September 30, 2017 highly differs from three months ended September 30, 2016 due to negative change at the level of prepaid subscribers in 2016. It was an effect of mandatory prepaid registration which took place in 2016.

The following table presents the development of our contract and prepaid subscriber base:

	Three-month period ended			Nine-month period ended		
	September 30, 2016	September 30, 2017	Change	September 30, 2016	September 30, 2017	Change
Net additions (thousands)	21.9	404.6	>>100%	489.0	474.4	(3.0%)
Contract	370.0	261.3	(29.4%)	929.4	837.0	(9.9%)
Prepaid	(348.1)	143.3	(141.2%)	-440.4	-362.6	(17.7%)
Churn (%)⁽¹⁾	3.3%	1.6%		3.4%	2.3%	
Contract	0.7%	0.8%		0.7%	0.7%	
Prepaid	6.3%	3.1%		6.3%	4.7%	

(1) We present our churn on an average monthly basis.

Average monthly contract churn rate has slightly increased to the level of 0.8% in the three month period ended September 30, 2017 versus comparable period ended June 30, 2016. Due to the nature of prepaid offerings and prepaid registration event, prepaid churn rates can be relatively volatile and we believe this measure has much less significance in terms of evaluating our performance.

ARPU and Contract/Prepaid ARPU

Most of revenues in the Polish mobile telecommunications market is generated by contract subscribers. ARPU is therefore primarily driven by the level of committed tariff plan fees, with the rate per minute (with respect to voice offerings), SMS/MMS or MB becoming a secondary driver of revenue. All of the factors mentioned above are mainly driven by the level of competition in the market. ARPU is additionally influenced by the volume of traffic received by our subscribers from subscribers of other networks, both national and international.

In the three-month period ended September 30, 2017, our ARPU was PLN 32.3, 1.7% higher relative to the comparable period in 2016.

Contract ARPU for the three-month period ended September 30, 2017, amounted to PLN 38.6, a decrease of 1.1% compared to the same period in 2016, while prepaid ARPU for the three-month period ended September 30, 2017, amounted to PLN 18.7, an increase of 3.3% compared to the same period in 2016. The overall ARPU increase was driven by a growing proportion of contract subscribers to total subscriber base. Growth in prepaid ARPU resulted from high increase in data usage, as well as increased volume of incoming traffic from other MNOs subscribers. The slight decrease of contract ARPU was an effect of (i) roam like at home regulation (for more details please refer to *General regulator environment*); and (ii) growing number of customers using family and duo offers which were introduced in Q2 2014 and Q2 2016 respectively and. While selling these packages the number of subscribers increased, however, these tariffs were sold for slightly lower prices than if they had been sold separately. The following table presents ARPU during the periods under review:

	Three-month period ended			Nine-month period ended		
	September 30, 2016	September 30, 2017	Change	September 30, 2016	September 30, 2017	Change
ARPU (PLN)⁽¹⁾	31.8	32.3	1.7%	31.1	31.9	2.5%
Contract	39.0	38.6	(1.1%)	39.0	38.4	(1.4%)
Prepaid	18.1	18.7	3.3%	17.2	17.9	4.0%

(1) We present our ARPU per active subscriber on an average monthly basis.

Data traffic

Data usage per subscriber increased from 2,739.8 MB monthly in the three-month period ended September 30, 2016, to 4,151.0 MB in the three-month period ended September 30, 2017, representing a growth of 51.5%. This growth can be observed for prepaid as well as contract subscribers, and as a result of the increased adoption of 4G LTE smartphones and other devices.

The following table presents a breakdown of data transmission usage:

	Three-month period ended			Nine-month period ended		
	September 30, 2016	September 30, 2017	Change	September 30, 2016	September 30, 2017	Change
Data usage per subscriber (MB)⁽¹⁾	2,739.8	4,151.0	51.5%	2,580.5	3,889.4	50.7%
Contract	3,433.4	5,038.9	46.8%	3,298.5	4,734.0	43.5%
Prepaid	1,429.6	2,233.6	56.2%	1,318.6	2,095.2	58.9%

(1) We present our data usage per active subscriber on an average monthly basis.

Unit SAC cash and unit SRC cash

We present unit SAC cash and unit SRC cash as metrics for the operating analysis of acquisition and retention, as the most meaningful performance indicator versus unit SAC and unit SRC that have been prepared before IFRS 15 adoption (distorted by instalment sales impact) or unit SAC and unit SRC that would be prepared using data after IFRS 15 adjustment, which would not present clearly the relevant level of subsidies, sales / retention commissions or other costs related to acquisition and retention activities of the Group. In the three month period ended September 30, 2017, our unit contract SAC cash amounted to PLN 369.7, an increase of 6.4% compared to the three month period ended September 30, 2016. In the three-month period ended September 30, 2017, our unit prepaid SAC cash amounted to PLN 5.9, comparable to the same period of 2016. In the nine months ended September 30, 2017, our unit contract SAC cash amounted to PLN 339.6, a decrease by 7.3% compared to PLN 366.5 in the nine months ended September 30, 2016.

The following table presents the unit SAC breakdown for contract and prepaid subscribers and unit SRC:

	Three-month period ended			Nine-month period ended		
	September 30, 2016	September 30, 2017	Change	September 30, 2016	September 30, 2017	Change
unit SAC cash (PLN)						
Contract	347.6	369.7	6.4%	366.5	339.6	(7.3%)
Prepaid	3.7	5.9	59.0%	3.6	4.8	35.0%
unit SRC cash (PLN)	348.0	349.2	0.4%	372.6	332.6	(10.7%)

Explanation of Key Items from the Interim Condensed Consolidated Statement of Comprehensive Income

For the purposes of the following discussion of our results of operations, the key line items from the interim condensed statement of comprehensive income include the following:

Operating revenue

Operating revenue includes the following:

- Service revenue, which consists of (i) usage revenue and (ii) interconnection revenue; and
- Sales of goods and other revenue.

Service revenue

Usage revenue is generated mainly from:

- Revenues related to contract subscribers – consisting of subscription fees, charges for recurring voice and non-voice services rendered by us to our contract subscribers which originate on our network and fees for any traffic generated by our subscribers in foreign mobile networks under the international roaming agreements that we have entered into.

For bundled packages, including e.g. mobile devices, monthly fees and activation fees from contract subscribers, the Group accounts for revenue from individual goods and services separately if they are distinct – *i.e.*, if a good or service can be distinguished from other components of the bundled package and if a customer can benefit from it separately. The consideration for the bundled packages comprises cash flows from the customers expected to be received in relation to goods and services delivered over the adjusted contract term (the period after which the Group expects to offer a subsequent retention contract to a customer, which is usually a few months before the contractual term lapses). The consideration (transaction price) is allocated between separate goods and services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices for mobile devices are determined based on the standard list prices at which the Group sells them separately (without a service contract). Stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services. For mix contracts the stand-alone selling prices for telecommunications services are set based on prices for prepaid offers. Services purchased by a customer beyond the contract are treated as a separate contract and recognition of revenue from such services is based on the actual airtime or data usage, or is made upon the expiration of the Group's obligation to provide the services. International roaming revenues are recognized in the profit or loss in the period in which the services were rendered.

- Revenues related to prepaid subscribers – consisting of sale of prepaid offerings (starter packs, scratch cards, top-ups); telecommunications revenue on the sale of prepaid offerings is recognized at the face value of a prepaid offering sold, net of VAT. The difference between the face value of a prepaid offering and the value for which an offering is sold by us to our distributors, constitutes commission earned by the distributors, who act as agents. The Group acts as a principal in such agreements. The costs of prepaid commissions are treated as other service costs. The revenue from the sale of prepaid products is deferred until an end-user commences using the product, and recognized in the profit or loss as telecommunication services are provided, based on the actual airtime usage at an agreed tariff, or upon expiration of the obligation to provide the service. Revenues from the value added services (e.g. music and video streaming or sales of applications) are recognized in the amount of full consideration if the Group acts as principal in the relation with the customer or in the amount of the commission earned if the Group acts as agent.
- Other usage revenue – consisting mainly of revenues from MVNOs to which we provide telecommunication services and revenues generated by subscribers of foreign mobile operators that have entered into international roaming agreements with us for using our network.

Interconnection revenue is derived from calls and other traffic that originate in other operators' networks but which terminate on our network. The Group receives interconnection fees based on agreements entered into with other telecommunications operators. These revenues are recognized in the statement of comprehensive income in the period in which the services were rendered.

Sales of goods and other revenues

Sales of goods and other revenues comprise mainly revenues from devices sold to subscribers. Revenues from sales of goods are recognized when control of the assets are transferred to the customer (typically upon delivery). The revenues from devices

sold via dealers who act as agents are recognized when the device is delivered to the subscriber. The amount of revenue recognized for mobile devices is adjusted for expected returns, which are estimated based on the historical data. Other revenue comprises primarily revenue from commissions for sale of our partners' offerings through our distribution network.

Operating expenses

- Interconnection costs include costs of termination of voice and non-voice traffic of our customers in other operators' networks under interconnection agreements.
- National roaming/network sharing costs include costs incurred in connection with the traffic generated by our subscribers hosted in networks of our network sharing partners under our national roaming/network sharing agreements.
- Other service costs include international roaming costs, costs of distribution of prepaid offerings (commissions paid to distributors for sales of top-ups) and fees paid to content providers in transactions in which we act as a principal. Costs of distribution of prepaid offerings represent commissions paid to dealers. Such commission is the difference between the face value of a prepaid offering (starters, scratch cards, top-ups) and the value for which the offerings are sold by us to dealers. These costs are deferred until the service is provided, *i.e.*, a prepaid offering is delivered to a subscriber, and expensed at that time.
- The Group solely capitalizes the costs of commissions paid to dealers and own salesforce to acquire or retain subscribers who enter into a fixed term or mix contract. Capitalized commission fees relating to postpaid contracts are amortized on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognized. The amortization is presented in the statement of comprehensive income in the line item "Contract costs, net".
- Costs of goods sold include our purchasing costs of devices. We recognize cost of goods sold in the statement of comprehensive income in full amount.
- General and administrative expenses consist of the following:
 - Employee benefits include remuneration (including all salaries, quarterly, annual and other bonuses), additional employment benefits such as medical care and contributions to corporate social funds, national social security payments as well costs or income resulting from valuation of retention programs for members of the Management Board of P4 Sp. z o.o. and key employees.
 - External services include mainly network maintenance, advertising and promotion expenses, customer relations costs (consisting of costs of outsourcing call center, printing and shipping telecommunication invoices to subscribers), IT costs and other overhead services costs such as office maintenance, finance and legal services, advisory services fees and other personnel costs such as training, company cars maintenance costs and other miscellaneous personnel related costs.
 - Taxes and fees include primarily fees for the use of telecommunication frequencies, real estate taxes and other administrative duties, as well as non - deductible VAT.
- Depreciation and amortization costs consist mainly of the depreciation of the network system and related equipment and other fixed assets, the amortization of costs of telecommunications licenses and software and other intangible assets as well as the depreciation of the right-of-use assets. Depreciation and amortization charge is calculated using the straight-line method to allocate the cost of assets to their residual values over their estimated useful lives.

Other operating income and other operating costs

Other operating income consists primarily of income from early contract termination payments by subscribers, marketing revenues, gain on disposal of non-current assets and certain other miscellaneous items.

Other operating costs consist primarily of impairment charges of non-current assets, bad debts, gain or loss on sale of receivables, and other miscellaneous items not included in other general and administrative expenses.

Finance income and finance costs

Finance income includes interest receivable on bank deposits, as well as exchange rate gains.

Finance costs include primarily interest on notes, bank loans and overdrafts (not capitalized as part of assets), amortization of transaction costs and exchange rate losses. Finance costs also include the financial costs associated with lease liabilities.

Finance income and costs include also the effect of valuation or de-recognition of the early redemption options, separated from notes, as well as gains and losses on derivatives used to hedge the currency or interest risk (to the extent that such gains or losses are not included in the other comprehensive income or loss).

Income taxes

Income tax expense comprises current and deferred taxes.

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in countries where the Group operates and generates taxable income.

The deferred income tax calculation is based upon an assessment of the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized.

Deferred income tax is calculated using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for tax losses. Deferred tax is not recognized when any related deductible temporary differences arise 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 (deferred tax), does not affect either the accounting profit or the taxable profit or loss. Currently enacted tax rates are used to determine deferred income tax.

Most of the Play Group's taxable revenue is subject to the Polish tax system. The Polish tax system has restrictive provisions for the grouping of tax losses for multiple legal entities under common control, such as those of the Group. Thus, each of the Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation. In Luxembourg tax losses can be carried forward for a maximum period of 17 years (tax losses incurred during the period from January 1, 1991 to December, 31, 2016, may be carried forward indefinitely). In Poland tax losses are permitted to be utilized over five years with utilization restricted to 50% of the loss per annum (thus, a given loss may be utilized by the taxpayer, at the earliest, within two years).

In October 2017 the lower chamber of the Polish Parliament accepted the bill amending the Corporate Income Tax Act and Personal Income Tax Act. The planned changes may come into force with effective date January 1, 2018. The Group expects that due to the changes in legislation the Group's effective tax rate will increase. However, the works on the bill are still in progress and the final wording of the legislation may differ from the current version of the bill in question. Thus, potential impact on our financial results for 2017, 2018 and following years is difficult to assess.

Results of Operations: Comparison of the Nine-Month Period Ended September 30, 2017, and the Nine-Month Period Ended September 30, 2016.

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
Operating revenue	4,497.4	4,930.3	9.6
Service revenue	3,315.7	3,631.9	9.5
Sales of goods and other revenue	1,181.6	1,298.5	9.9
Operating expenses	(3,499.1)	(4,180.7)	19.5
Interconnection, roaming and other service costs	(1,098.3)	(1,262.3)	14.9
Contract costs, net	(294.4)	(321.6)	9.3
Cost of goods sold	(1,019.1)	(1,010.6)	(0.8)
General and administrative expenses	(615.6)	(992.5)	61.2
Depreciation and amortization	(471.7)	(593.6)	25.9
Other operating income	53.3	53.3	(0.0)
Other operating costs	(122.1)	(56.2)	(53.9)
Operating profit	929.5	746.6	(19.7)
Finance income	107.1	172.7	61.3
Finance costs	(304.5)	(555.5)	82.4
Profit before income tax	732.0	363.9	(50.3)
Income tax charge	(169.5)	(119.4)	(29.5)
Net profit for the period	562.5	244.5	(56.5)
Other comprehensive loss for the period to be reclassified to profit or loss in subsequent periods	-	(2.9)	-
Total comprehensive income for the period	562.5	241.6	(57.1)

Operating revenue

Operating revenue increased by PLN 433.0 million, or 9.6%, from PLN 4,497.4 million for the nine-month period ended September 30, 2016, to PLN 4,930.3 million for the nine-month period ended September 30, 2017. This increase resulted primarily from growth in retail contract usage revenue, interconnection revenue and sales of goods and other revenue.

The following table presents a breakdown of operating revenue for the periods under review along with the percentage change over such periods.

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Service revenue	3,315.7	3,631.9	9.5
Usage revenue	2,542.0	2,731.0	7.4
Retail contract revenue	1,973.5	2,153.9	9.1
Retail prepaid revenue	485.2	460.3	(5.1)
Other revenue	83.2	116.8	40.3
Interconnection revenue	773.7	900.9	16.4
Sales of goods and other revenue	1,181.6	1,298.5	9.9
Operating revenue	4,497.4	4,930.3	9.6

Retail contract usage revenue

Revenue from retail contract usage increased by PLN 180.4 million, or 9.1%, from PLN 1,973.5 million for the nine-month period ended September 30, 2016, to PLN 2,153.9 million for the nine-month period ended September 30, 2017. The increase was primarily due to growth in the reported contract subscriber base of 1.2 million, or 15.1%, from September 30, 2016, to September 30, 2017, due to the continued success of our subscriber acquisition and retention strategy and constant migration of customers from prepaid to contract offers.

Retail prepaid usage revenue

Revenue from prepaid usage decreased by PLN 24.9 million, or 5.1%, from PLN 485.2 million for the nine-month period ended September 30, 2016, to PLN 460.3 million for the nine-month period ended September 30, 2017. The decrease was primarily due to decrease in the reported prepaid subscriber base of 1.0 million, or 14.4%, from September 30, 2016, to September 30, 2017, due to the prepaid registration process in connection with the ATO act and constant migration of customers from prepaid to contract offers.

Other usage revenue

Other usage revenue increased by PLN 33.5 million, or 40.3%, from PLN 83.2 million for the nine-month period ended September 30, 2016, to PLN 116.8 million for the nine-month period ended September 30, 2017. This increase resulted mainly from the increase in revenue from the wholesale agreements with our MVNO partners.

Interconnection revenue

Interconnection revenue increased by PLN 127.2 million, or 16.4%, from PLN 773.7 million for the nine-month period ended September 30, 2016, to PLN 900.9 million for the nine-month period ended September 30, 2017, as a result of growing volume of incoming traffic to our network from other network operators due to the increase in our subscriber base and increased usage of services by subscribers of other MNOs caused by the proliferation of unlimited tariffs.

Sales of goods and other revenue

Revenue from sales of goods and other revenue increased by PLN 116.8 million, or 9.9%, from PLN 1,181.6 million for the nine-month period ended September 30, 2016, to PLN 1,298.5 million for the nine-month period ended September 30, 2017. This increase resulted primarily from the increased sales of devices to newly acquired and retained subscribers.

Operating expenses

Operating expenses increased by PLN 681.6 million, or 19.5%, from PLN 3,499.1 million for the nine-month period ended September 30, 2016, to PLN 4,180.7 million for the nine-month period ended September 30, 2017. This increase resulted primarily from increases in general and administrative expenses, mainly triggered by the valuation of the retention programs upon the IPO, interconnection, roaming and other services costs as well as depreciation and amortization charges.

Interconnection, roaming and other services costs

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Interconnection costs	(847.9)	(953.5)	12.5
National roaming/network sharing	(128.6)	(142.6)	10.8
Other service costs	(121.8)	(166.3)	36.5
Interconnection, roaming and other service costs	(1,098.3)	(1,262.3)	14.9

Interconnection, roaming and other services costs increased by PLN 164.0 million, or 14.9%, from PLN 1,098.3 million for the nine-month period ended September 30, 2016, to PLN 1,262.3 million for the nine-month period ended September 30, 2017, mainly due to increase of interconnection costs of PLN 105.6 million, or 12.5%, from PLN 847.9 million for the nine-month period ended September 30, 2016, to PLN 953.5 million for the nine-month period ended September 30, 2017, which resulted from the growth in the volume of traffic terminated on other networks due to the increase in our subscriber base over the period as well as due to a general increase in traffic per user. The increase of other services costs of PLN 44.4 million, or 36.5%, from PLN 121.8 million for the nine-month period ended September 30, 2016, to PLN 166.3 million for the nine-month period ended September 30, 2017, was mainly impacted by new international roaming regulations introduced since June 15, 2017 (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – General regulatory environment").

Contract costs, net

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Contract costs incurred	(327.1)	(323.2)	(1.2)
Contract costs capitalized	314.9	305.5	(3.0)
Amortization and impairment of contract costs	(282.3)	(304.0)	7.7
Contract costs, net	(294.4)	(321.6)	9.3

Contract costs, net increased by PLN 27.3 million, or 9.3%, from PLN 294.4 million for the nine-month period ended September 30, 2016, to PLN 321.6 million for the nine-month period ended September 30, 2017, mainly due to further growth of the contract customer base.

Cost of goods sold

Cost of goods sold decreased by PLN 8.5 million, or 0.8%, from PLN 1,019.1 million for the nine-month period ended September 30, 2016, to PLN 1,010.6 million for the nine-month period ended September 30, 2017, mainly due to the decrease of unit cost of goods sold partially offset by increased sales of devices to acquired and retained customers.

General and administrative expenses

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
Salaries and social security	(157.8)	(177.2)	12.3
Special bonuses and retention programs	(1.1)	(275.7)	25,307.6
Employee benefits	(158.9)	(452.9)	185.0
Network maintenance, leased lines and energy	(87.7)	(97.3)	10.9
Advertising and promotion expenses	(153.1)	(131.9)	(13.9)
Customer relations costs	(47.1)	(54.2)	14.9
Office and points of sale maintenance	(11.3)	(12.0)	6.6
IT expenses	(21.9)	(21.1)	(3.9)
People related costs - cars, trainings and other	(12.5)	(14.7)	17.8
Finance and legal services	(12.6)	(50.8)	302.3
Management fees	(23.8)	(49.0)	106.2
Other external services	(37.8)	(49.9)	32.1
External services	(407.9)	(481.0)	17.9
Taxes and fees	(48.8)	(58.7)	20.3
General and administrative expenses	(615.6)	(992.5)	61.2
General and administrative expenses excluding costs of management fees, retention programs valuation and special bonuses and other one-off costs	(585.5)	(605.8)	3.5

Total general and administrative expenses increased by PLN 376.9 million, or 61.2%, from PLN 615.6 million for the nine-month period ended September 30, 2016, to PLN 992.5 million for the nine-month period ended September 30, 2017, mainly due to increased expenses relating to special bonuses and retention programs, finance and legal services, management fees, salaries and social security as well as other external services partially offset by decreased advertising and promotion expenses.

Excluding the impact of increase in retention programs valuation and costs of special bonuses of PLN 274.6 million, increase in the cost of management fees of PLN 25.3 million and increase in other one-off costs of PLN 56.8 million, general and administrative expenses increased by PLN 20.3 million, or 3.5%, from PLN 585.5 million for the nine-month period ended September 30, 2016, to PLN 605.8 million for the nine-month period ended September 30, 2017, mainly as a result of increased costs of salaries and social security, network maintenance, leased lines and energy as well as customer relations expenses partially offset by decreased advertising and promotion expenses.

Salaries and social security

The cost of salaries and social security for the nine-month period ended September 30, 2017, increased by PLN 19.4 million, or 12.3%, compared to the nine-month period ended September 30, 2016. The increase was mainly due to the increase in the number of employees due to growing scope of Group operations and due to increase in costs of performance-related bonuses.

Special bonuses and retention programs

The valuation of retention programs and special bonuses increased in the nine-month period ended September 30, 2017 due to the settlement of certain programs in relation to IPO; for more information please see Note 19 to the Financial Statements included elsewhere in this Report.

External services

External services costs increased by PLN 73.1 million, or 17.9%, from PLN 407.9 million for the nine-month period ended September 30, 2016, to PLN 481.0 million for the nine-month period ended September 30, 2017, which was caused mainly by the following reasons. Finance and legal services increased by PLN 38.2 million due to additional costs related to the IPO process, costs of management fees increased by PLN 25.3 million due to additional services provided in connection with the IPO process. Costs of other external services increased by PLN 12.1 million due to costs of prepaid registration process and strategic projects out of usual scope of the Group's business. Costs of network maintenance, leased lines and energy increased by PLN 9.6 million due to higher number of sites resulting from nationwide network rollout. Customer relations costs increased by PLN 7.0 million mainly due to higher costs of call center services.

Taxes and fees

The cost of taxes and fees, comprising mainly frequency reservation charges and property tax, increased by PLN 9.9 million, or 20.3%, from PLN 48.8 million for the nine-month period ended September 30, 2016, to PLN 58.7 million for the nine-month period ended September 30, 2017, primarily due to higher fees for the use of frequencies due to the purchase of frequencies in the 800 MHz and 2600 MHz bands in the beginning of 2016 as well as increased non-deductible VAT.

Depreciation and amortization

Depreciation and amortization increased by PLN 121.9 million, or 25.9%, from PLN 471.7 million for the nine-month period ended September 30, 2016, to PLN 593.6 million for the nine-month period ended September 30, 2017. This increase resulted primarily from an increase in gross book value of assets due to completion of investment projects following the development of the Group's telecommunications network as well as due to reviewed and adjusted assets' residual values and useful lives to reflect some faster changes in telecommunications technology.

Other Operating Income and Other Operating Costs

Other operating income amounted to PLN 53.3 million for the nine-month period ended September 30, 2017 and remained stable in comparison to the nine-month period ended September 30, 2016.

Other operating costs decreased by PLN 65.9 million, or 53.9%, for the same period under review. This decrease resulted primarily from decrease in costs of bad debt of PLN 49.2 million, or 99.3%, from 49.5 PLN million for the nine-month period ended September 30, 2016, to PLN 0.3 million for the nine-month period ended September 30, 2017 mainly due to improved recoverability of overdue receivables as well as significantly lower allowance for installment receivables due to termination of installment sales in the fourth quarter of 2016. Another reason for relatively high cost of bad debt for the nine-month period ended September 30, 2016 was the fact that during that period the Group recorded a one-off write-off of disputed interconnection receivables from the years 2011-2013 in the amount of PLN 12.7 million due to unfavorable court ruling. The decrease in other operating costs resulted also from decreased costs of provisions of PLN 20.4 million, mainly for early

termination fee related to one of Group's commercial agreements in the amount of PLN 20.4 million for the nine-month period ended September 30, 2016.

Finance Income and Costs

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Interest income	13.4	113.8	749.1
Interest expense	(252.7)	(385.7)	52.6
Exchange rate gains/(losses)	(51.8)	58.9	-
Net gain/(loss) on finance instruments at fair value	93.7	(169.8)	-
Finance income and costs	(197.5)	(382.8)	93.8

Interest income

Interest income increased by PLN 100.4 million, from PLN 13.4 million for the nine-month period ended September 30, 2016, to PLN 113.8 million for the nine-month period ended September 30, 2017. This increase resulted mainly from higher amount of interest on notes issued by Impera Holdings S.A. to the Group due to increased outstanding balance of the notes receivables till July 26, 2017, when they were redeemed against the Company's share premium. Due to early repurchase of notes by Impera Holdings S.A. the Group recorded additional income: PLN 34.3 million as loan origination fees allowance and PLN 33.5 million as an early redemption fee.

Interest expense

Interest expense increased by PLN 133.0 million, or 52.6%, from PLN 252.7 million for the nine-month period ended September 30, 2016, to PLN 385.7 million for the nine-month period ended September 30, 2017. Higher interest expense in the nine-month period ended September 30, 2017, resulted mainly from redemption costs in the total amount of PLN 78.7 million related to repayment in March 2017 of the EUR 725,000,000 5 1/4% fixed rate senior secured notes due 2019 ("Senior Secured Notes") comprising the initial fixed rate senior secured notes issued on January 31, 2014 ("Initial Fixed Rate Senior Secured Notes"), and additional fixed rate senior secured notes issued on March 19, 2015 ("Additional Fixed Rate Senior Secured Notes"), as well as the EUR 270,000,000 6 1/2% senior notes due 2019 issued on January 31, 2014 ("Senior Notes").

Exchange rate gains or losses

Results on exchange rate differences changed from exchange rate losses of PLN 51.8 million for the nine-month period ended September 30, 2016, to exchange rate gains of PLN 58.9 million for the nine-month period ended September 30, 2017. This change resulted mainly from the valuation of the EUR-denominated debt due to appreciation of PLN against EUR in the period from January 1, 2017 to the date of repayment of the EUR-denominated notes, compared to depreciation of PLN against EUR in the nine-month period ended September 30, 2016.

Net gain or loss on finance instruments at fair value through profit or loss

In the nine-month period ended September 30, 2016, net gain on finance instruments at fair value through profit or loss resulted from the valuation of early redemption options embedded in the Initial Fixed Rate Senior Secured Notes indenture and Senior Notes indenture of PLN 93.7 million. In the nine-month period ended September 30, 2017, net loss on finance instruments at fair value through profit or loss comprised primarily loss on the de-recognition of the early redemption options asset of PLN 134.2 million as well as losses of PLN 35.5 million on derivatives used to hedge the currency risk. During the nine-month period ended September 30, 2017, the Group had entered among others into several forward foreign exchange contracts which were used to exchange PLN into EUR for the purpose of the repayment of the EUR-denominated notes with

the proceeds from PLN-denominated bank loans - see Note 17.1.1 to our Financial Statements included elsewhere in this Report (forward contracts for the purchase of EUR 940.0 million) and for the purpose of purchase of EUR-denominated Notes of Impera Holdings S.A. – see Note 8 to our Financial Statements included elsewhere in this Report (forward contracts for the purchase of EUR 520.0 million).

Liquidity and Capital Resources

Liquidity

Our historical liquidity needs have arisen primarily from the need to finance capital expenditures for the expansion of our operations, including the deployment of new technologies, the expansion of network coverage and efforts to maintain our quality of service. We have invested in the development of our network over the last several years, in particular in connection with the roll-out of our 4G LTE network and use of our most recent frequency reservations. The Group has historically been financed through equity capital (including contributions in kind), cash from operations, and borrowings under bank loans and notes. In connection with the Refinancing and Recapitalization, the Group entered into the Senior Facilities Agreement with Alior Bank Spółka Akcyjna, Bank Zachodni WBK S.A., BNP Paribas S.A., DNB Bank ASA, DNB Bank Polska S.A., PKO Bank Polski S.A., TFI PZU S.A. on behalf of PZU FIZ AN BIS 2, TFI PZU SA on behalf of PZU SFIO Universum and Raiffeisen Bank International AG as mandated lead arrangers and Bank Zachodni WBK S.A. as an agent. In March 2017, the Group drew PLN 6,443.0 million under the Senior Facilities Agreement. The Senior Facilities Agreement also provides for a Revolving Credit Facility in the amount of PLN 400 million. In addition, the Group has PLN 150 million available for drawing under Bank Zachodni WBK Overdraft Facility until May 31, 2018 and PLN 50 million available for drawing under Millennium Overdraft Facility until November 12, 2018.

Cash flows

The following table summarizes net cash flows from operating, investing and financing activities for the nine-month period ended September 30, 2017 and for the nine-month period ended September 30, 2016.

	Nine-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
Profit before income tax	732.0	363.9	(50.3)
Depreciation and amortization	471.7	593.6	25.9
Change in contract costs	(32.7)	(1.5)	(95.3)
Interest expense (net)	239.3	271.9	13.6
(Gain)/Loss on finance instruments at fair value	(93.7)	169.5	-
Foreign exchange (gains)/losses	51.7	(58.9)	-
Gain on disposal of non-current assets	(7.7)	(4.6)	(40.3)
Impairment of non-current assets	5.3	3.0	(43.3)
Change in provisions and retention programs	(24.5)	(130.3)	431.5
Changes in working capital and other	(345.3)	98.9	-
Change in contract assets	66.6	(269.7)	-
Change in contract liabilities	12.6	(12.0)	-
Interest received	0.1	0.2	93.8
Income tax paid	(51.9)	(185.0)	256.7
Net cash provided by operating activities	1,023.5	838.9	(18.0)
Proceeds from sale of non-current assets	5.1	2.6	(48.7)
Proceeds from loans given	-	18.3	-
Proceeds from debt securities (Repayment of notes by Impera Holdings S.A.)	-	388.3	-
Purchase of fixed assets and intangibles and prepayments for assets under construction	(2,056.6)	(610.6)	(70.3)
Loans given	(17.9)	-	(100.0)
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	(141.1)	(68.9)	(51.1)
Net cash used in investing activities	(2,210.4)	(270.3)	(87.8)
Proceeds from equity increase	-	285.4	-
Proceeds from finance liabilities	385.0	6,443.0	1,573.5
Repaid finance liabilities and paid costs relating to finance liabilities	(787.4)	(5,078.3)	544.9
Purchase of notes issued by Impera Holdings S.A.	-	(2,227.9)	-
Net cash used in financing activities	(402.4)	(577.8)	43.6
Net change in cash and cash equivalents	(1,589.3)	(9.3)	(99.4)
Effect of exchange rate change on cash and cash equivalents	0.1	(0.0)	-
Cash and cash equivalents at the beginning of the period	1,556.8	341.0	(78.1)
Cash and cash equivalents at the end of the period	(32.4)	331.7	-

Net cash provided by operating activities

Net cash provided by operating activities decreased by PLN 184.6 million, or 18.0%, from PLN 1,023.5 million for the nine-month period ended September 30, 2016, to PLN 838.9 million for the nine-month period ended September 30, 2017.

Change in provisions and retention programs of PLN 130.3 million was caused by repayment of incentive plans settled in the nine-month period ended September 30, 2017 (please see Note 19 in our Financial Statements included elsewhere in this Report), which was offset by equity injection.

Cash flows from changes in working capital and other, change in contract costs and contract assets and contract liabilities comprised a negative change of PLN 184.4 million for the nine-month period ended September 30, 2017. Following significant reduction in the volume of installment sales after October 2016, we reported a decreasing amount of receivables (our trade receivables balance was reduced by PLN 153.4 million for the nine-month period ended September 30, 2017, generating positive cash flows), which was offset by growing contract assets (contract assets increased by PLN 269.7 million for the nine-month period ended September 30, 2017). Having largely terminated the installment sales in the fourth quarter of 2016, we expect installment receivables to decline over the next few quarters, benefiting the change in working capital dynamics.

Cash flows from changes in working capital and other, change in contract costs and contract assets and contract liabilities for the nine-month period ended September 30, 2017 were also impacted by the increase in inventories balance of PLN 37.5 million for the nine-month period ended September 30, 2017 due to increasing stock in order to facilitate the sale of devices to newly acquired and retained customers.

The increase of income tax paid of PLN 133.1 million from PLN 51.9 million for the nine-month period ended September 30, 2016 to PLN 185.0 million for the nine-month period ended September 30, 2017, resulted from an increase in taxes paid for the respective fiscal years preceding the analyzed period. The taxable profit for 2016 was higher than for 2015 mainly due to the lower amount of utilized tax losses as substantial portion of prior years' losses had already been utilized before.

Net cash used in investing activities

Net cash used in investing activities decreased from PLN 2,210.4 million for the nine-month period ended September 30, 2016, to PLN 270.3 million for the nine-month period ended September 30, 2017. This decrease resulted primarily from payments to UKE for new frequencies in the 800 MHz and 2600 MHz spectrum in the amount of PLN 1,704.4 million in the nine-month period ended September 30, 2016, compared to proceeds from repayment of notes issued by Impera Holdings S.A. of PLN 388.3 million in the nine-month period ended September 30, 2017. Cash capital expenditures excluding cash outflows in relation to frequency reservation acquisition increased by PLN 180.0 million, or 51.9%, from PLN 347.0 million for the nine-month period ended September 30, 2016, to PLN 527.0 million for the nine-month period ended September 30, 2017, mainly due to increase in fixed assets and intangibles purchases relating to nationwide network rollout as well as an acquisition of a reservation of the 3700 MHz frequency for the period from October 1, 2017 to December 29, 2019 for the total price of PLN 81.0 million.

Net cash used in financing activities

Net cash used in financing activities increased from PLN 402.4 million for the nine-month period ended September 30, 2016 to PLN 577.8 million for the nine-month period ended September 30, 2017. This increase resulted primarily from the purchase of notes issued by Impera Holdings S.A. in the amount of PLN 2,227.9 million, repayment of Senior Secured Notes and Senior Notes in the amount of PLN 4,660.7 million partially offset by proceeds from Senior Facilities Agreement of PLN 6,443.0 million in the nine-month period ended September 30, 2017.

Results of Operations: Comparison of the Three-Month Period Ended September 30, 2017 and the Three-Month Period Ended September 30, 2016

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
Operating revenue	1,566.0	1,720.8	9.9
Service revenue	1,141.3	1,257.8	10.2
Sales of goods and other revenue	424.6	463.1	9.1
Operating expenses	(1,231.7)	(1,393.2)	13.1
Interconnection, roaming and other service costs	(381.3)	(463.6)	21.6
Contract costs, net	(91.9)	(107.9)	17.5
Cost of goods sold	(354.9)	(371.2)	4.6
General and administrative expenses	(230.1)	(266.1)	15.6
Depreciation and amortization	(173.6)	(184.4)	6.2
Other operating income	16.7	17.9	7.5
Other operating costs	(36.5)	(34.3)	(5.9)
Operating profit	314.4	311.3	(1.0)
Finance income	196.4	72.4	(63.1)
Finance costs	(80.6)	(137.0)	70.0
Profit before income tax	430.2	246.7	(42.7)
Income tax charge	(43.8)	(59.8)	36.5
Net profit for the period	386.4	186.9	(51.6)
Other comprehensive income for the period to be reclassified to profit or loss in subsequent periods	-	1.5	-
Total comprehensive income for the period	386.4	188.4	(51.3)

Operating revenue

Operating revenue increased by PLN 154.9 million, or 9.9%, from PLN 1,566.0 million for the three-month period ended September 30, 2016 to PLN 1,720.8 million for the three-month period ended September 30, 2017. This increase resulted from growth in most of the categories of revenue, primarily in retail contract usage revenue, interconnection revenue and sales of goods and other revenue.

The following table presents a breakdown of operating revenue for the periods under review along with the percentage change over the periods.

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Service revenue	1,141.3	1,257.8	10.2
Usage revenue	880.1	944.6	7.3
Retail contract revenue	685.5	731.1	6.7
Retail prepaid revenue	165.1	161.4	(2.2)
Other revenue	29.6	52.1	75.8
Interconnection revenue	261.2	313.2	19.9
Sales of goods and other revenue	424.6	463.1	9.1
Operating revenue	1,566.0	1,720.8	9.9

Retail contract usage revenue

Revenue from retail contract usage increased by PLN 45.7 million, or 6.7%, from PLN 685.5 million for the three-month period ended September 30, 2016 to PLN 731.1 million for the three-month period ended September 30, 2017. The increase was primarily due to growth in the reported contract subscriber base of 1.2 million, or 15.1%, from September 30, 2016 to September 30, 2017 due to the continued success of our subscriber acquisition and retention strategy and constant migration of customers from prepaid to contract offers. On the other hand, the revenue from retail contract usage was negatively impacted by less international roaming revenue due to new regulations introduced since June 15, 2017 (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – General regulatory environment").

Retail prepaid usage revenue

Revenue from retail prepaid usage decreased by PLN 3.7 million, or 2.2%, from PLN 165.1 million for the three-month period ended September 30, 2016 to PLN 161.4 million for the three-month period ended September 30, 2017. This decrease resulted primarily from the decrease in the reported prepaid subscriber base of 1.0 million, or 14.4%, due to the prepaid registration process in connection with the ATO act and constant migration of customers from prepaid to contract offers.

Other usage revenue

Other usage revenue increased by PLN 22.5 million, or 75.8%, from PLN 29.6 million for the three-month period ended September 30, 2016 to PLN 52.1 million for the three-month period ended September 30, 2017. This increase resulted mainly from the increase in revenue from the wholesale agreements with our MVNO partners.

Interconnection revenue

Interconnection revenue increased by PLN 52.0 million, or 19.9%, from PLN 261.2 million for the three-month period ended September 30, 2016 to PLN 313.2 million for the three-month period ended September 30, 2017, as a result of growing volume of incoming traffic to our network from other network operators due to the increase in our subscriber base and increased usage of services by subscribers of other MNOs.

Sales of goods and other revenue

Revenue from sales of goods and other revenue increased by PLN 38.5 million, or 9.1%, from PLN 424.6 million for the three-month period ended September 30, 2016 to PLN 463.1 million for the three-month period ended September 30, 2017. This increase resulted primarily from the increase in sales of devices to newly acquired and retained subscribers.

Operating expenses

Operating expenses increased by PLN 161.4 million, or 13.1%, from PLN 1,231.7 million for the three-month period ended September 30, 2016 to PLN 1,393.2 million for the three-month period ended September 30, 2017. This increase resulted from increase in all categories but primarily from increase in interconnection, roaming and other services costs and general and administrative expenses.

Interconnection, roaming and other services costs

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Interconnection costs	(285.1)	(328.6)	15.3
National roaming/network sharing	(47.3)	(50.1)	6.1
Other service costs	(48.9)	(84.9)	73.4
Interconnection, roaming and other service costs	(381.3)	(463.6)	21.6

Interconnection, roaming and other services costs increased by PLN 82.3 million, or 21.6%, from PLN 381.3 million for the three-month period ended September 30, 2016 to PLN 463.6 million for the three-month period ended September 30, 2017 mainly due to increase of interconnection costs of PLN 43.5 million, or 15.3%, from PLN 285.1 million for the three-month period ended September 30, 2016 to PLN 328.6 million for the three-month period ended September 30, 2017, which resulted from the growth in the volume of traffic terminated on other networks due to the increase in our subscriber base over the period as well as due to a general increase in traffic per user. The increase of other services costs of PLN 35.9 million, or 73.4%, from PLN 48.9 million for the three-month period ended September 30, 2016, to PLN 84.9 million for the three-month period ended September 30, 2017, was mainly impacted by new international roaming regulations introduced since June 15, 2017 (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – General regulatory environment").

Contract costs, net

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Contract costs incurred	(123.8)	(108.5)	(12.3)
Contract costs capitalized	131.3	101.3	(22.8)
Amortization and impairment of contract costs	(99.3)	(100.7)	1.4
Contract costs, net	(91.9)	(107.9)	17.5

Contract costs, net increased by PLN 16.0 million, or 17.5%, from PLN 91.9 million for the three-month period ended September 30, 2016 to PLN 107.9 million for the three-month period ended September 30, 2017, mainly due to further growth of the contract customer base.

Cost of goods sold

Cost of goods sold increased by PLN 16.3 million, or 4.6%, from PLN 354.9 million for the three-month period ended September 30, 2016, to PLN 371.2 million for the three-month period ended September 30, 2017, mainly due to increased number of devices sold to acquired and retained customers.

General and administrative expenses

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Salaries and social security	(54.8)	(56.2)	2.5
Special bonuses and retention programs	(15.6)	(23.8)	53.0
Employee benefits	(70.4)	(80.0)	13.7
Network maintenance, leased lines and energy	(30.3)	(34.3)	13.3
Advertising and promotion expenses	(54.8)	(37.1)	(32.4)
Customer relations costs	(16.8)	(17.1)	2.0
Office and points of sale maintenance	(4.0)	(4.2)	4.6
IT expenses	(6.7)	(7.0)	5.0
People related costs - cars, trainings and other	(4.3)	(4.9)	11.8
Finance and legal services	(4.2)	(29.2)	598.7
Management fees	(7.8)	(14.7)	90.0
Other external services	(14.2)	(13.8)	(2.3)
External services	(143.0)	(162.3)	13.5
Taxes and fees	(16.7)	(23.7)	41.8
General and administrative expenses	(230.1)	(266.1)	15.6
General and administrative expenses excluding costs of management fees, retention programs valuation and special bonuses and other one-off costs	(203.9)	(196.5)	(3.6)

Total general and administrative expenses increased by PLN 36.0 million, or 15.6%, from PLN 230.1 million for the three-month period ended September 30, 2016 to PLN 266.1 million for the three-month period ended September 30, 2017, mainly due to increased expenses relating to finance and legal services, special bonuses and retention programs, management fees as well as taxes and fees partially offset by decreased advertising and promotion expenses.

Excluding the impact of increase in retention programs valuation and costs of special bonuses of PLN 8.2 million, increase in cost of management fees of PLN 7.0 million and increase in other one-off costs of PLN 28.2 million, general and administrative expenses decreased by PLN 7.4 million, or 3.6%, from PLN 203.9 million for the three-month period ended

September 30, 2016 to PLN 196.5 million for the three-month period ended September 30, 2017, mainly as a result of increased costs of network maintenance, leased lines and energy as well as taxes and fees.

Salaries and social security

The cost of salaries and social security for the three-month period ended September 30, 2017, increased by PLN 1.4 million, or 2.5%, compared to the three-month period ended September 30, 2016. The increase was mainly due to the increase in the number of employees due to growing scope of Group operations.

Special bonuses and retention programs

Cost resulting from the valuation of retention programs and special bonuses increased in the three-month period ended September 30, 2017 mainly due to the recognition of costs relating to VDP4 shares granted to the program members without consideration; for more information please see Note 19 to the Financial Statements included elsewhere in this Report.

External services

External services costs increased by PLN 19.4 million, or 13.5%, from PLN 143.0 million for the three-month period ended September 30, 2016 to PLN 162.3 million for the three-month period ended September 30, 2017, which was caused mainly by reasons as follows. Costs of finance and legal services increased by PLN 25.0 million due to additional costs related to the IPO process. Costs of management fees increased by PLN 7.0 million due to additional services provided in connection with the IPO process. Costs of network maintenance, leased lines and energy increased by PLN 4.0 million due to higher number of sites resulting from nationwide network rollout.

Taxes and fees

The cost of taxes and fees comprising mainly frequency reservation charges and property tax increased by PLN 7.0 million, or 41.8%, from PLN 16.7 million for the three-month period ended September 30, 2016 to PLN 23.7 million for the three-month period ended September 30, 2017, mainly due to increased non-deductible VAT.

Depreciation and amortization

Depreciation and amortization increased by PLN 10.7 million, or 6.2%, from PLN 173.6 million for the three-month period ended September 30, 2016 to PLN 184.4 million for the three-month period ended September 30, 2017. This increase resulted primarily from an increase in gross book value of assets due to completion of investment projects following the development of the Group's telecommunications network as well as due to reviewed and adjusted assets' residual values and useful lives to reflect some faster changes in telecommunications technology.

Other Operating Income and Other Operating Costs

Other operating income amounted to PLN 17.9 million for the three-month period ended September 30, 2017 and remained stable comparing to the three-month period ended September 30, 2016.

Other operating costs decreased by PLN 2.2 million, or 6.0%, for the same period under review. This decrease resulted primarily from the decrease in costs of bad debt of PLN 9.6 million due to improved recoverability of overdue receivables as well as significantly lower allowance for installment receivables due to termination of installment sales in the fourth quarter of 2016, and decreased impairment of other non-current assets of PLN 3.3 million partially offset by increased impairment of contract assets of PLN 9.8 million due to increased outstanding balance of contract assets.

Finance Income and Cost

The following table presents a breakdown of financial income and financial costs:

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Interest income	4.7	72.4	1,443.4
Interest expense	(80.6)	(101.1)	25.5
Exchange rate gains/(losses)	115.1	(35.9)	-
Net gain/(loss) on finance instruments at fair value	76.6	(0.0)	-
Finance income and costs	115.8	(64.6)	-

Interest income

Interest income increased by PLN 67.7 million from PLN 4.7 million for the three-month period ended September 30, 2016 to PLN 72.4 million for the three-month period ended September 30, 2017. This increase resulted mainly from higher amount of interest on notes issued by Impera Holdings S.A. to the Group due to increased outstanding balance of the notes receivables till July 26, 2017, when they were redeemed against the Company's share premium. Due to early repurchase of notes by Impera Holdings S.A. the Group recorded additional income: PLN 34.3 million as loan origination fees allowance and PLN 33.5 million as an early redemption fee.

Interest expense

Interest expense increased by PLN 20.6 million, or 25.5%, from PLN 80.6 million for the three-month period ended September 30, 2016 to PLN 101.1 million for the three-month period ended September 30, 2017. This increase resulted from higher average indebtedness.

Exchange rate gains or losses

Exchange rate differences changed from exchange rate gains of PLN 115.1 million for the three-month period ended September 30, 2016 to exchange rate losses of PLN 35.9 million for the three-month period ended September 30, 2017 as a result of valuation of EUR-denominated debt due to appreciation of PLN against EUR in the three-month period ended September 30, 2016, which was repaid in the first quarter of 2017.

Net gain or loss on finance instruments at fair value

In the three-month period ended September 30, 2016, net gain on finance instruments at fair value through profit or loss of PLN 76.6 million resulted from the valuation of early redemption options embedded in the Initial Fixed Rate Senior Secured Notes indenture and Senior Notes indenture.

Liquidity and Capital Resources

Cash flows

The following table summarizes net cash flows from operating, investing and financing activities for the for the three-month period ended September 30, 2017 and for the three-month period ended September 30, 2016.

	Three-month period ended		Change %
	September 30, 2016	September 30, 2017	
	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
Profit before income tax	430.2	246.7	(42.7)
Depreciation and amortization	173.6	184.4	6.2
Change in contract costs	(32.0)	(0.6)	(98.0)
Interest expense (net)	75.9	28.7	(62.2)
(Gain)/Loss on finance instruments at fair value	(76.6)	(0.0)	(100.0)
Foreign exchange (gains)/losses	(115.2)	35.7	-
Gain on disposal of non-current assets	(3.4)	(2.4)	(28.6)
Impairment of non-current assets	3.3	(0.0)	-
Change in provisions and retention programs	(8.6)	(240.1)	2,702.8
Changes in working capital and other	(34.8)	21.8	-
Change in contract assets	65.6	(108.0)	-
Change in contract liabilities	13.9	(0.9)	-
Interest received	0.0	0.2	3,825.0
Income tax paid	(0.4)	(12.8)	3,180.0
Net cash provided by operating activities	491.6	152.6	(69.0)
Proceeds from sale of non-current assets	1.4	1.5	13.0
Purchase of fixed assets and intangibles and prepayments for assets under construction	(130.3)	(242.6)	86.2
Loans given	(17.9)	-	(100.0)
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	(71.3)	-	(100.0)
Net cash used in investing activities	(218.1)	(241.1)	10.5
Proceeds from equity increase	-	285.4	-
Proceeds from finance liabilities	20.0	-	(100.0)
Repaid finance liabilities and paid costs relating to finance liabilities	(193.4)	(135.2)	(30.1)
Purchase of notes issued by Impera Holdings S.A.	-	(0.9)	-
Net cash provided by/(used in) financing activities	(173.4)	149.2	-
Net change in cash and cash equivalents	100.1	60.7	(39.3)
Effect of exchange rate change on cash and cash equivalents	0.1	0.1	47.1
Cash and cash equivalents at the beginning of the period	(132.6)	270.8	-
Cash and cash equivalents at the end of the period	(32.4)	331.7	-

Net cash provided by operating activities

Net cash provided by operating activities decreased by PLN 339.1 million, or 69.0%, from PLN 491.6 million for the three-month period ended September 30, 2016 to PLN 152.6 million for the three-month period ended September 30, 2017 mainly due to decrease in profit before income tax of PLN 183.5 million, or 42.7%.

Change in provisions and retention programs of PLN 231.5 million was caused by repayment of incentive plans settled in the three-month period ended September 30, 2017 (please see Note 19 in our Financial Statements included elsewhere in this Report), which was offset by equity injections.

Cash flows from changes in working capital and other, change in contract costs and contract assets and contract liabilities comprised a negative change of PLN 87.8 million for the three-month period ended September 30, 2017. Following significant reduction in the volume of installment sales after October 2016, we started to report a decreasing amount of receivables which was offset by growing contract assets balance. For the three-month period ended September 30, 2017, our contract assets increased by PLN 108.0 million. Upon cancelling installment sales the balance of trade receivables remains rather stable whereas the balance of contract assets (referring to the total term of a contract) increases due to constantly growing sales of devices.

Cash flows from changes in working capital and other, change in contract costs and contract assets and contract liabilities for the three-month period ended September 30, 2017 were also impacted by the increase of balance of payables excluding investment payables of PLN 55.5 million for the three-month period ended September 30, 2017, resulted mainly from significant interconnect payables, which are invoiced and paid on an irregular basis what causes unstable balance of the payables.

Net cash used in investing activities

Net cash used in investing activities increased by PLN 23.0 million, or 10.5%, from PLN 218.1 million for the three-month period ended September 30, 2016 to PLN 241.1 million for the three-month period ended September 30, 2017, mainly due to increase in fixed assets and intangibles purchases by PLN 112.3 million relating to 800 MHz and 2600 MHz nationwide network rollout as well as an acquisition of a reservation of the 3700 MHz frequency for the period from October 1, 2017 to December 29, 2019 for the total price of PLN 81.0 million.

Net cash provided by or used in financing activities

Cash flows from financing activities changed from the net cash outflow of PLN 173.4 million for the three-month period ended September 30, 2016 to the net cash inflow of PLN 149.2 million for the three-month period ended September 30, 2017. This change resulted mainly from proceeds from equity increase of PLN 285.4 million for the three-month period ended September 30, 2017 due to issuance of new shares of PLN 114.2 million purchased for cash by Management Board of P4 in relation to new performance incentive plan and additional share premium paid in cash by Play Holdings 1 S.à r.l. (the former shareholder of the Company) of PLN 171.2 million to finance the payout of the former management retention programs.

Certain other contractual commitments

Leases

Under the current accounting policies lease liabilities resulting from contracts for long-term rentals of points of sale, office space, space for base stations, space for telecommunications cabinets at the collocation centers and dark fibers are presented as finance liabilities in the statement of financial position.

Frequency licenses

We have certain investment obligations in relation to our licenses which are discussed in Note 35 to our Financial Statements included elsewhere in this Report.

Contingent liabilities

We have certain contingent liabilities which are discussed in Note 36 to our Financial Statements included elsewhere in this Report.

Off-Balance Sheet Arrangements

As of September 30, 2017, we had no off-balance sheet arrangements.

Qualitative and Quantitative Information on Market Risks

Our activities expose us to a variety of market risks including currency, interest rate, credit and liquidity risks. Our overall risk management program focuses on minimizing the potential adverse effects of the financial risks on the performance of the Group. Financial risk is managed under policies covering specific areas such as currency risk, interest rate risk, credit risk and liquidity risk, as well as covenants provided in financing agreements.

The following sections discuss our significant exposure to market risk, however we do not address other risks that we face in the normal course of business, including country risk and legal risk.

Currency risk

A significant portion of the Group's borrowings had been historically denominated in EUR, which had exposed the Group to currency risk. In March 2017, the EUR-denominated borrowings have been replaced with PLN-denominated borrowings under the SFA – see Note 17.1.1 to our Financial Statements included elsewhere in this Report. This has significantly reduced the currency risk.

Nevertheless, the exposure to currency risk still exists because while most of the Group's revenue is earned in PLN, some operating costs are born in foreign currencies, mainly EUR. Also international roaming costs and revenue are recorded in foreign currencies, including XDR.

Currency risk management is aimed at managing within acceptable limits both the volatility of cash flows (in respect of PLN) arising from fluctuations in the exchange rate of the PLN against other currencies, and the adverse effect of movements in exchange rates on the earnings (in respect of PLN).

Currency risk of the Group is regularly monitored by the Group. The following instruments may be used to minimize the currency risk relating to the Group's foreign exchange transactions:

- forward foreign exchange contracts (also Non Delivery Forwards);
- foreign currency swaps (also Non Delivery Forwards); and
- foreign currency options with an approved currency option hedging plan.

None of the derivatives were used during the nine-month period ended September 30, 2016. During the nine-month period ended September 30, 2017, the Group had entered among others into several forward foreign exchange contracts which were used to exchange PLN into EUR for the purpose of the repayment of the EUR-denominated notes with the proceeds from PLN-denominated bank loans - see Note 17.1.1 to our Financial Statements included elsewhere in this Report (forward contracts for the purchase of EUR 940 million) and for the purpose of purchase of EUR-denominated Notes of Impera Holdings S.A. – see Note 8 to our Financial Statements included elsewhere in this Report (forward contracts for the purchase of EUR 520 million).

Interest rate risk

Historically the Group financing had comprised mainly fixed-rate borrowings and the exposure on interest rate risk had related primarily to the PLN 130,000,000 floating rate senior secured notes due 2019 ("Floating Rate Senior Secured Notes") and leases with floating interest rates. In March 2017, the fixed-rate borrowings have been replaced with floating rate borrowings – see Note 17.1.1 to our Financial Statements included elsewhere in this Report. This has increased the interest risk going forward. The risk has been partially mitigated by interest rate swaps designated to fix the interest rate in relation to 33% of the Senior Facilities Agreement amount for a three-year period.

Interest risk of the Group is regularly monitored by the Group. The following instruments may be used to minimize the interest rate risk relating to the Group:

- Forward rate agreements (FRAs);
- Interest rate swaps; and
- Interest rate options.

None of the derivatives were used during the nine-month period ended September 30, 2016. The Group entered into interest rate swaps in the nine-month period ended September 30, 2017.

Credit risk

A substantial part of the Group's receivables consists of billing receivables. The Group follows certain principles and procedures to limit the risks connected with billing and other trade receivables. These procedures include: verification of the credit quality of potential customers before signing the contract, payment monitoring, sending payment reminders, credit limits and debt collection.

In respect of the Group's cash, the Group's cash is deposited only with high credit quality financial institutions.

Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities. Going forward, our main sources of liquidity will be cash generated through operations as well as amounts available under our Senior Facilities Agreement (PLN 400.0 million revolving credit facility) and other working capital facilities which we currently have (Bank Zachodni WBK Overdraft Facility and Millennium Overdraft Facility) or may enter into as permitted by Senior Facilities Agreement.

The table below presents the maturity of bank loans, notes, leases and other debt in contractual values (i.e. excluding the impact of nominal expenses incurred in relation to the loan and the liability), increased by projected value of interest payments. Values are not discounted. The amounts of bank loans which are not drawn, are not shown below.

September 30, 2017, unaudited PLN in millions

	Liabilities (including projected interest) payable within:			Total
	1 year	2 to 5 years	over 5 years	
Bank loans	697.0	5,766.6	1,300.6	7,764.1
Lease	184.1	551.6	517.1	1,252.7
Other debt	9.5	12.6	-	22.1
	890.5	6,330.8	1,817.6	9,039.0

December 31, 2016 PLN in millions

	Liabilities (including projected interest) payable within:			Total
	1 year	2 to 5 years	over 5 years	
Notes	252.9	4,948.3	-	5,201.3
Lease	179.0	530.2	466.0	1,175.3
Other debt	1.2	1.5	-	2.7
	433.1	5,480.1	466.0	6,379.2

All trade payables are due within one year from the end of the reporting period. All other non-current liabilities are due within over 5 years from the end of the reporting period.

Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, in order to provide benefits for shareholders and other stakeholders as well as to maintain an optimal capital structure to reduce the cost of capital.

Critical Accounting Policies, Estimates and Judgments

The preparation of consolidated financial statements in conformity with IFRS with early adoption of IFRS 15 and IFRS 16 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates. The estimates and assumptions that bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current or next financial year are discussed in Note 2.7 to our Financial Statements included elsewhere in this Report.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised as well as in any future periods affected.

ANNEX A
GLOSSARY OF TECHNICAL TERMS

Unless otherwise required by the context, the following definitions shall apply throughout the document:

1800 MHz.....	A frequency band, used particularly in Europe, Asia Pacific and Australia. In Europe, typically employed for 2G and 4G LTE mobile network technologies.
2100 MHz.....	A frequency band, used particularly in Europe, Asia Pacific and Australia. In Europe, typically employed for 3G mobile network technologies.
2G.....	Second generation cellular telecom networks commercially launched on the GSM standard in Europe.
3G.....	Third generation cellular telecom networks that allow simultaneous use of voice and data services, and provide high speed of data access using a range of technologies at top speeds varying from 384 Kbps (UMTS) to 42 Mbps (HSPA+).
4G.....	Fourth generation cellular telecom networks that allow simultaneous use of voice and data services, and provide high speed of data access using a range of technologies (these speeds exceed those available for 3G).
900 MHz	A frequency band, used particularly in Europe and Asia Pacific. In Europe, typically employed for 2G and 3G mobile network technologies.
Airtime	Time spent communicating using a handset.
All-net	Within all networks.
Bit.....	The primary unit of electronic, digital data, representing 1 binary digit (a "1" or a "0.")
Broadband (BB)	A descriptive term for evolving digital technologies that provide consumers with a signal-switched facility offering integrated access to voice, high-speed data service, video-on-demand services and interactive delivery services (with capacity equal to or higher than 144 Kbps).
BTS.....	Base Transceiver Station. A radio transmitter/receiver of GSM network, provides communication between mobile and remaining part of network.
Byte	The byte is a unit of digital information in computing and telecommunications that most commonly consists of eight bits.
CAGR	Compound Annual Growth Rate. The year over year growth rate of a metric over a specified period of time.
Call termination	The handing off of a voice call from the network upon which the call was initiated to the network upon which the intended recipient is currently residing. This usually gives rise to MTRs.
CIT Act.....	The Polish Corporate Income Tax Act of February 15, 1992 (consolidated text in Dz. U. of 2011, No. 74, Item 397, as amended).
Companies Code	The Polish Companies Code of September 15, 2000 (Dz. U. of 2000, No. 94, Item 1037, as amended).
Competition Act.....	The Polish Act on the Protection of Competition and Consumers of February 16, 2007 (Dz. U. of 2007, No 50, Item 331, as amended).
coverage	We define coverage, unless otherwise indicated, as the area in which cellular radio signal is strong enough to provide normal operation of a standard user handset, modem or other device.
CSO	The Central Statistical Office of Poland (Główny Urząd Statystyczny).

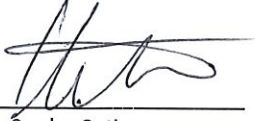
Devices	Handsets, modems, routers, MCDs (Mobile Computing Devices, e.g., tablets, laptops, netbooks) and other equipment sold to subscribers.
DSL, xDSL.....	Digital Subscriber Line. Access technology that allows voice and high- speed data to be sent simultaneously over local exchange copper wires. DSL technologies are also called xDSL, where “x” is a substitute of the first letter of certain technology covered by DSL technologies, including ADSL, HDSL, SDSL, CDSL, RADSL, VDSL, IDSL or other technologies.
EDGE.....	Enhanced Data rates for GSM Evolution. Technology of data transmission for 2G network allowing for speed up to 384 Kbps (thus faster than basic GPRS and slower than 3G).
Ethernet	Standard for 10 Mbps local area networks.
Frequency	One of the parameters of radio waves, usually understood as a location on the radio frequency spectrum, the capacity of which is limited.
GB	Gigabyte. Unit of measurement of the volume of data. Equal to 1,024 MB (Megabytes) or 1,073,741,824 B (bytes).
Gb.....	Gigabit. Unit of measurement of the volume of data. Equal to 1,024 Mb (Megabits) or 1,073,741,824 b (bits).
Gbps	Gigabits per second. Measurement of the transmission speed of units of data (gigabits) over a network.
GDP	Gross Domestic Product.
GPRS	General Packet Radio Service. Packet Data transmission customarily used for 2G networks, which allows for a transmission with the speed up to 57.6 Kbps.
GSM.....	Global System for Mobile Communications. A pan-European standard for digital mobile telephony which provides a much higher capacity than traditional analog telephones as well as diversified services (e.g. voice, messaging and data) and a greater transmission security through information.
HSDPA	High-Speed Downlink Packet Access. 3G/UMTS technology enhancements, allowing for fast data transmission from network to mobile device. Supports speeds of up to 14.4 Mbps (depending on the technology used).
HSPA	High-Speed Packet Access. A mix of two mobile telephony protocols, high- speed download Packet Access (HSDPA) and High-Speed Uplink Packet Access (HSUPA) that extends and improves the performance of existing protocols.
HSPA+	Evolved High-Speed Packet Access. A set of 3G/UMTS technology enhancements allowing for very fast data transmission between network and mobile device. Supports speeds of up to 42 Mbps from network to mobile devices and up to 11 Mbps from mobile devices to network.
Interconnection	Point of interconnection between two telecommunication operators. Consists of equipment, including links, and a mutually compatible configuration.
IP.....	Internet Protocol.
IT.	Information Technology.
Kbps	Kilobits per second. Measurement of the transmission speed of units of data (kilobits) over a network.
LAN	Local Area Network.

LTE	Long-Term Evolution. A set of enhancements to UMTS, designed to increase the capacity and speed of mobile telephone networks according to the standard developed by 3GPP consortium. Intended as a successor of UMTS thus frequently referred to as "4G" or "4 th generation." Some of the key assumptions of the system are: (i) data transmission at speeds faster than 3G; (ii) ready for new service types; (iii) architecture simplified with comparison to 3G; and (iv) provides open interfaces.
MB	Megabyte. Unit of measurement of the volume of data. Equal to 1,048,576 B (bytes).
Mb	Megabit. Unit of measurement of the volume of data received or sent over a network. Equal to 1,048,576 b (bits).
Mbps	Megabits per second. Measurement of the transmission speed of units of data (megabits) over a network.
MHz	Megahertz.
MMS	Multimedia Messaging Service.
MNO	Mobile Network Operator. A provider of wireless services with its own reserved frequency spectrum and wireless network infrastructure.
MNP	Mobile Number Portability. The migration of a subscriber from one network to another network while keeping the same telephone number.
Mobile Broadband.....	Wireless internet access through a portable (USB, or WiFi) or built-in modem, used with laptop tablet or other mobile device.
MTR.....	Mobile Termination Rate. A voice, or SMS or MMS, as applicable termination charge levied against the origination network by the receiving network at a rate that is agreed between the two networks. The MTR is usually subject to regulatory limits.
MVNO	Mobile Virtual Network Operator. A company that does not own a reserved frequency spectrum, but resells wireless services under its own brand name, using the network of another MNO.
NBP	The National Bank of Poland, being the central bank of Poland.
Netia.....	Netia S.A. with its registered office in Warsaw, Poland, a Polish telecommunications operator operating under the Netia brand.
On-net.....	Within the given telecommunication network.
Orange.....	Orange Polska S.A., with its registered office in Warsaw, Poland, a Polish telecommunications operator operating under the Orange brand.
Penetration	In general, we define penetration as the ratio of reported SIM cards that have access to mobile telecommunications network services to the number of persons constituting the entire population of the country. With respect to smartphones we define the smartphone penetration as the ratio of subscribers who use smartphones compared to the total base of our active subscribers. The penetration ratio is expressed as a percentage.
Plus	Polkomtel sp. z o.o. with its registered office in Warsaw, Poland, a Polish telecommunications operator operating under the Plus brand.
Pure mobile broadband access.	Mobile broadband access via a dongle.
S.A.....	Public limited liability company (Spółka Akcyjna).
SIM cards.....	SIM cards are subscriber identity modules. A SIM card is a smart card that securely stores the key identifying a handset service subscriber, as well as subscription information, preferences and text messages.

Smartphones	We define smartphones as handsets with a touchscreen or qwerty keypad working on an open operating system that enables access to an application store such as Android, iOS, Blackberry, Windows Mobile, Bada or Symbian S60.
SMS	Short Messaging Service. Enables transmissions of alphanumeric messages of up to 160 characters among fixed line and mobile subscribers and is only available on digital networks.
SoHo	Small office/Home office. Legal persons, organizational units which have no legal personality and natural persons conducting business activities and employing no more than nine (9) employees.
Sp. z o.o	Limited liability company (<i>spółka z ograniczoną odpowiedzialnością</i>).
Spectrum	A range of frequencies available for over-the-air transmission.
Telecommunications Law	Act on Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
T-Mobile	T-Mobile Polska S.A. with its registered office in Warsaw, Poland, a Polish telecommunications operator operating under the T-Mobile brand.
TP S.A.	Telekomunikacja Polska S.A. with its registered office in Warsaw, Poland, a Polish telecom operator, currently Orange Polska S.A.
Traffic	Calls or other transmissions being sent and received over a communications network.
UOKiK	Office for Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).
UOKiK President	The President of the Office for Competition and Consumer Protection.
UKE	Office of Electronic Communications (Urząd Komunikacji Elektronicznej), which supervises and regulates the Polish telecommunications market.
UKE President	The President of the Office of Electronic Communications.
UMTS	Universal Mobile Telecommunications System. A set of third-generation (3G) handset technologies.
USSD	Unstructured Supplementary Service Data. Allows for the transmission of information via a GSM network. Contrasting with SMS, it offers real time connection during a session. A USSD message can be up to 182 alphanumeric characters in length.
VAS	Value-Added Services. All services provided on mobile networks beyond standard voice calls, SMS, MMS and data transmission.
WIMAX	Worldwide Interoperability for Microwave Access. A wireless network standard with the maximum capacity of approximately 75 Mbps.



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Title: Class B director



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Title: Class C director

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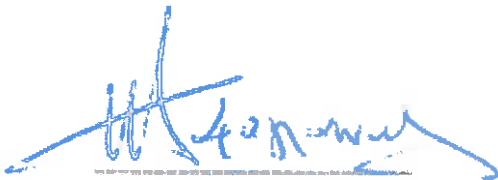
RESPONSIBILITY STATEMENT

November 13, 2017

The board of directors of the Company (the **Board**) confirms that, to the best of its knowledge:

- the interim condensed consolidated financial statements of the Company and its subsidiaries prepared in accordance with IAS 34 with early adoption of IFRS 15 and IFRS 16 as at and for the nine-month period ended September 30, 2017 give a true and fair view of the assets, liabilities, financial position and results of the Company and its subsidiaries included in the consolidation taken as a whole; and
- the director's report on the activity of the Company and its subsidiaries in the nine-month period ended September 30, 2017 provides a fair view of the important events of the past nine-month period and their impact on the interim condensed consolidated financial statements, as well as the principal risks and uncertainties for the remaining months of the financial year, and the most important related party transactions.

Approved by the Board and signed on its behalf by



Name: Ioannis Karagiannis
Title: Class B director



Name: Serdar Çetin
Title: Class C director



Building a better
working world

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Independent Auditor's Report on review of interim condensed consolidated financial statements to the Shareholders of Play Communications S.A.

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Play Group ('the Group') for which the holding company is Play Communications S.A. as of 30 September 2017 and the related interim condensed consolidated statement of financial position as at 30 September 2017, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows for the nine-month period then ended and other explanatory notes ('the interim condensed consolidated financial statements').

Responsibilities of the Group's Management for the financial statements

The Group's Management is responsible for the preparation and fair presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' ('IAS 34'), with the early adoption of IFRS 15 and IFRS 16. The Group's Management is also responsible for such internal control as the Management determines is necessary to enable preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. We conducted our review in accordance with International Standard on Review Engagements ('ISRE') 2400 (Revised), 'Engagements to Review Historical Financial Statements', which requires us to conclude whether anything has come to our attention that causes us to believe that the interim condensed consolidated financial statements, taken as a whole, are not prepared in all material respects in accordance with IAS 34, with the early adoption of IFRS 15 and IFRS 16. This Standard also requires us to comply with relevant ethical requirements.

A review of the interim condensed consolidated financial statements in accordance with ISRE 2400 (Revised) is a limited assurance engagement, primarily consisting of performing procedures by making inquiries of the Management and others within the Group, as appropriate, applying analytical procedures and evaluating the evidence obtained.

The procedures performed in a review are substantially less in scope than those performed in an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on these interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements do not present fairly, in all material respects, the financial position of the Group as at 30 September 2017, and its financial performance and cash flows for the nine-month period then ended, in accordance with IAS 34, with the early adoption of IFRS 15 and IFRS 16.

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Partner

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Warsaw, 13 November 2017

Play Communications S.A.
and its subsidiaries

Interim condensed
consolidated financial statements

Prepared in accordance with IAS 34
with early adoption of IFRS 15 and IFRS 16

As at and for the nine-month period
ended September 30, 2017

PLAY

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Interim condensed consolidated statement of financial position

	Notes	September 30, 2017 Unaudited	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	3	1,253,535	1,089,437
Right-of-use assets	4	796,830	745,509
Intangible assets	5	2,632,975	2,628,786
Assets under construction	6	324,763	540,416
Contract costs	7	352,211	350,681
Long-term finance receivables	8	-	341,001
Other long-term receivables	9	13,485	12,164
Other long-term finance assets	10	1,592	134,246
Deferred tax asset	30	8,399	134,446
Total non-current assets		5,383,790	5,976,686
Current assets			
Inventories	11	187,166	149,685
Short-term finance receivables	8	-	274
Trade and other receivables	12	1,106,585	1,259,939
Contract assets	13	1,267,506	997,780
Current income tax receivables		34,736	-
Prepaid expenses	14	30,092	21,239
Cash and cash equivalents	15	331,718	340,994
Total current assets		2,957,803	2,769,911
TOTAL ASSETS		8,341,593	8,746,597
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	16	128	52
Share premium	16	3,673,350	5,644,191
Other reserves	10, 19	20,278	-
Retained losses		(4,057,180)	(4,301,631)
Total equity		(363,424)	1,342,612
Non-current liabilities			
Long-term finance liabilities - debt	17	6,697,080	5,176,417
Long-term provisions	18	54,669	47,520
Long-term retention programs liabilities	19	7,712	150,064
Deferred tax liability	30	318	314
Other non-current liabilities		10,026	10,873
Total non-current liabilities		6,769,805	5,385,188
Current liabilities			
Short-term finance liabilities - debt	17	573,756	277,150
Other short-term finance liabilities	10	7,386	-
Trade and other payables	20	957,962	1,177,581
Contract liabilities		32,946	44,933
Current income tax payable		16,176	173,759
Accruals	21	42,258	54,429
Short-term provisions	18	43	1,006
Short-term retention programs liabilities	19	7,780	17,740
Deferred income	22	296,905	272,199
Total current liabilities		1,935,212	2,018,797
TOTAL LIABILITIES AND EQUITY		8,341,593	8,746,597

Interim condensed consolidated statement of comprehensive income

	Notes	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Operating revenue	23	4,930,346	1,720,843	4,497,368	1,565,955
Service revenue		3,631,892	1,257,774	3,315,719	1,141,343
Sales of goods and other revenue		1,298,454	463,069	1,181,649	424,612
Operating expenses		(4,180,734)	(1,393,150)	(3,499,094)	(1,231,718)
Interconnection, roaming and other service costs	24	(1,262,323)	(463,615)	(1,098,347)	(381,271)
Contract costs, net	25	(321,638)	(107,909)	(294,381)	(91,865)
Cost of goods sold		(1,010,608)	(371,205)	(1,019,085)	(354,883)
General and administrative expenses	26	(992,548)	(266,056)	(615,612)	(230,076)
Depreciation and amortization	27	(593,617)	(184,365)	(471,669)	(173,623)
Other operating income	28	53,277	17,931	53,291	16,681
Other operating costs	28	(56,243)	(34,349)	(122,103)	(36,486)
Operating profit		746,646	311,275	929,462	314,432
Finance income	29	172,722	72,416	107,061	196,360
Finance costs	29	(555,488)	(136,991)	(304,539)	(80,575)
Profit before income tax		363,880	246,700	731,984	430,217
Income tax charge	30	(119,429)	(59,781)	(169,471)	(43,803)
Net profit for the period		244,451	186,919	562,513	386,414
Other comprehensive income/(loss) for the period to be reclassified to profit or loss in subsequent periods	10	(2,896)	1,450	-	-
Total comprehensive income for the period		241,555	188,369	562,513	386,414
Earnings per share (in PLN) (basic equals diluted)	31	0.97	0.74	2.25	1.54
Weighted average number of shares (in thousands) (basic equals diluted)	31	251,296	252,803	250,538	250,538

No net profit for the current and comparative period was attributable to non-controlling interest. No total comprehensive income for the current and comparative period was attributable to non-controlling interest.

Interim condensed consolidated statement of changes in equity

	Attributable to the Company's shareholders					Notes
	Share capital	Share premium	Other reserves	Retained losses	Total equity	
As at January 1, 2017	52	5,644,191	-	(4,301,631)	1,342,612	
Net profit for the period	-	-	-	244,451	244,451	
<u>Other comprehensive income:</u>						
Effect of valuation of finance assets and liabilities at fair value through other comprehensive income	-	-	(2,896)	-	(2,896)	10
Total comprehensive income for the period	-	-	(2,896)	244,451	241,555	
Issue of shares	76	114,123	-	-	114,199	16
Issue of shares without consideration (VDP4 Original shares)	0	-	19,379	-	19,379	19
Effect of valuation of equity-settled retention programs	-	-	3,795	-	3,795	19
Increase of share premium	-	171,184	-	-	171,184	16
Redemption of share premium	-	(2,256,148)	-	-	(2,256,148)	16
As at September 30, 2017, unaudited	128	3,673,350	20,278	(4,057,180)	(363,424)	

	Attributable to the Company's shareholders					Notes
	Share capital	Share premium	Other reserves	Retained losses	Total equity	
As at January 1, 2016	52	5,644,191	-	(5,013,619)	630,624	
Net profit for the period	-	-	-	562,513	562,513	
As at September 30, 2016, unaudited	52	5,644,191	-	(4,451,106)	1,193,137	

Interim condensed consolidated statement of cash flows

	Notes	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Profit before income tax		363,880	246,700	731,984	430,217
Depreciation and amortization		593,617	184,365	471,669	173,623
Change in contract costs		(1,530)	(638)	(32,671)	(31,959)
Interest expense (net)		271,867	28,712	239,338	75,883
(Gain)/Loss on finance instruments at fair value		169,518	(11)	(93,655)	(76,550)
Foreign exchange (gains)/losses		(58,862)	35,729	51,693	(115,205)
Gain on disposal of non-current assets		(4,618)	(2,416)	(7,736)	(3,384)
Impairment of non-current assets		3,002	(27)	5,293	3,309
Change in provisions and retention programs		(130,306)	(240,089)	(24,517)	(8,566)
Changes in working capital and other	33	98,875	21,809	(345,322)	(34,841)
Change in contract assets		(269,726)	(108,033)	66,606	65,589
Change in contract liabilities		(11,987)	(892)	12,632	13,898
Cash provided by operating activities		1,023,730	165,209	1,075,314	492,014
Interest received		157	157	81	4
Income tax paid		(184,982)	(12,792)	(51,862)	(390)
Net cash provided by operating activities		838,905	152,574	1,023,533	491,628
Proceeds from sale of non-current assets		2,606	1,543	5,084	1,365
Proceeds from loans given	8	18,335	-	-	-
Proceeds from debt securities (Repayment of notes by Impera Holdings S.A.)	8	388,250	-	-	-
Purchase of fixed assets and intangibles and prepayments for assets under construction		(610,614)	(242,594)	(2,056,561)	(130,271)
Loans given		-	-	(17,851)	(17,851)
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	8	(68,922)	-	(141,056)	(71,323)
Net cash used in investing activities		(270,345)	(241,051)	(2,210,384)	(218,080)
Proceeds from equity increase		285,382	285,382	-	-
Proceeds from finance liabilities	34	6,443,000	-	385,000	20,000
Repaid finance liabilities and paid costs relating to finance liabilities	34	(5,078,267)	(135,224)	(787,412)	(193,417)
Purchase of notes issued by Impera Holdings S.A.	8, 34	(2,227,933)	(940)	-	-
Net cash provided by/(used in) financing activities		(577,818)	149,218	(402,412)	(173,417)
Net change in cash and cash equivalents		(9,258)	60,741	(1,589,263)	100,131
Effect of exchange rate change on cash and cash equivalents		(28)	128	102	87
Cash and cash equivalents at the beginning of the period		340,994	270,839	1,556,801	(132,578)
Cash and cash equivalents at the end of the period	32	331,708	331,708	(32,360)	(32,360)

Notes

1. The Company and the Play Group

Play Communications S.A. (the "Company") was incorporated under Luxembourg law on January 10, 2014 under the name Play Holdings 2 S. à r. l. The Company's registered office is in Luxembourg. On June 21, 2017, the Company was transformed from a private limited liability company (*société à responsabilité limitée*) Play Holdings 2 S. à r. l. to a public limited liability company (*société anonyme*) Play Communications S.A. The Company's ordinary shares have been listed and traded on the Warsaw Stock Exchange ("WSE") since July 27, 2017. For shareholding structure please see Note 16.

The Company and its subsidiaries (together, the "Play Group" or the "Group") operate in the mobile telecommunications sector in Poland.

The Group's business activity embraces the provision of mobile telecommunications services and managing a distribution network of mobile telecommunications products under the brand "PLAY".

These interim condensed consolidated financial statements comprise:

- interim condensed consolidated statement of financial position;
- interim condensed consolidated statement of comprehensive income;
- interim condensed consolidated statement of changes in equity;
- interim condensed consolidated statement of cash flows;
- summary of significant accounting policies and other notes

as at and for the nine-month period ended September 30, 2017, further "consolidated financial statements".

The consolidated financial statements include the accounts of the Company and the following subsidiaries held directly and indirectly:

Entity	Location	Principal activity	Ownership and percentage of voting rights	
			As at September 30, 2017	As at December 31, 2016
Play Finance 1 S.A.	Luxembourg	Financing	100%	100%
Play Finance 2 S.A.	Luxembourg	Financing	100%	100%
P4 Sp. z o.o.	Poland	Operating	100%	100%
3GNS Sp. z o.o.	Poland	Holding	100%	100%
Play 3GNS Spółka z ograniczoną odpowiedzialnością sp. k.	Poland	Brand management	100%	100%
Tonhil Investments S.A.	Poland	Holding	100%	100%

P4 Sp. z o.o. ("P4") is a mobile network operator in Poland. Since March 16, 2007 P4 has been providing mobile telecommunications services using the brand "PLAY".

2. Summary of significant accounting policies

2.1 Basis of preparation

These interim condensed consolidated financial statements were prepared in accordance with IAS 34 "Interim Financial Reporting" with early adoption of IFRS 15 and IFRS 16. The accounting policies applied in these interim condensed consolidated financial statements are consistent with the policies applied and described in the consolidated financial statements of the Group as at and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16, issued on January 31, 2017 and included in the Prospectus approved by Luxembourg Financial Supervision Authority (*Commission de Surveillance du Secteur Financier, "CSSF"*) on June 30, 2017, except for new standards, interpretations and amendments to existing standards adopted from January 1, 2017 as described below. For the purpose of these interim condensed consolidated financial statements the Group has adopted the following standards, amendments to standards and interpretations issued and effective as at September 30, 2017:

New regulation	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Early adoption	Group's assessment of the regulation
Amendments to IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 19, 2016	January 1, 2017	Not endorsed yet ¹	-	Fully implemented
Amendments to IAS 7 Disclosure Initiative	January 29, 2016	January 1, 2017	Not endorsed yet ¹	-	Fully implemented
Clarifications to IFRS 15 Revenue from Contracts with Customers	April 12, 2016	January 1, 2018	Not endorsed yet ¹	-	Fully implemented; early adopted

The following new standards, amendments to standards and interpretations have been issued but are not effective for the nine-month period ended September 30, 2017 and have not been adopted early:

New regulation	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Early adoption	Group's assessment of the regulation
IFRS 14 'Regulatory Deferral Accounts'	January 30, 2014	January 1, 2016	The European Commission has decided not to launch the endorsement process of this interim standard and to wait for the final standard	-	Assessment postponed
Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	September 11, 2014	Deferred indefinitely by IASB	Endorsement process postponed by the EU	-	Assessment postponed
IFRS 9: 'Financial Instruments'	July 24, 2014	January 1, 2018	January 1, 2018	Permitted	Assessment in progress - please see below
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 12, 2016	January 1, 2018	Not endorsed yet ¹	-	Assessment in progress

¹ The endorsement by the European Union of this regulation was announced in the Official Journal of the European Union of November 9, 2017 and is expected to come into force on the twentieth day following that of its publication.

Play Communications S.A. and its subsidiaries
Interim condensed consolidated financial statements prepared in accordance with IAS 34 with early adoption of IFRS 15 and IFRS 16
As at and for the nine-month period ended September 30, 2017
(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

New regulation	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Early adoption	Group's assessment of the regulation
Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions	June 20, 2016	January 1, 2018	Not endorsed yet	-	Assessment in progress
Annual Improvements to IFRS Standards 2014-2016 Cycle	December 8, 2016	January 1, 2018 (Amendments to IFRS 1 and IAS 28) / January 1, 2017 (Amendments to IFRS 12)	Not endorsed yet	-	Assessment in progress
IFRIC 22 Foreign Currency Transactions and Advance Consideration	December 8, 2016	January 1, 2018	Not endorsed yet	-	Assessment in progress
Amendments to IAS 40: Transfers of Investments Property	December 8, 2016	January 1, 2018	Not endorsed yet	-	Assessment in progress
IFRIC 23 Uncertainty over Income Tax Treatments	June 7, 2017	January 1, 2019	Not endorsed yet	-	Assessment in progress
IFRS 17 'Insurance contracts'	May 18, 2017	January 1, 2021	Not endorsed yet	Permitted if IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers' are applied at the adoption date or earlier	Assessment in progress
Amendments to IFRS 9: Prepayment Features with Negative Compensation	October 12, 2017	January 1, 2019	Not endorsed yet	-	Assessment in progress
Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures	October 12, 2017	January 1, 2019	Not endorsed yet	-	Assessment in progress

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual consolidated financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16. The Group has applied IFRS 16: 'Leases' in these interim condensed consolidated financial statements although the standard had not been endorsed by the European Union before their issuance because the Group believes that recognition of leases as required by the standard better reflects the liabilities and assets as well as costs related to the lease agreements which the Group had entered into. Also, the Group believes that the consistency between the annual financial statements included in the Prospectus and the interim condensed consolidated financial statements in terms of accounting standards applied is crucial for understanding of the financial position and performance of the Group and its development from the year end over the consecutive quarters. The adoption of IFRS 16 by the European Union was announced in the Official Journal of the European Union of November 9, 2017 and is expected to come into force on the twentieth day following that of its publication.

These interim condensed consolidated financial statements were approved for issuance by the Board of Directors of the Company on November 13, 2017.

The Play Group's activities are not subject to significant seasonal or cyclical trends.

The consolidated financial statements are prepared under the historical cost convention except for liabilities or equity relating to retention programs and derivatives which are valued at fair value (whereas equity-settled retention programs are measured at fair value at the grant date).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below and in Note 2.7.

Going concern

The consolidated financial statements disclose all matters of which the Group is aware and which are relevant to the Group's ability to continue as a going concern, including all significant events, mitigating factors and the Group's plans. Although the Group presents negative shareholders equity, the Group generates positive operating cash flows and has secured financing of further development of telecommunications infrastructure. Accordingly, the consolidated financial statements have been prepared on a basis which assumes that the Group will continue as a going concern and which contemplates the recoverability of assets and the satisfaction of liabilities and commitments in the normal course of business.

Assessment of impact of IFRS 9

The Group plans to adopt IFRS 9 'Financial Instruments' on the required effective date. So far the Group has performed a high-level assessment of the impact of all three aspects of IFRS 9: classification and measurement, impairment, hedge accounting. This preliminary assessment is based on currently available information and may be subject to changes arising from further detailed analysis or additional reasonable and supportable information which might be available to the Group in the future. Overall, the Group expects no significant impact on its statement of financial position or equity except for the effect of applying the impairment requirements of IFRS 9.

2.2 New accounting policies

Derivative instruments designated as hedges

Derivative financial instruments designated as hedging instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their current fair value.

On the date a derivative contract is entered into, the Group designates certain derivatives as either

- (i) a hedge of the fair value of a recognized assets or liabilities (fair value hedge), or
- (ii) a hedge of a highly probable forecast transactions (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as their risk management objective and strategy for undertaking hedge transaction. This process includes linking all derivatives designed as hedges to specific firm commitments or forecast transaction. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transaction are highly effective in offsetting changes in fair values or cash flow hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized in the income statement.

When a hedging instruments expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in equity and is recognized in the income statement when the planned transaction occurs. When a planned transaction is no longer expected to

occur, the cumulative gain or loss that was recognized in other comprehensive income is immediately transferred to the income statement.

The fair values of interest rate swaps used for cash flow hedge are disclosed in Note 10. Movements of the reserve capital are disclosed in Interim condensed consolidated statement of changes in equity.

The fair value of a hedging derivative is classified as non-current assets or non-current liabilities if the remaining maturity of the hedged item is more than twelve months and as current assets or current liabilities, if the maturity of the hedged items is less than twelve months.

The fair values of the interest rate swaps are calculated by discounting the future cash flows of both the fixed rate and variable rate interest payments. The inputs used in determining the fair value fall within Level 2 of the fair value hierarchy (inputs observable for an asset or liability, either directly or indirectly, other than quoted prices in active markets for identical assets or liabilities).

Equity-settled share-based retention programs

During the nine-month period ended September 30, 2017, the Group has established equity-settled share-based retention programs. Membership in programs is granted to Members of the Management Board of P4 and key personnel of the Group. The members of the programs are entitled to receive Company's shares if certain conditions are met.

The equity relating to share-based retention programs is measured at the fair value at the grant date by applying a Monte Carlo simulation model. For significant accounting estimates in relation to valuation of the programs please see Note 2.7.2. Cost is recognized in the statement of comprehensive income in accordance with vesting conditions, which are described in Note 19.

2.3 Consolidation

Subsidiaries, i.e. those entities which the Play Group has a control over, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee,
- rights arising from other contractual arrangements,
- the Group's voting rights and potential voting rights.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control over the subsidiary. If the Group loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity while any resultant gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

The Group's investment in associate, an entity in which the Group has significant influence, is accounted for using the equity method.

Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated, unrealized losses are also eliminated unless cost cannot be recovered. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Play Group.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date at fair value and the amount of any non-controlling interest in the acquiree. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired

is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

Items included in the financial statements of each of the Play Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Polish Złoty ("PLN"), which is the Company's presentation and functional currency, due to the fact that the operating activities of the Group are conducted in Poland.

2.4.2 Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transactions which might comprise:

- the average spot exchange rate for a given currency as determined by the National Bank of Poland as at the date preceding the date of transaction – in case of settlements of receivables and payables and other transactions,
- the actual spot rate applied as at this date resulting from the type of transaction - in case of foreign currency purchases and sales.

At the end of the reporting period monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate determined by the National Bank of Poland as at the end of the reporting period:

Currency	September 30, 2017	December 31, 2016
EUR	4.3091	4.4240
GBP	4.8842	5.1445
USD	3.6519	4.1793
XDR	5.1649	5.6716

Equity items are presented at historical rates, i.e. rates as at the date of equity contribution. Movements of equity are valued using the first-in first-out method.

The foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit or loss.

Exchange differences arising from foreign currency borrowing directly attributable to the construction of property, plant and equipment and development of intangible assets are eligible for capitalization to the extent that they are regarded as an adjustment to interest costs.

2.5 Financial risk management

The Play Group's overall risk management program focuses on minimizing the potential adverse effects of the financial risks on the performance of the Group. The financial risk is managed under policies covering specific areas such as currency risk, interest rate risk, credit risk and liquidity risk, as well as covenants provided in financing agreements.

2.5.1 Currency risk

A significant portion of the Group's borrowings had been historically denominated in EUR, which had exposed the Group to currency risk. In March 2017, the EUR-denominated borrowings have been replaced with PLN-denominated borrowings – see Note 17.1.1. This has significantly reduced the currency risk.

Nevertheless, the exposure to currency risk still exists because while most of the Group's revenue is earned in PLN, some operating costs are born in foreign currencies, mainly EUR. Also international roaming costs and revenue are recorded in foreign currencies, including XDR.

Currency risk management is aimed at managing within acceptable limits both the volatility of cash flows (in respect of PLN) arising from fluctuations in the exchange rate of PLN against other currencies, and the adverse effect of movements in exchange rates on the earnings (in respect of PLN).

Currency risk of the Group is regularly monitored by the Group. The following instruments may be used to minimize the currency risk relating to the Group's foreign exchange transactions:

- forward foreign exchange contracts (also Non Delivery Forwards);
- foreign currency swaps (also Non Delivery Forwards);
- foreign currency options with an approved currency option hedging plan.

None of the derivatives were used during the nine-month period ended September 30, 2016. During the nine-month period ended September 30, 2017, the Group had entered among others into several forward foreign exchange contracts which were used to exchange PLN into EUR for the purpose of the repayment of the EUR-denominated notes with the proceeds from PLN-denominated bank loans - see Note 17.1.1 (forward contracts for the purchase of EUR 940,000 thousand) and for the purpose of purchase of EUR-denominated Notes of Impera Holdings S.A. - see Note 8 (forward contracts for the purchase of EUR 520,000 thousand).

2.5.2 Interest rate risk

Historically the Group financing had comprised mainly fixed-rate borrowings and the exposure on interest rate risk had related primarily to the Floating Rate Senior Secured Notes and leases with floating interest rates. In March 2017, the fixed-rate borrowings have been replaced with floating rate borrowings - see Note 17.1.1. This has increased the interest risk going forward. The risk has been partially mitigated by interest rate swaps designated to fix the interest rate in relation to 33% of the Senior Facilities Agreement amount for a three-year period. See also Note 10.

The following table demonstrates the sensitivity to a reasonably possible change in the interest rates, with all other variables held constant.

	Increase / decrease in basis points (WIBOR 1M, 3M)	Effect on result before tax
Nine-month period ended September 30, 2017	+50	(14,414)
	-50	14,414
Nine-month period ended September 30, 2016	+50	(495)
	-50	495

The result is more sensitive to changes in interest rates in 2017 than in 2016 because of higher amount of floating rate debt after the Group had refinanced its fixed rate notes with floating rate bank loans in March 2017. Effect on equity would comprise effect on profit before tax as well as corresponding tax effect.

The sensitivity analysis assumes that a 50 basis points change in the 3M WIBOR PLN and a 50 basis points change in the 1M WIBOR PLN interest rates had occurred during the whole period and had been applied to the appropriate floating rate liabilities during the nine-month period ended September 30, 2017 and nine-month period ended September 30, 2016.

Interest risk of the Group is regularly monitored by the Group. The following instruments may be used to minimize the interest rate risk relating to the Group:

- Forward rate agreements (FRAs);
- Interest rate swaps;
- Interest rate options.

None of the derivatives were used during the nine-month period ended September 30, 2016. The Group entered into interest rate swaps in the nine-month period ended September 30, 2017.

2.5.3 Credit risk

The exposure to credit risk has not changed significantly in comparison to the year ended December 31, 2016. The Group has no significant concentrations of credit risk because the Group has an extensive portfolio of trade and other receivables of low individual amounts.

2.5.4 Liquidity risk

Liquidity risk management implies maintaining sufficient cash and marketable securities as well as availability of funding through an adequate amount of committed debt facilities.

The table below presents the maturity of bank loans, notes, lease liabilities and other debt in contractual values (i.e. excluding the impact of nominal expenses incurred in relation to the liability), increased by projected value of interest payments. Values are not discounted.

September 30, 2017, unaudited

	Liabilities (including projected interest) payable within:			
	1 year	2 to 5 years	over 5 years	Total
Bank loans	696,950	5,766,607	1,300,554	7,764,111
Lease	184,110	551,550	517,059	1,252,719
Other debt	9,485	12,637	-	22,122
	890,545	6,330,794	1,817,613	9,038,952

December 31, 2016

	Liabilities (including projected interest) payable within:			
	1 year	2 to 5 years	over 5 years	Total
Notes	252,910	4,948,341	-	5,201,251
Lease	179,033	530,224	466,007	1,175,264
Other debt	1,150	1,522	-	2,672
	433,093	5,480,087	466,007	6,379,187

All trade payables are due within one year from the end of the reporting period.

Other non-current liabilities, which comprise deposits received from business partners (mainly dealers) as a collateral for their liabilities towards the Group, were classified as due within over 5 years from the end of the reporting period as the Group expects that they will be settled only after termination of cooperation with its partners.

2.6 Fair value estimation

The fair value of the financial assets and liabilities is the amount at which the asset could be sold or the liability transferred in a current transaction between market participants, other than in a forced or liquidation sale.

The methods and assumptions used to estimate the fair values of liabilities or equity relating to retention programs and derivatives are described in Notes 2.7.1 as well as 2.7.4 and 2.2 respectively.

The nominal values of liabilities and receivables less impairment with a maturity up to one year are assumed to approximate their fair values.

2.7 Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, rarely equal the related actual results. The estimates and assumptions that bear a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current or next financial year are discussed below.

2.7.1 Valuation of the liabilities relating to cash-settled retention programs

The main input used for the valuation of cash-settled retention programs liabilities was the fair value of the Group. The fair value of the Group as at December 31, 2016 was established using the multiply method on the basis of business projections for years 2017–2019. Other inputs used for the valuation as at December 31, 2016 were the expected liquidity event date and the probability that the liquidity event would not occur until this date.

In July 2017 the Company's shares were listed on the Warsaw Stock Exchange. The Initial Public Offering ("IPO") was considered an event triggering the payouts under retention programs granted to Management Board Members: EGA MB Plan, PSA 1, PSA 2 and PSA 3 Plans (for detailed descriptions of the plans please see the Group's annual consolidated financial statements as at and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16, issued on January 31, 2017). On July 27, 2017 the payouts from these programs were exercised.

As at September 30, 2017, apart from the retention programs granted to Management Board Members, the Group operated also a program granted to key employees – Value Development Program 3 ("VDP 3"). As the IPO did not result in a change of control under VDP 3 agreements, the IPO was not considered an event triggering the payouts from VDP 3. Due to certain lock-up arrangements the Group does not expect a change of control before December 31, 2017, therefore the potential payouts from VDP 3 will depend on achievement of certain key performance indicators by the Group and the fair value of the liabilities relating to the VDP 3 was estimated based on business projections for the year 2017.

2.7.2 Valuation of the equity-settled retention programs

Upon the IPO, on July 27, 2017, the members of the Management Board of P4 and key employees have entered into new equity-settled retention programs. For the description of the programs please see Note 19.

The estimated fair value of right to receive Award Shares per Original Share granted or purchased under the programs was calculated by applying a Monte Carlo simulation model. The key model assumptions were:

- the share price at the grant date of PLN 36,
- expected annualized volatility of 30% calculated based on the historical volatilities of stock prices of the companies which, at the grant date, were included in the WIG Telekomunikacja Index (i.e. index covering the largest telecommunications companies listed on Warsaw Stock Exchange),
- risk-free interest rate calculated based on the government bonds with maturities closest to the date when the last Award Shares will be granted, adjusted for the credit risk borne by the bonds with the use of the asset spread (the rate used in calculations was 2.38%)
- correlation matrix and volatility parameters for stock included in WIG 20 at the IPO date and the set group of companies,
- the dilution effect related to the issuance of Award Shares was assumed to be already included in the Company share price at IPO.

It was assumed that the beneficiaries of both schemes would not have incentive to sale shares before the fifth anniversary of the IPO date. Expected turnover of key employees was established based on historical data regarding similar incentive plans.

2.7.3 Assessment of close relation of embedded early redemption options to the host debt contract - performed as at issue date

The Group has assessed, that for Fixed Rate Senior Secured Notes and Senior Notes issued in January 2014 the respective early redemption options require separate recognition due to differences between option's exercise price and Notes' value at amortized cost and due to the fact that implied fee for early redemption to be paid to the lender reimburses the lender for an amount higher than the lost interest for the remaining term of Notes.

With respect to Floating Rate Senior Secured Notes issued in January 2014 and Fixed Rate Senior Secured Notes issued in March 2015, as well as with respect to Senior Facilities Agreement signed in March 2017 it was concluded that option's exercise price approximates debt amortized cost value and that it can be moreover assessed that implied fee for early redemption reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of liabilities. Thus close relation between embedded derivative and host contract was confirmed. Therefore this early redemption option was not separated from host debt contract of Floating Rate Senior Secured Notes issued in January 2014, Fixed Rate Senior Secured Notes issued in March 2015 and Senior Facilities Agreement signed in March 2017 for accounting and valuation purposes.

2.7.4 Valuation of early redemption options

For purposes of historical valuation of early redemption options to fair value (please see Note 10) the Group applied valuation model which was designed based on Black-Derman-Toy model (BDT) framework. BDT model is a one-factor model and is one of the most used yield-based models to value notes and interest rate (American-style) options.

Critical assumptions behind designed model and implemented valuation techniques were as follows:

- model was arbitrage-free and consistent with the term structure of interest rates observed as at valuation date,
- value of an option was determined as payoff from its exercise in the future discounted to valuation date,
- binomial tree technique was used as primary tool for estimation of future path of interest rates and Notes prices. Length of period for binomial tree was assumed as 1 month. An equal probability (of 50%) was assigned for increase or decrease of interest rates within next period of time,
- short risk free rates are lognormally distributed at all times,
- risk free rate was presented by ECB EUR AAA Bond rate, i.e. applicable for euro area central government bonds (in EUR),
- applicable credit spread at each valuation date was determined as implied credit spread from most actual debt issue of the Group and adjusted by the actual change in broad market credit index for corporations with rating as of the Group (actually CDS index for entities rated "BB" was assumed as a benchmark). No volatility of credit spread through maturity / exercise date was assumed,
- volatility of risk free rate was determined as constant through maturity / exercise date.

Thus critical valuation inputs of the option were as follows:

- credit spread,
- risk free rate term structure,
- volatility of risk free rate.

The above inputs were unobservable inputs.

Due to the nature of embedded derivative (American-style call option on debt instrument which is not quoted on active markets) and due to designed valuation model that used unobservable inputs subject to significant assumptions the analyzed early redemption options were categorized within Level 3 of fair value hierarchy.

2.7.5 Valuation of the assets retirement obligation provision

As at September 30, 2017 the assets retirement obligation provision was calculated using discount rate of 3.25% (3.62% as at December 31, 2016), representing interest rate of 10-years treasury bonds as at that date.

The discount period equals the average remaining useful life of the right-of-use assets that will be subject to retirement obligation. There were no significant changes of the discount period or other assumptions in comparison to the period applied for the calculation in the year ended December 31, 2016.

2.7.6 Deferred tax

As part of the process of preparing the consolidated financial statements, the Group is required to estimate the Play Group's income taxes. This process involves estimating the Play Group's actual current tax exposure together with assessing the temporary differences resulting from different treatments for tax and accounting purposes, such as the valuation of fixed assets, accruals and provisions. These differences result in deferred income tax assets and liabilities, which are recognized in the consolidated statement of financial position.

The deferred income tax calculation is based on the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized. The calculation is based upon long-term financial projections, which contain a considerable amount of uncertainty and the actual outcome may differ. These projections may be altered to reflect changes in the economic, technological and competitive environment in which the Play Group operates.

The Group is required to assess the likelihood of deferred income tax assets being recovered from future taxable income, and deferred tax assets are recognized to the extent to which such recovery is probable. Significant Group's estimates are required in the valuation of the Play Group's deferred income tax assets. These estimates take into consideration future taxable income projections, the potential volatility of those projections, historical results and ongoing tax planning strategies. Factors as: the nature of the business and industry, the economic environment in which the Play Group operates and the stability of local legislation are also considered.

2.7.7 Impairment of Play Group's long-lived assets

Under IAS 36 "Impairment of Assets" the Group is obliged to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Play Group must estimate the recoverable amount of the asset or of the cash generating unit ("CGU") to which the asset belongs. As at September 30, 2017, no impairment indicators were identified.

In accordance with the provisions of IAS 36, goodwill recognized on the acquisition of the Germanos Group and intangible assets with indefinite useful life were tested for impairment as at December 31, 2016. The goodwill was allocated to the CGU identified as the entire Play Group, as the performance is assessed and decisions on future resource allocation are made for the entire Group.

The recoverable amount of a CGU was determined based on value in use calculations. These calculations are based on the Play Group's latest available financial projections for the years 2017-2021.

The results of this test indicated that the recoverable amount of the CGU is higher than the carrying amount of the CGU's long lived assets, including goodwill as at December 31, 2016. As a result no impairment loss has been recognized.

However, there is considerable uncertainty as to the future expected economic benefits relating to the long-lived assets, including goodwill. Play Group's business model is based on a combination of operating an extensive, modern and cost-efficient 2G/3G/4G LTE telecommunications network of its own and providing nation-wide coverage to its customers via national roaming/network sharing agreements with other mobile telecommunications operators. The future success of this business model is dependent on many factors. The macroeconomic conditions of Poland and the European Union, the overall level of competition in the market, including market prices for voice and data services, the future take-up of new mobile data services, including demand for 4G LTE technology, access to sufficient distribution channels and the impact of possible new entrants in the form of mobile network operators (MNOs) and mobile virtual network operators (MVNOs), as well as over-the-top (OTT) service providers, may all impact the Group's ability to generate revenues. Risks associated with rapidly growing demand for radio network capacity, and uncertainties over the market regulator's approach to new entrants relative to market incumbents, the rate of decrease in unit costs of mobile devices and market levels of mobile devices subsidies, all generate uncertainties over achievable profit margins.

The mobile telecommunications industry is subject to significant governmental regulation and supervision and future changes in such regulations or telecommunications law may have an adverse impact on the Play Group's revenues, require the Group to make additional expenditures and otherwise have a material adverse effect on the Group's business, financial condition and results of operations.

As a result of these and other uncertainties, including possible significant changes in mobile technology, the actual recoverable amount of the CGU may differ significantly in the future from the Play Group's current estimates.

As no impairment indicators were identified as at September 30, 2017, goodwill recognized on the acquisition of the Germanos Group and intangible assets with indefinite useful life were not tested for impairment as at this date.

2.7.8 Deferred charges - distribution costs of prepaid products

Costs of distribution of prepaid products are deferred until the service is provided, i.e. a prepaid product is delivered to an end-user, and expensed at that time. However, as the Play Group has no means of knowing the exact moment at which the prepaid products are delivered to end-users, due to the vast majority of sales being through independent third party channels, it is estimated that the distribution services are rendered when prepaid products are first activated in the Play Group's billing system. The distribution costs of prepaid products that were not activated after a pre-determined period from the date of delivering the products to the distributors are treated as incurred and expensed at that time.

2.7.9 Impairment of billing receivables

For billing receivables, the impairment provision is calculated on the basis of the collectability ratio in previous periods, including revenue from sale of billing receivables. The collectability ratio used for calculation as at September 30, 2017 is higher than in comparative period.

2.7.10 Significant judgments and estimates relating to application of IFRS 15

The application of IFRS 15 requires the Group to make judgements that affect the determination of the amount and timing of revenue from contracts with customers. These include:

- determining the timing of satisfaction of performance obligations,
- determining the transaction price allocated to them,
- determining the standalone selling prices.

The stand-alone selling prices for mobile devices are determined based on the standard list prices at which the Group sells them separately (without a service contract). Stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services. The transaction price is calculated as total consideration receivable from the customer over the Adjusted Contract Term, which is the period after which the Group expects to offer a subsequent retention contract to a customer, which is usually a few months before the contractual term lapses.

Significant financing component

The Group used the practical expedient described in paragraph 63 of IFRS 15 and did not adjust the promised amount of consideration for the effects of a significant financing component because it has assessed that for most of the contracts the period between when the Group transfers the equipment to the customer and when the customer pays for the equipment is one year or less.

Material right considerations

The Group has not identified any material rights in the contracts with customers which would need to be treated as separate performance obligations. In particular, the Group does not consider an activation fee to provide a material right to a customer to extend the contract without paying an additional activation fee. Also, the Group has assessed that for additional services offered to existing customers at a discounted price, the value of the revenue which would need to be deferred until satisfaction of the performance obligation associated with the potential material right, would be insignificant and therefore such potential material rights are not treated as separate performance obligations.

Agent vs. principal considerations in relation to cooperation with dealers

The Company cooperates with a network of dealers who sell post-paid services (including these bundled with handsets) and prepaid services. The Group has assessed that the dealers act as agents in this process, for the following reasons:

- a) the Group bears primary responsibility for fulfilling the promise to provide the specified good and service – the Group is responsible for delivering airtime services to the end-customer and organizes the process of repairs of the equipment within the guarantee period;

- b) prices of services and prices of equipment to customers are determined by the Group and not by the dealer;
- c) dealers are remunerated in the form of commissions;
- d) credit risk related to consideration for service and in case of instalment sales model also credit risk related to consideration for equipment is borne by the Group.

2.7.11 Significant judgments and estimates relating to application of IFRS 16

The application of IFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities and the valuation of right-of-use assets. These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Group comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. For lease contracts with indefinite term the Group estimates the length of the contract to be equal to the economic useful life of non-current assets located in the leased property and physically connected with it (e.g. economic useful life of foundations of telecommunications towers in case of lease of land on which the tower is located) or determines the length of the contract to be equal to the average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of right-of-use assets.

The present value of the lease payment is determined using the interest rate swap rate applicable for currency of the lease contract and for similar tenor, corrected by the average credit spread of entities with rating similar to the Group's rating, observed in the period when the lease contract commences or is modified.

2.8 Segment reporting

The Group's business activity embraces the provision of mobile telecommunications services and managing a distribution network of mobile telecommunications products.

An operating segment is a distinguishable component of an enterprise that is engaged in business activities from which it may earn revenues and incur expenses and operating results of which are regularly reviewed to make decisions about resources to be allocated and to assess its performance. The whole Play Group was determined as one operating segment, as its performance is assessed based on revenue and adjusted earnings before interest, tax, depreciation and amortization (adjusted EBITDA – see table below), only from the perspective of the Group as a whole.

Data in the table below are presented in zloty rounded to the nearest million. Therefore, discrepancies between totals and the sums of the amounts listed may occur due to such rounding.

Reconciliation of operating profit to adjusted EBITDA (in PLN millions):

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Operating profit	747	311	929	314
Add depreciation and amortization	594	184	472	174
Add management fees	49	15	24	8
Add valuation of retention programs and special bonuses	276	24	1	16
Add other one-off costs	63	31	49	6
Adjusted EBITDA	1,728	565	1,475	517

One-off costs or income are material items of unusual or non-recurring nature which are excluded from calculation of Adjusted EBITDA on the basis of the Group's decision.

For more details on depreciation and amortization please see Note 27.

The valuation of retention programs and special bonuses increased in nine-month period ended September 30, 2017 due to the settlement of certain programs in relation to the refinancing concluded in March 2017 as well as in relation to the IPO; for more information see Note 19.

Costs of management fees increased in the nine-month period ended September 30, 2017 due to one-off fees incurred in connection with the IPO.

Other one-off costs for the nine-month period ended September 30, 2017 comprised: (i) costs of the IPO in the amount of PLN 43.1 million; (ii) one-off costs of PLN 11.6 million related to prepaid registration process to comply with new regulations introduced by the Act dated June 10, 2016 on Anti-terrorist Operations, which came into force in Poland on July 25, 2016 and amended the Polish Telecommunications Act to require the de-anonymization of prepaid phone cards; (iii) one-off costs of strategic projects out of usual scope of our business of PLN 7.1 million and other one-off costs of PLN 1.4 million.

Other one-off costs for the nine-month period ended September 30, 2016 comprised: (i) cost of provision for early termination fee related to one of Group's commercial agreements in the amount of PLN 20.4 million; (ii) one-off write-off of interconnection receivables from the years 2011-2013 in the amount of PLN 12.7 million due to unfavorable court ruling; (iii) impairment allowance for other non-current assets in the amount of PLN 4.6 million; (iv) one-off costs of strategic projects out of usual scope of our business of PLN 1.7 million; (v) one-off costs of PLN 1.6 million related to prepaid registration process to comply with new regulations introduced by the Act dated June 10, 2016 on Anti-terrorist Operations, which came into force in Poland on July 25, 2016 and amended the Polish Telecommunications Act to require the de-anonymization of prepaid phone cards and other one-off costs of PLN 7.5 million.

Adjusted EBITDA is a non-IFRS financial measure. Other companies may calculate Adjusted EBITDA differently.

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3. Property, plant and equipment

	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other fixed assets	Total
Cost							
As at January 1, 2017	46	858,585	125,567	1,066,942	345	122,018	2,173,503
Additions	-	-	41	-	-	22	63
Transfers and reclassifications	-	92,211	84,525	250,401	28	(32,507)	394,658
Disposals	-	(7,446)	(4,938)	(98,064)	(54)	(4,006)	(114,508)
As at September 30, 2017, unaudited	46	943,350	205,195	1,219,279	319	85,527	2,453,716
Accumulated depreciation							
As at January 1, 2017	4	390,861	96,046	548,752	323	47,894	1,083,880
Charge	-	32,164	22,918	144,126	30	13,693	212,931
Transfers and reclassifications	-	(13,585)	17,345	20,706	-	(7,121)	17,345
Disposals	-	(7,390)	(4,935)	(97,878)	(52)	(3,720)	(113,975)
As at September 30, 2017, unaudited	4	402,050	131,374	615,706	301	50,746	1,200,181
Accumulated impairment							
As at January 1, 2017	-	-	34	-	-	152	186
Reversal of impairment charge	-	-	(32)	-	-	(55)	(87)
Utilization of impairment charge	-	-	(2)	-	-	(97)	(99)
As at September 30, 2017, unaudited	-	-	-	-	-	-	-
Net book value as at September 30, 2017, unaudited	42	541,300	73,821	603,573	18	34,781	1,253,535

Buildings represent mainly own telecommunications towers and cost of civil works and materials used for adapting leased property (e.g. roof tops) so that the Group's telecommunications equipment can be installed.

During the nine-month period ended September 30, 2017 the Group has not capitalized any interest expense or exchange rate differences.

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	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other fixed assets	Total
Cost							
As at January 1, 2016	46	796,404	101,546	905,081	-	60,098	1,863,175
Transfers and reclassifications	-	43,397	27,061	206,565	345	20,074	297,442
Disposals	-	(2,810)	(62)	(70,127)	-	(2,820)	(75,819)
As at September 30, 2016, unaudited	46	836,991	128,545	1,041,519	345	77,352	2,084,798
Accumulated depreciation							
As at January 1, 2016	4	360,362	88,999	471,981	-	34,082	955,428
Charge	-	23,789	11,843	106,690	13	8,893	151,228
Transfers and reclassifications	-	-	(3,866)	6,631	296	(609)	2,452
Disposals	-	(1,654)	(18)	(69,727)	-	(2,751)	(74,150)
As at September 30, 2016, unaudited	4	382,497	96,958	515,575	309	39,615	1,034,958
Net book value as at September 30, 2016, unaudited	42	454,494	31,587	525,944	36	37,737	1,049,840

During the nine-month period ended September 30, 2016 the Group has not capitalized any interest expense or exchange rate differences.

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4. Right-of-use assets

	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: IT equipment	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Other fixed assets	Total
Cost							
As at January 1, 2017	132,530	1,174,013	82,525	74,056	25,767	718	1,489,609
Additions	27,369	127,332	-	2,138	-	-	156,839
Asset retirement obligation	-	6,692	-	-	-	-	6,692
Transfers and reclassifications	(7,513)	7,513	(17,498)	-	5,447	-	(12,051)
Disposals	(550)	(33,533)	(1,890)	(3,861)	(4,428)	-	(44,262)
As at September 30, 2017, unaudited	151,836	1,282,017	63,137	72,333	26,786	718	1,596,827
Accumulated depreciation							
As at January 1, 2017	44,524	572,474	58,716	54,518	13,203	665	744,100
Charge	7,857	75,847	11,477	7,196	5,555	8	107,940
Charge from asset retirement obligation	-	1,894	-	-	-	-	1,894
Charge correction	240	(4,691)	-	-	-	-	(4,451)
Transfers and reclassifications	(377)	377	(17,345)	-	-	-	(17,345)
Disposals	(273)	(23,572)	(1,880)	(2,019)	(4,397)	-	(32,141)
As at September 30, 2017, unaudited	51,971	622,329	50,968	59,695	14,361	673	799,997
Net book value as at September 30, 2017, unaudited	99,865	659,688	12,169	12,638	12,425	45	796,830

Charge correction represents the amount of adjustment of depreciation of right-of-use assets which had been recognized in prior periods. The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN nil in current period. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed. The Group implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Group elected not to apply exemptions for short-term leases (excluding short-term leases of billboards) or leases for which the underlying asset is of low value. The costs relating to leases for which the Group applied the practical expedient described in paragraph 5a of the IFRS 16 (leases with the contract term of less than 12 months) amounted to PLN 7,595 thousand in current period.

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	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: IT equipment	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Other fixed assets	Total
Cost							
As at January 1, 2016	113,374	1,104,525	89,116	92,219	26,097	-	1,425,331
Additions	11,349	80,557	-	3,532	-	-	95,438
Asset retirement obligation	-	4,647	-	-	-	-	4,647
Transfers and reclassifications	-	-	5,388	(9,827)	5,906	718	2,185
Disposals	(1,229)	(39,911)	(4,606)	(10,133)	(6,678)	-	(62,557)
As at September 30, 2016, unaudited	123,494	1,149,818	89,898	75,791	25,325	718	1,465,044
Accumulated depreciation							
As at January 1, 2016	35,875	501,646	44,821	61,681	13,384	-	657,407
Charge	7,004	72,817	17,080	8,159	5,236	48	110,344
Charge from asset retirement obligation	-	1,636	-	-	-	-	1,636
Transfers and reclassifications	-	-	3,866	(6,631)	(296)	609	(2,452)
Disposals	(674)	(21,172)	(4,580)	(9,012)	(6,663)	-	(42,101)
As at September 30, 2016, unaudited	42,205	554,927	61,187	54,197	11,661	657	724,834
Net book value as at September 30, 2016, unaudited	81,289	594,891	28,711	21,594	13,664	61	740,210

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 2,852 thousand in comparative period.

There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed.

The Group implemented a single accounting model, requiring lessees to recognize assets and liabilities for all leases excluding exceptions listed in the standard. The Group elected not to apply exemptions for short-term leases (excluding short-term leases of billboards) or leases for which the underlying asset is of low value.

The costs relating to leases for which the Group applied the practical expedient described in paragraph 5a of the IFRS 16 (leases with the contract term of less than 12 months) amounted to PLN 7,596 thousand in comparative period.

5. Intangible assets

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2017	2,779,955	830,955	238,301	29,904	3,879,115
Transfers and reclassifications	-	272,162	-	2,751	274,913
Disposals	-	(4,928)	-	-	(4,928)
As at September 30, 2017, unaudited	2,779,955	1,098,189	238,301	32,655	4,149,100
Accumulated amortization					
As at January 1, 2017	557,879	672,922	-	14,931	1,245,732
Charge	138,852	128,615	-	3,385	270,852
Disposals	-	(459)	-	-	(459)
As at September 30, 2017, unaudited	696,731	801,078	-	18,316	1,516,125
Accumulated impairment					
As at January 1, 2017	-	-	-	4,597	4,597
Impairment charge	-	-	-	(128)	(128)
Transfers and reclassifications	-	4,469	-	(4,469)	-
Utilization of impairment charge	-	(4,469)	-	-	(4,469)
As at September 30, 2017, unaudited	-	-	-	-	-
Net book value as at September 30, 2017, unaudited	2,083,224	297,111	238,301	14,339	2,632,975

The transfers recorded during nine-month period ended September 30, 2017 relate mainly to transfers from assets under construction to intangible assets due to the completion of computer software and other intangible assets.

On August 23, 2005 P4 was granted by UKE a reservation of the 2100 MHz frequency for the period from July 1, 2006 to December 31, 2022. On March 16, 2007 P4 started providing mobile telecommunications services and started to amortize the 2100 MHz license from March 1, 2007. The license is amortized over the period for which it was granted. As at September 30, 2017 the carrying value of the 2100 MHz license was PLN 114,668 thousand.

On December 9, 2008 P4 was granted a reservation of the 900 MHz frequency for the period from December 9, 2008 to December 31, 2023. P4 started to amortize the 900 MHz license from January 2009. The license is amortized over the period for which it was granted. As at September 30, 2017 the carrying value of the 900 MHz license was PLN 90,708 thousand.

On February 13, 2013, P4 was granted a reservation of the 1800 MHz frequency for the period from February 13, 2013 to December 31, 2027. The license is amortized over the period for which it was granted. As at September 30, 2017 the carrying value of the 1800 MHz license was PLN 352,034 thousand.

Play Communications S.A. and its subsidiaries
Interim condensed consolidated financial statements prepared in accordance with IAS 34 with early adoption of IFRS 15 and IFRS 16
As at and for the nine-month period ended September 30, 2017
(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

On January 25, 2016, P4 was granted a reservation of the 800 MHz frequency. On June 23, 2016, the UKE President issued new decisions on reservation of 800 MHz frequency and changed the allocation of the frequency blocks among operators (P4 was allocated the Block C instead of the Block D). The reservation is granted till June 22, 2031. The license is amortized over the period for which it was granted. As at September 30, 2017 the carrying value of the 800 MHz license was PLN 1,328,383 thousand.

On January 25, 2016, P4 was granted a reservation of the 2600 MHz frequency for the period from January 25, 2016 to January 24, 2031. The license is amortized over the period for which it was granted. As at September 30, 2017 the carrying value of the 2600 MHz license was PLN 197,431 thousand.

On August 10, 2017, P4 was granted a reservation of the 3700 MHz frequency for the period from October 1, 2017 to December 29, 2019. The price for the license has already been paid and the amount has been recognized in the assets under construction and will be transferred to intangible assets after the reporting period - on October 1, 2017. The license will be amortized over the period for which it was granted.

The Internet domain play.pl has been classified as an asset with indefinite useful life. The useful life of this asset had been determined as indefinite, because based on the analysis of all of the relevant factors, there is no foreseeable limit to the period over which this asset is expected to generate net cash inflows for the entity.

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2016	1,061,522	781,608	238,301	21,626	2,103,057
Additions	1,718,433	-	-	-	1,718,433
Transfers and reclassifications	-	57,863	-	7,396	65,259
Disposals	-	(3)	-	-	(3)
As at September 30, 2016, unaudited	2,779,955	839,468	238,301	29,022	3,886,746
Accumulated amortization					
As at January 1, 2016	380,388	582,856	-	13,041	976,285
Charge	131,208	75,109	-	2,143	208,460
Disposals	-	(3)	-	-	(3)
As at September 30, 2016, unaudited	511,596	657,962	-	15,184	1,184,742
Accumulated impairment					
As at January 1, 2016	-	-	-	-	-
Impairment charge	-	-	-	4,640	4,640
As at September 30, 2016, unaudited	-	-	-	4,640	4,640
Net book value as at September 30, 2016, unaudited	2,268,359	181,506	238,301	9,198	2,697,364

6. Assets under construction

Cost	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	Unaudited	Unaudited
As at January 1	543,114	395,385
Additions	445,100	416,006
Radio network	248,325	274,916
Core network and network operations center	19,174	43,050
IT	82,446	77,662
Other capital expenditures	95,155	20,378
Transfers and reclassifications	(657,520)	(364,886)
Disposals	(15)	(719)
As at September 30	330,679	445,786
Accumulated impairment		
As at January 1	2,698	1,849
Impairment charge	3,218	652
Utilization of impairment provision	-	(642)
As at September 30	5,916	1,859
Net book value as at September 30	324,763	443,927

Assets under construction comprise expenditures on property, plant and equipment as well as intangible assets being under construction as well as prepayments for assets under construction. Assets under construction include also right-of-use assets under construction which amounted to PLN 9,925 thousand as at September 30, 2017, PLN 10,140 as at December 31, 2016 and 6,922 as at September 30, 2016.

Transfers and reclassifications represent mainly transfers from assets under construction to property, plant and equipment and to intangible assets.

7. Contract costs

Cost	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	Unaudited	Unaudited
As at January 1	703,567	605,668
Additions	305,522	314,935
Disposals	(296,434)	(236,240)
As at September 30	712,655	684,363
Accumulated amortization		
As at January 1	352,886	295,724
Charge (including impairment)	303,993	282,265
Disposals (including impairment)	(296,435)	(236,241)
As at September 30	360,444	341,748
Net book value as at September 30	352,211	342,615

8. Finance receivables

	September 30, 2017 Unaudited	December 31, 2016
Long-term finance receivables		
EUR 8.22% Senior Notes due in 2020, tranche A, B, C	-	249,788
EUR 6.11% Senior Notes due in 2020, tranche D	-	72,853
Loans given	-	18,360
	-	341,001
Short-term finance receivables		
Loans given	-	274
	-	274

Debt securities

EUR Senior Notes tranche A, B, C, D and E, due in 2020 from Impera Holdings S.A.

On February 26, 2015, the Group purchased EUR 18,047 thousand in aggregate principal amount of A Series Notes issued by Impera Holdings S.A. On August 26, 2015, the Group purchased EUR 16,260 thousand in aggregate principal amount of B Series Notes issued by Impera Holdings S.A. On February 25, 2016, the Group purchased EUR 15,950 thousand in aggregate principal amount of C Series Notes issued by Impera Holdings S.A. On August 26, 2016, the Group purchased EUR 16,550 thousand in aggregate principal amount of D Series Notes issued by Impera Holdings S.A. On February 24, 2017, the Group purchased EUR 16,000 thousand in aggregate principal amount of E Series Notes issued by Impera Holdings S.A. The purpose of the notes was to facilitate the interest payments on the EUR 415,000 thousand 7.75%/8.50% Senior PIK Toggle Notes due 2020 issued on August 6, 2014 by Impera Holdings S.A. The initial maturity date of A, B, C, D and E Series Notes was February 28, 2020 (Repurchase Date). Interest on the A, B and C Series Notes was calculated at the rate of 8.22% per annum, interest on the D Series was calculated at the rate of 6.11% per annum and interest on the E Series was calculated at the rate of 6.36% per annum. Interest accrued on all tranches was to be paid on the Notes Repurchase Date.

The notes receivables were measured at amortized cost using the effective interest rate. As at December 31, 2016 the effective interest rate on tranches A, B and C amounted to 8.23%, on tranche D amounted to 6.12% and on tranche E amounted to 6.36%.

The A, B, C, D and E Series Notes were repaid by Impera Holdings S.A. on March 20, 2017.

EUR Notes due in 2023 from Impera Holdings S.A.

On March 20, 2017, the Group purchased EUR 524,000 thousand in aggregate principal amount of A Series Notes issued by Impera Holdings S.A. The purpose of the notes was to facilitate the repayment of the EUR 415,000 thousand 7.75%/8.50% Senior PIK Toggle Notes due 2020 issued on August 6, 2014 by Impera Holdings S.A., using the proceeds from the Senior Facilities Agreement. The initial maturity date of A Series Notes was March 31, 2023 (Repurchase Date). Interest was calculated based on EURIBOR 3M plus margin. Interest could be paid for the 3-month interest periods or capitalized at the Group's discretion. On July 26, 2017 the A Series Notes issued by Impera Holdings S.A. were redeemed against the Company's share premium.

The notes receivables were measured at amortized cost using the effective interest rate. Fees received in relation to the notes were included in the calculation of the effective interest rate.

The carrying amount of the notes receivables approximated its fair value. The discount rate for the fair value calculation approximated the effective interest rate.

Critical assumptions and implemented valuation techniques for measuring the fair value for the fixed-rate notes were as follows:

- fair value of notes was determined as future cash flows from repayment of notes and interest discounted to valuation date,
- interest was calculated using risk free rate increased by credit spread,
- risk free rate was presented by ECB EUR AAA Bond rate, i.e. applicable for euro area central government bonds (in EUR),
- applicable credit spread at each valuation date was determined as implied credit spread from most actual debt issue of Impera Holdings S.A. and adjusted by the actual change in broad market credit index for corporations with rating as of Impera Holdings S.A. (actually CDS index for entities rated "CCC" was assumed as a benchmark),
- the discount rate was an effective interest rate of cash flows with recalculated interest value.

Loans given

On September 5, 2016, the Group granted a loan to Impera Holdings S.A. in the total available amount of EUR 5,000 thousand. The actual amount drawn totaled EUR 4,150 thousand. Interest on the loan was calculated at the rate of 6M EURIBOR plus margin. The loan was to be repaid in 2019.

The loan was repaid by Impera Holdings S.A. on March 20, 2017.

9. Other long-term receivables

	September 30, 2017	December 31, 2016
	Unaudited	
Long-term receivables	13,893	12,572
Impairment of long-term receivables	(408)	(408)
	13,485	12,164

Long-term receivables comprise amounts paid as collateral for lease agreements.

10. Other finance assets and other finance liabilities

	September 30, 2017 Unaudited	December 31, 2016
Other finance assets		
Early redemption option embedded in Senior Secured Notes	-	83,522
Early redemption option embedded in Senior Notes	-	50,724
Finance assets at fair value through profit or loss	-	134,246
Interest rate swaps	1,592	-
Finance assets at fair value through other comprehensive income	1,592	-
Other long-term finance assets	1,592	134,246
Other finance liabilities		
Interest rate swaps	7,386	-
Finance liabilities at fair value through other comprehensive income	7,386	-
Other short-term finance liabilities	7,386	-

Finance assets and finance liabilities at fair value through other comprehensive income

Finance assets and finance liabilities at fair value through other comprehensive income comprise interest rate swaps designated as cash flow hedges.

Drawings under the Senior Facilities Agreement (please see Note 17.1.1) bear interest at floating rates tied to WIBOR plus margin. In May 2017, the Group entered into interest rate swaps designated to fix the interest rate in relation to 33% of the Senior Facilities Agreement amount (i.e. PLN 2,150,000 thousand) for a three-year period starting from July 1, 2017. The cash flows are expected to occur on the last days of quarters within this period whereas the interest cost are recognized in the statement of comprehensive income using the amortized cost method. Please see also Note 2.5.2.

The valuation of the above mentioned finance assets and finance liabilities resulted in other comprehensive loss of PLN 2,896 thousand for the nine-month period ended September 30, 2017.

Finance assets at fair value through profit or loss

Finance assets at fair value through profit or loss comprised early redemption options separated from Senior Secured Notes Indenture and Senior Notes Indenture (see Note 0 and Note 2.7.4).

Critical terms with respect to redemption price and portion of principal amount available for early redemption at particular price were as follows:

- a) for Senior Secured Notes:
 - (i) at any time prior to February 1, 2016 the Senior Secured Notes Issuer was entitled to redeem:

- on any one or more occasions, up to 40% of the aggregate principal amount with the net cash proceeds from certain equity offerings at a redemption price equal to 105.25% of the principal amount, or
 - during each twelve-month period commencing with the Issue Date, up to 10% of the then-outstanding aggregate principal amount at a redemption price equal to 103% of the principal amount, or
 - all or a portion of principal amount at a redemption price equal to 100% of the principal amount plus the applicable premium as of redemption date. The premium was determined as maximum of 1% of the principal amount or excess of the present value of sum of 102.625% and interests payments due through February 1, 2016 discounted to redemption date computed using discount rate equal to the Bund rate as of redemption date plus 50 basis points over the principal amount of the Fixed Rate Senior Secured Notes.
- (ii) at any time on or after February 1, 2016 the Senior Secured Notes Issuer was entitled to redeem up to 100% of the aggregate principal amount at a redemption price (expressed as percentages of principal amount) equal to:
- 102.625% - in period from February 1, 2016 to February 1, 2017,
 - 101.313% - in period from February 1, 2017 to February 1, 2018,
 - 100.000% - in period from February 1, 2018 to February 1, 2019.
- b) for Senior Notes:
- (i) at any time prior to August 1, 2016 the Senior Notes Issuer was entitled to redeem:
- on any one or more occasions, up to 40% of the aggregate principal amount with the net cash proceeds from certain equity offerings at a redemption price equal to 106.50% of the principal amount, or
 - all or a portion of principal amount at a redemption price equal to 100.00% of the principal amount plus the applicable premium as of redemption date. The premium was determined as maximum of 1% of the principle amount or excess of the present value of sum of 103.25% and interests payments due through August 1, 2016 discounted to redemption date computed using discount rate equal to the Bund rate as of redemption date plus 50 basis points over the principal amount of the Senior Notes.
- (ii) at any time on or after August 1, 2016 the Issuer was entitled to redeem up to 100% of the aggregate principal amount at a redemption price (expressed as percentages of principal amount) equal to:
- 103.250% - in period from August 1, 2016 to August 1, 2017,
 - 101.625% - in period from August 1, 2017 to August 1, 2018,
 - 100.000% - in period from August 1, 2018 to August 1, 2019.

In each of the above cases the redemption price was additionally increased by the amount of accrued and unpaid interests as to redemption date.

Change in fair value of early redemption options impacted profit or loss. The table below presents reconciliation of change in fair value in the reporting periods.

	Early redemption option embedded in Senior Secured Notes	Early redemption option embedded in Senior Notes	Total
Valuation as at January 1, 2017	83,522	50,724	134,246
Valuation as at September 30, 2017, unaudited	-	-	-
Impact of change in fair value on profit or loss for the nine-month period ended September 30, 2017, unaudited	(83,522)	(50,724)	(134,246)
Valuation as at January 1, 2016	8,580	10,639	19,219
Valuation as at September 30, 2016, unaudited	65,497	47,377	112,874
Impact of change in fair value on profit or loss for the nine-month period ended September 30, 2016, unaudited	56,917	36,738	93,655

The Senior Secured Notes liability and Senior Notes liability had been fully repaid in March 2017, using proceeds from Senior Facilities Agreement drawn down in March 2017 (see Note 17). Therefore the early redemption option assets were derecognized in the nine-month period ended September 30, 2017.

11. Inventories

	September 30, 2017	December 31, 2016
	Unaudited	
Goods for resale	159,278	121,686
Goods in dealers' premises	38,788	39,619
Prepaid deliveries	140	2
Impairment of goods for resale	(11,040)	(11,622)
	<u>187,166</u>	<u>149,685</u>

The write down of the Play Group's inventories relates mainly to handsets and other mobile devices. The Group assessed that the net realizable value of the handsets and other devices would be lower than the purchase price. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories sold in promotional offers are stated at the lower of cost or probable net realizable value, estimated taking into account future cash flows expected from related services.

Movements of the provision for impairment of inventories are as follows:

	Nine-month period ended	Nine-month period ended
	September 30, 2017	September 30, 2016
	Unaudited	Unaudited
Beginning of period	11,622	7,203
- charged/(credited) to income statement	(582)	4,877
- utilized	-	(1,566)
End of period	<u>11,040</u>	<u>10,514</u>

The net increase/decrease of the provision for inventories is charged/credited to costs of goods sold.

12. Trade and other receivables

	September 30, 2017	December 31, 2016
	Unaudited	
Trade receivables	1,223,345	1,400,747
Impairment of trade receivables	(137,566)	(143,191)
Trade receivables (net)	<u>1,085,779</u>	<u>1,257,556</u>
VAT and other government receivables	20,266	2,127
Other receivables	540	256
Other receivables (net)	<u>20,806</u>	<u>2,383</u>
	<u>1,106,585</u>	<u>1,259,939</u>

Total amount of trade receivables are receivables from contracts with customers.

Trade receivables include installment receivables relating to sales of handsets and mobile computing devices. The balance of trade receivables decreased following the significant reduction in the volume of installment sales after October 2016.

The individually impaired receivables are mainly receivables from subscribers who have violated the provisions of the agreements or who have withdrawn from agreements.

Movements of the provision for impairment of trade receivables are as follows:

	Nine-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited
Beginning of period	143,191	92,970
- charged/(credited) to income statement	(5,416)	55,322
- write-downs applied	(209)	-
End of period	137,566	148,292

The amount charged to income statement in the nine-month period ended September 30, 2016 comprises among others a one-off write-off of interconnection receivables from the years 2011-2013 in the amount of PLN 12,735 thousand due to unfavorable court ruling and impairment allowance for receivables from installments sales resulting from increased sales volumes in installment model. In the nine-month period ended September 30, 2017 the decrease in provision for impairment of trade receivables results from decreased volume of installments sales as well as improved collectability of receivables.

Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

13. Contract assets

In current and in comparative periods there were no significant changes in the time frame for a right to consideration to become unconditional or in the time frame for a performance obligation to be satisfied.

Impairment of contract assets results from disconnecting the customer due to breach of the contract (see Note 28).

In current and in comparative periods there were no cumulative catch-up adjustments to revenue that affect the corresponding contract asset or contract liability, including adjustments arising from a change in an estimate of the transaction price or a contract modification.

The balance of contract assets increased following the significant reduction in the volume of installment sales after October 2016. Contract assets resulting from individual non-installment sales contracts are higher than from installment sales contracts.

14. Prepaid expenses

	September 30, 2017 Unaudited	December 31, 2016
Distribution and selling costs	9,510	8,815
Network and IT maintenance	5,459	2,626
Other	15,123	9,798
	<u>30,092</u>	<u>21,239</u>

As of September 30, 2017, other prepaid expenses include mainly advance payments for services.

15. Cash and cash equivalents

	September 30, 2017 Unaudited	December 31, 2016
Petty cash	645	702
Balances deposited with banks	330,991	339,336
Other cash assets	82	956
	<u>331,718</u>	<u>340,994</u>

16. Shareholders' equity

Share capital

The Company was incorporated on January 10, 2014. The initial share capital of PLN 52 thousand consisted of 12,500 shares with a par value of EUR 1 per share.

As at December 31, 2016, the Company's share capital consisted of 12,501 shares issued, paid and authorized with a par value of EUR 1 per share.

In June 2017, following the transformation to a public limited liability company, the Company's share capital was increased to PLN 126 thousand and consisted of 250,000,000 shares issued, paid and authorized with a par value of EUR 0.00012 per share.

In July 2017 the Company's shares (i.e. 250,000,000 shares) were listed on the Warsaw Stock Exchange ("WSE"). The first day of listing and trading of the Company's existing ordinary shares on the WSE was July 27, 2017. The offering included 121,572,621 shares.

The final number of shares offered to retail investors and authorized employees has been set to 6,137,616 (ca. 5.0% of the offer shares); this includes 5,980,249 shares (ca. 4.9% of the offer shares) offered to retail investors and 157,367 shares (ca. 0.1% of the offer shares) offered to authorized employees; the remaining 115,435,005 shares (including over-allotment shares) have been offered to institutional investors (ca. 95.0% of the offer shares).

Additionally, on July 27, 2017, 3,170,119 new shares under new Performance Incentive Plans for the members of the Management Board of P4 have been issued. The members of the Management Board of P4 subscribed for these shares at the price of PLN 36.0 per share. Also, on July 27, 2017, 538,325 shares were issued for no consideration to 84 managers and key employees in relation to Value Development Program 4. In addition, 222,222 new shares will be authorized and available for issuance under future incentive programs dedicated to new managers and key employees joining the Play Group or to add new participants or increase the value of the existing incentive programs dedicated to the managers and key employees.

On August 1, 2017 Impera Holdings S.A. acquired 128,427,379 shares from Play Holdings 1 S. à r. l. constituting 50.62% of the Company's share capital. On August 8, 2017 Telco Holdings S. à r. l. acquired 63,828,407 shares from Impera Holdings S.A. constituting 25.16% of the Company's share capital. On August 11, 2017 Tollerton Investments Limited acquired 64,598,972 shares from Impera Holdings S.A. constituting 25.46% of the Company's share capital.

The stabilization period ended on August 25, 2017. The over-allotment option was not exercised and the 11,052,056 shares lent to J.P. Morgan Securities plc, as stabilization manager, for the duration of the stabilization period, were redelivered to the selling shareholder. Hence, as of September 30, 2017, as the over-allotment option was not exercised, the Company's share capital consisted of 253,708,444 shares issued, of which 27.65% were owned by Tollerton Investment Limited, 27.32% by Telco Holdings S.à r.l. and 45,02% by other shareholders.

Share premium

On July 26, 2017 the A Series Notes issued by Impera Holdings S.A. were redeemed against the Company's share premium resulting in the decrease of share premium in the amount of PLN 2,256,148 thousand. On July 27, 2017, Play Holdings 1 S.à r.l. (the former shareholder of the Company) paid in cash additional share premium in the amount of PLN 171,184 thousand, which was used for payout of the cash-settled retention programs to the members of the Management Board of P4.

17. Finance liabilities - debt

	September 30, 2017	December 31, 2016
	Unaudited	
Long-term finance liabilities		
Long-term bank loans	5,970,804	-
Long-term notes liabilities	-	4,505,269
Long-term lease liabilities	713,975	669,635
Other debt	12,301	1,513
	6,697,080	5,176,417
Short-term finance liabilities		
Short-term bank loans	386,790	-
Short-term notes liabilities	-	102,941
Short-term lease liabilities	178,033	173,079
Other debt	8,933	1,130
	573,756	277,150
	7,270,836	5,453,567

17.1 Bank loans

	September 30, 2017	December 31, 2016
	Unaudited	
Long-term bank loans		
SFA	5,970,804	-
	5,970,804	-
Short-term bank loans		
SFA	386,790	-
	386,790	-

17.1.1 Senior Facilities Agreement (SFA)

On March 7, 2017 the Play Group entered into PLN 7,000,000 thousand Senior Facilities Agreement with Alior Bank Spółka Akcyjna, Bank Zachodni WBK S.A., BNP Paribas S.A., DNB Bank ASA, DNB Bank Polska S.A., PKO Bank Polski S.A., TFI PZU S. A. on behalf of PZU FIZ AN BIS 2, TFI PZU SA on behalf of PZU SFIO Universum and Raiffeisen Bank International AG as mandated lead arrangers and Bank Zachodni WBK S.A. as an agent. The amount includes PLN 6,600,000 term loan facilities and PLN 400,000 thousand revolving credit facility.

On March 20 and 21, 2017 the Group drew down the amount of PLN 6,443,000 thousand under the above facility agreement and the remaining amounts under term loan facilities were cancelled. Additionally, under the SFA, the Group can use PLN 400,000 thousand revolving credit facility, which was undrawn as at September 30, 2017.

The funds were used to repay EUR 5.25% Senior Security Notes due 2019, PLN Floating Rate Senior Security Notes due 2019 and EUR 6.5% Senior Notes due 2019 issued by the Group and to cover all costs related to repayment of the notes as well as to purchase A Series Notes issued by Impera Holdings S.A. on March 20, 2017 (see Note 8).

The loan drawn down under Facility A in the amount of PLN 2,443,000 thousand is repayable in semi-annual installments. The first two installments, each one in the amount of 8% of the total Facility A amount, are due in March 2018 and September 2018 respectively. Further installments, each of which will amount to 12% of the total Facility A amount, will be repaid semi-annually till March 2022. The loan drawn down under Facility B in the amount of PLN 2,732,000 thousand is repayable in full on September 20, 2022. The loan drawn down under Facility C in the amount of PLN 1,268,000 thousand is repayable in full on March 20, 2023.

Interest on each loan under SFA Agreement is calculated based on the 3M WIBOR rate plus margin and repayable in quarterly periods.

The loan is measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the loan are included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 86,258 thousand as at September 30, 2017. The effective interest rate was 4.84% for Facility A, 5.14% for Facility B and 5.91% for Facility C as at September 30, 2017.

The carrying amount of the bank loan approximates its fair value. The discount rate for the fair value calculation approximates the effective interest rate.

17.1.2 Revolving Credit Facility

Historically, the Play Group had a multi-currency revolving facility with Alior Bank S.A. as a lender, and Bank Zachodni WBK S.A. as a lender and facility agent for the amount of PLN 400,000 thousand. The funds could be used to finance general corporate and working capital purposes of the Group (including the acquisition of telecommunications licenses or capital expenditure relating thereto, as well as other capital expenditure). The bank loan was to be repaid until January 31, 2018. Interest was calculated based on relevant LIBOR, EURIBOR or WIBOR rate (depending on the currency drawn and the interest period) plus margin. The agreement was terminated on March 20, 2017.

17.1.3 Bank Zachodni WBK loan

The Play Group has an overdraft agreement with Bank Zachodni WBK S.A. for the amount of PLN 150,000 thousand. The funds can be used to finance working capital needs.

The facility in the amount of PLN 150,000 thousand is available until May 31, 2018. Interest is calculated based on 1M WIBOR rate plus margin.

As at September 30, 2017, the overdraft line in Bank Zachodni WBK S.A. was fully available.

17.1.4 Millennium Bank loan

The Play Group has an overdraft agreement with Bank Millennium S.A. for the amount of PLN 50,000 thousand. The funds can be used to finance working capital needs.

The facility is available until November 12, 2018. Interest is calculated based on 1M WIBOR rate plus margin.

As at September 30, 2017, the overdraft line in Bank Millennium S.A. was fully available.

17.2 Notes

	September 30, 2017 Unaudited	December 31, 2016
Long-term notes liabilities		
EUR 5.25% Senior Secured Notes due 2019	-	2,631,938
PLN Floating Rate Senior Secured Notes due 2019	-	129,297
EUR 6.5% Senior Notes due 2019	-	1,183,033
2015 EUR 5.25% Senior Secured Notes due 2019	-	561,001
	-	4,505,269
Short-term notes liabilities		
Accrued interest related to notes	-	102,941
	-	102,941

17.2.1 EUR 5.25% Senior Secured Notes due 2019

On January 31, 2014, the Group issued EUR 600,000 thousand in aggregate principal amount of Fixed Rate Senior Secured Notes. The notes maturity date was February 1, 2019. Interest on the Fixed Rate Senior Secured Notes was calculated at the rate of 5.25% per annum and was payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2014.

The notes liability was measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 22,462 thousand as at December 31, 2016. The effective interest rate was 5.77% as at December 31, 2016.

The carrying amount of the notes liability approximated its fair value. The discount rate for the fair value calculation approximated the effective interest rate.

The notes liability was fully repaid in March, 2017, using proceeds from Senior Facilities Agreement drawn down in March, 2017.

17.2.2 PLN Floating Rate Senior Secured Notes due 2019

On January 31, 2014, the Group issued PLN 130,000 thousand in aggregate principal amount of Floating Rate Senior Secured Notes. The notes maturity date was February 1, 2019. Interest on the Floating Rate Senior Secured Notes was calculated based on the 3M WIBOR rate plus margin and was payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, commencing on May 1, 2014.

The notes liability was measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 703 thousand as at December 31, 2016. The effective interest rate was 5.70% as at December 31, 2016.

The carrying amount of the notes liability approximated its fair value. The discount rate for the fair value calculation approximated the effective interest rate.

The notes liability was fully repaid in March, 2017, using proceeds from Senior Facilities Agreement drawn down in March, 2017.

17.2.3 EUR 6.50% Senior Notes due 2019

On January 31, 2014, the Group issued EUR 270,000 thousand in aggregate principal amount of Senior Notes. The notes maturity date was August 1, 2019. Interest on the Senior Notes was calculated at the rate of 6.50% per annum and was payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2014.

Proceeds from Senior Notes of EUR 170,000 thousand were initially deposited into escrow account and on July 8, 2014, the escrowed proceeds were released in connection with an M&A transaction. The proceeds were used for distribution of share premium.

The notes liability was measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 11,447 thousand as at December 31, 2016. The effective interest rate was 7.04% as at December 31, 2016.

The carrying amount of the notes liability approximated its fair value. The discount rate for the fair value calculation approximated the effective interest rate.

The notes liability was fully repaid in March, 2017, using proceeds from Senior Facilities Agreement drawn down in March, 2017.

17.2.4 EUR 5.25% Senior Secured Notes due 2019 issued in March 2015

On March 19, 2015, the Group issued EUR 125,000 thousand in aggregate principal amount of Fixed Rate Senior Secured Notes. The notes mature on February 1, 2019. Interest on the Fixed Rate Senior Secured Notes was calculated at the rate of 5.25% per annum and was payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2015.

The notes liability was measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes, adjusted by the value of premium, were included in the calculation of the effective interest rate. As a result of the purchase of notes at a premium the balance of unamortized expenses was negative and amounted to PLN 8,001 as at December 31, 2016. The effective interest rate was 4.57% as at December 31, 2016.

The carrying amount of the notes liability approximated its fair value. The discount rate for the fair value calculation approximated the effective interest rate.

The notes liability was fully repaid in March 2017, using proceeds from Senior Facilities Agreement drawn down in March 2017.

17.3 Leases

	September 30, 2017 Unaudited	December 31, 2016
Long-term lease liabilities		
Telecommunications sites	613,016	564,680
Points of sale	49,765	33,390
Dark fiber optic cable	5,168	10,581
Collocation centers	13,005	16,931
Offices and warehouse	24,236	29,813
IT equipment and telecommunications equipment	4,254	9,803
Motor vehicles	4,531	4,437
	713,975	669,635
Short-term lease liabilities		
Telecommunications sites	114,396	109,607
Points of sale	27,006	22,290
Dark fiber optic cable	7,736	9,162
Collocation centers	5,790	6,234
Offices and warehouse	7,504	4,766
IT equipment and telecommunications equipment	9,556	15,136
Motor vehicles	6,045	5,884
	178,033	173,079

17.4 Assets pledged as security for finance liabilities

Until June 16, 2017 the Senior Facilities were secured by pledge over the shares in Play Communications S.A. established by Play Holdings 1 S.à r.l. as pledgor in favor of Bank Zachodni WBK S. A. as pledgee. On June 16, 2017 the pledge over the shares was released by virtue of a release agreement executed in connection with the amendment agreement to the Senior Facilities Agreement.

The Senior Facilities are currently secured by:

- financial and registered pledge over the shares in P4 sp. z o.o. established by Play Communications S.A. as pledgor in favor of Bank Zachodni WBK S. A. as pledgee;
- civil and registered pledge over the rights of the general partner in Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. established by 3GNS sp. z o.o. as pledgor in favor of Bank Zachodni WBK S.A. as pledgee;
- civil and registered pledge over the rights of the limited partner in Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. established by P4 sp. z o.o. as pledgor in favor of Bank Zachodni WBK S.A. as pledgee;
- pledges over bank accounts established by Play Communications S.A. as pledgor in favor of Bank Zachodni WBK S. A. as pledgee;
- financial pledges over bank accounts established by P4 sp. z o.o. as pledgor in favor of Bank Zachodni WBK S. A. as pledgee;
- financial pledges over bank accounts established by Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k as pledgor in favor of Bank Zachodni WBK S. A. as pledgee;
- powers of attorney to the bank accounts granted by P4 sp. z o.o. and Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. in favor of Bank Zachodni WBK S.A.;
- registered pledge over the collection of assets (including, without limitation, material intellectual property and insurance (if any)) of P4 sp. z o.o. established by P4 sp. z o.o. as pledgor in favor of Bank Zachodni WBK S. A. as pledgee;

- registered pledge over the collection of assets (including, without limitation, material intellectual property and insurance (if any)) of Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. established by Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. as pledgor in favor of Bank Zachodni WBK S. A. as pledgee;
- assignment relating to intra-group receivables executed by P4 sp. z o.o. as assignor in favor of Bank Zachodni WBK S.A. as assignee;
- assignment relating to intra-group receivables executed by Play Communications S.A. as assignor in favor of Bank Zachodni WBK S.A. as assignee;
- assignment relating to intra-group receivables executed by Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. as assignor in favor of Bank Zachodni WBK S.A. as assignee; and
- submissions to enforcement executed by P4 sp. z o.o., Play Communications S.A. and Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. in favor of Bank Zachodni WBK S.A.

The Senior Secured Notes, the 2015 Senior Secured Notes and the Revolving Credit Facility were secured by:

- a pledge over, or assignment by way of security of, all of the issued and outstanding capital stock in each of the Senior Secured Notes Issuer (Play Finance 2 S.A.) and the Senior Secured Note Guarantors (Collectively, Play Communications S.A., Play Holdings 3 S. à r. l. before merger with Play Communications S.A., P4 Sp. z o.o., the Senior Notes Issuer and Play 3GNS spółka z ograniczoną odpowiedzialnością sp. k.);
- an assignment by way of security or pledge of the Senior Secured Notes Proceeds Bonds (intergroup notes issued by P4 Sp. z o.o. and by Glenmore Investments Sp. z o.o. before merger with P4 Sp. z o.o. subscribed for by Play Finance 2 S.A.);
- a pledge over substantially all of the assets (i.e., whole business) of each of P4 Sp. z o.o. and Play 3GNS spółka z ograniczoną odpowiedzialnością sp. k. (including, without limitation, any bank accounts, material trademarks and other movable property and assets owned by such entities);
- a pledge over the bank accounts of the Senior Secured Notes Issuer and each of the Senior Secured Notes Guarantors; and
- a pledge over any receivables of the Senior Secured Notes Issuer and each of the Senior Secured Note Guarantors (including, without limitation, the Senior Secured Notes Proceeds Bonds).

The Senior Notes were secured by:

- junior-priority security interests over the following property and assets:
 - a pledge over the issued and outstanding capital stock of each of the Senior Notes Issuer (Play Finance 1 S.A.), P4 Sp. z o.o., Play 3GNS spółka z ograniczoną odpowiedzialnością sp. k., Play Communications S.A. and Play Holdings 3 S. à r. l. before merger with Play Communications S.A.; and
 - a pledge or assignment of the Senior Notes Proceeds Bonds (intergroup notes issued by Glenmore Investments Sp. z o.o. before merger with P4 Sp. z o.o. subscribed for by Play Finance 1 S.A.).

18. Provisions

	September 30, 2017	December 31, 2016
	Unaudited	
Assets retirement provision	46,256	38,902
Other long-term provisions	8,413	8,618
Short-term provisions	43	1,006
	<u>54,712</u>	<u>48,526</u>

Movements of the provisions are as follows:

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2017	38,902	8,618	1,006	48,526
Increase	7,675	341	-	8,016
Decrease:	(321)	(546)	(963)	(1,830)
- reversal of provisions	(321)	(216)	(182)	(719)
- utilization	-	(330)	(781)	(1,111)
As at September 30, 2017, unaudited	46,256	8,413	43	54,712

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2016	38,255	8,217	996	47,468
Increase	5,462	539	20,433	26,434
Decrease:	(287)	(206)	(20,476)	(20,969)
- reversal of provisions	(287)	(206)	(43)	(536)
- utilization	-	-	(20,433)	(20,433)
As at September 30, 2016, unaudited	43,430	8,550	953	52,933

19. Retention programs

Cash-settled retention programs

During the nine-month period ended September 30, 2017 and during the comparative period, the Play Group operated following cash-settled share-based retention programs:

- EGA MB Plan
- PSA 1, PSA 2 and PSA 3 Plans
- SF 1 and SF 2 Plans
- EGA Employees Plan
- VDP 3 Plan

A detailed description of these retention programs is disclosed in the Group's annual consolidated financial statements as at and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014 issued on January 31, 2017.

The agreements relating to SF 1 and SF 2 Plans were terminated in the nine-month period ended September 30, 2017 before the IPO. The member of the program received a payout based on the agreed liquidity option.

The agreement relating to one member of PSA 1, PSA 2 and PSA 3 Plans was transformed into EGA MB Plan in the nine-month period ended September 30, 2017 before the IPO.

The EGA MB Plan, PSA 1, PSA 2 and PSA 3 Plans were settled in cash upon the IPO.

Equity-settled retention programs

Upon the IPO, on July 27, 2017, the members of the Management Board of P4 and key employees have entered into new equity-settled Performance Incentive Plan ("PIP") and Value Development Plan 4 ("VDP4") respectively.

Under the PIP the members of the Managements Board of P4 purchased on the IPO date (July 27, 2017) 3,170,119 shares of the Company ("Original Shares") for which they paid cash at IPO price (36 PLN per share).

Under the VDP4 on the IPO date the members of the scheme received the shares of the Company ("Original Shares") without consideration.

On the first to fifth anniversaries of the IPO date the members of PIP and VDP4 schemes will receive Award Shares, provided that:

- a) they remain an employee of the Group at the respective IPO anniversary (and no notice being given in respect of the termination of their employment);
- b) they continue to hold Original Shares; and
- c) certain performance measures, as specified in the programs, are met in whole or in part.

The members of the schemes will receive Award Shares with maximum number: of 0.10, 0.15, 0.20, 0.25 and 0.30 Award Shares per Original Share held by or on behalf of a member respectively on the first, second, third, fourth and fifth anniversary of the IPO Date.

The exact number of Award Shares will depend on the performance measures, i.e. the value of the Company's shares in comparison to other companies among WIG20 index and the set group of companies (comprising selected European telecommunications companies), measured with the total shareholders reward (in relation to a company, the change of such company's market capitalization over the relevant performance period, plus any dividends or any other cash payments to the company's shareholders, other than in respect of services provided, expressed as a percentage of the opening value at the start of the relevant performance period). 50% of the multiple will depend on WIG20 percentage and the other 50% of the multiple will depend on set companies percentage.

There are certain lock-up arrangements on Original Shares and certain lock-up arrangements on Award Shares.

Number and movements of VDP 3 share appreciation rights

The following table illustrates the number of, and movements in VDP 3 share appreciation rights (not in thousands) during the periods:

	Nine-month period ended September 30, 2017	Nine-month period ended September 30, 2016
	Unaudited VDP 3	Unaudited VDP 3
As at January 1	19,707,094	20,443,338
Granted during the period	-	228,334
Forfeited during the period	(38,328)	(659,024)
As at September 30	19,668,766	20,012,648
Exercisable at September 30	-	-

Change of value of the programs:

The Group estimates value of the liabilities and equity resulting from the plans at each end of the reporting period. Changes in the value of a liability or equity are recognized in statement of comprehensive income. Changes in value of the plans are presented below.

	Long-term cash- settled retention programs liabilities	Short-term cash- settled retention programs liabilities	Other reserves - effect of valuation of equity-settled retention programs
As at January 1, 2017	150,064	17,740	-
Granted during the period	-	-	19,379
Exercised during the period	-	(381,587)	-
Changes in valuation during the period	229,275	-	3,795
Transferred during the period	(371,627)	371,627	-
As at September 30, 2017, unaudited	7,712	7,780	23,174
Vested at September 30, 2017	139	140	-

The amounts exercised during the nine-month period ended September 30, 2017 comprise the amounts paid under EGA MB Plan, PSA 1, PSA 2 and PSA 3 Plans in March 2017 and April 2017, amounts paid under SF 1 and SF 2 Plans in March 2017, advance payments under VDP 3 in June 2017 and final settlement of the liabilities resulting from EGA MB Plan, PSA 1, PSA 2 and PSA 3 Plans upon the IPO.

	Long-term cash- settled retention programs liabilities	Short-term cash- settled retention programs liabilities	Other reserves - effect of valuation of equity-settled retention programs
As at January 1, 2016	163,040	22,294	-
Exercised during the period	-	(24,701)	-
Changes in valuation during the period	(105)	-	-
Transferred during the period	(12,970)	12,970	-
As at September 30, 2016, unaudited	149,965	10,563	-
Vested at September 30, 2016	128,161	10,404	-

20. Trade and other payables

	September 30, 2017 Unaudited	December 31, 2016
Trade payables	770,200	761,621
Investment payables	85,732	320,617
Government payables	96,228	89,991
Employee payables	858	104
Other	4,944	5,248
	957,962	1,177,581

21. Accruals

Accruals include accruals for employee bonuses and unused holidays.

22. Deferred income

	September 30, 2017 Unaudited	December 31, 2016
Airtime from prepaid products	143,448	133,276
Fees related to post-paid contracts	153,457	138,923
	296,905	272,199

23. Operating revenue

Total operating revenue corresponds to the revenue from contracts with customers.

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Service revenue	3,631,892	1,257,774	3,315,719	1,141,343
Usage revenue	2,731,016	944,610	2,541,994	880,146
Interconnection revenue	900,876	313,164	773,725	261,197
Sales of goods and other revenue	1,298,454	463,069	1,181,649	424,612
	4,930,346	1,720,843	4,497,368	1,565,955

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Usage revenue by category				
Retail contract revenue	2,153,934	731,144	1,973,535	685,471
Retail prepaid revenue	460,296	161,386	485,221	165,054
Other revenue	116,786	52,079	83,238	29,620
	2,731,016	944,610	2,541,994	880,146

Other usage revenue consists mainly of revenues from MVNOs to which we provide telecommunications services and revenues generated by subscribers of foreign mobile operators that have entered into international roaming agreements with us for using our network.

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Revenue recognized in the reporting periods that was included in the contract liability balance at the beginning of the period	36,264	5,175	16,618	2,832

The amounts represent service revenues recognized in the reporting periods for which the customers had paid in advance before the beginning of the reporting period.

In the reporting periods there was no revenue recognized from performance obligations satisfied or partially satisfied in previous periods.

The following table includes revenue expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date.

	September 30, 2017	December 31, 2016
	Unaudited	
Transaction price allocated to the remaining performance obligation within:		
1 year	1,695,824	1,512,888
later than 1 year and not later than 2 years	547,407	460,961
later than 2 years and not later than 3 years	44,082	77,923
later than 3 years	36	99
	2,287,350	2,051,871

24. Interconnection, roaming and other service costs

	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2016	Three-month period ended September 30, 2016
	Unaudited	Unaudited	Unaudited	Unaudited
Interconnection costs	(953,477)	(328,607)	(847,883)	(285,072)
National roaming/network sharing	(142,552)	(50,125)	(128,616)	(47,256)
Other service costs	(166,294)	(84,883)	(121,848)	(48,943)
	(1,262,323)	(463,615)	(1,098,347)	(381,271)

Other service costs include international roaming costs, costs of distribution of prepaid offerings (commissions paid to distributors for sales of top ups) and fees paid to content providers in transactions in which we act as a principal.

25. Contract costs, net

	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2016	Three-month period ended September 30, 2016
	Unaudited	Unaudited	Unaudited	Unaudited
Contract costs incurred	(323,167)	(108,545)	(327,051)	(123,823)
Contract costs capitalized	305,522	101,327	314,935	131,286
Amortization and impairment of contract costs	(303,993)	(100,691)	(282,265)	(99,328)
	(321,638)	(107,909)	(294,381)	(91,865)

26. General and administrative expenses

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Employee benefits	(452,852)	(79,995)	(158,868)	(70,354)
Salaries	(154,767)	(49,501)	(138,436)	(48,592)
Social security	(22,413)	(6,697)	(19,347)	(6,212)
Special bonuses	(23,223)	(186)	(1,190)	(1,190)
Retention programs, including:	(252,449)	(23,611)	105	(14,360)
- <i>equity settled</i>	23,174	23,174	-	-
External services	(480,960)	(162,341)	(407,909)	(142,989)
Network maintenance, leased lines and energy	(97,335)	(34,294)	(87,749)	(30,257)
Advertising and promotion expenses	(131,852)	(37,058)	(153,088)	(54,805)
Customer relations costs	(54,155)	(17,139)	(47,141)	(16,805)
Office and points of sale maintenance	(12,042)	(4,164)	(11,297)	(3,981)
IT expenses	(21,072)	(7,019)	(21,930)	(6,687)
People related costs - cars, trainings and other	(14,716)	(4,856)	(12,494)	(4,345)
Finance and legal services	(50,827)	(29,232)	(12,635)	(4,184)
Management fees	(49,034)	(14,739)	(23,776)	(7,756)
Other external services	(49,927)	(13,840)	(37,799)	(14,169)
Taxes and fees	(58,736)	(23,720)	(48,835)	(16,733)
	(992,548)	(266,056)	(615,612)	(230,076)

The increase in costs of finance and legal services was mainly caused by expenses related to the IPO. The increase in costs of other external services related primarily to costs of preparation for the IPO, costs of prepaid registration process and strategic projects out of usual scope of the Group's business. The increase in costs of salaries and social securities was mainly due to the increase of the number of employees due to growing scope of Group operations and due to increase in costs of performance-related bonuses. The increase in costs of special bonuses and retention programs result from the settlement of the Management Board retention plans triggered by the IPO.

As the Play Group has employees in Poland as well as in Luxembourg, it is legally required to pay monthly social security contributions to the pension administration in both countries. During the nine-month period ended September 30, 2017 and the nine-month period ended September 30, 2016, the rate of social security contributions amounted to 9.76% of gross salaries for the employees in Poland and 8% of gross salaries for the employees in Luxembourg. The Group is not required to make any contributions in excess of this statutory rate.

27. Depreciation and amortization

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Depreciation and amortization				
Depreciation of property, plant and equipment	(212,931)	(63,842)	(151,228)	(55,223)
Amortization of intangibles	(270,852)	(83,157)	(208,461)	(79,509)
Depreciation of right-of-use assets	(109,834)	(37,366)	(111,980)	(38,891)
	(593,617)	(184,365)	(471,669)	(173,623)

Depreciation and amortization increased due to increase in gross book value of assets following the development of the Group's telecommunications network as well as due to reviewed and adjusted assets' residual values and useful lives to reflect some faster changes in telecommunications technology.

28. Other operating income and other operating costs

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Other operating income				
Income from early contract termination	21,238	5,927	23,723	8,129
Gain on disposal of non-current assets	4,296	2,312	7,736	3,384
Reversal of impairment of other non-current assets	-	27	-	-
Reversal of provisions	378	41	-	-
Exchange rate gains	1,104	-	-	-
Income from subleasing of right-of-use assets	6,506	2,498	5,624	1,818
Interest income on trade receivables and cash	6,978	2,602	6,387	1,548
Other miscellaneous operating income	12,777	4,524	9,821	1,802
	53,277	17,931	53,291	16,681
Other operating costs				
Impairment of contract assets	(50,152)	(22,793)	(37,632)	(13,028)
Impairment of other non-current assets	(3,002)	-	(5,293)	(3,309)
Bad debt	(347)	(10,361)	(49,523)	(19,927)
Exchange rate losses	-	(635)	(2,763)	(84)
Other miscellaneous operating costs	(2,742)	(560)	(26,892)	(138)
	(56,243)	(34,349)	(122,103)	(36,486)

29. Finance income and finance costs

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Finance income				
Interest income	113,831	72,416	13,406	4,692
Net gain on finance instruments at fair value	-	-	93,655	76,550
Exchange rate gains	58,891	-	-	115,118
	172,722	72,416	107,061	196,360
Finance costs				
Interest expense, including:	(385,698)	(101,128)	(252,744)	(80,575)
- on lease liabilities	(46,459)	(15,603)	(45,511)	(14,844)
Net loss on finance instruments at fair value	(169,790)	(7)	-	-
- early redemption options	(134,246)	-	-	-
- hedging instruments at fair value through profit or loss	(32,646)	(18)	-	-
- gain/(loss) relating to ineffective portion of hedging instruments at fair value through other comprehensive income	(2,898)	11	-	-
Exchange rate losses	-	(35,856)	(51,795)	-
	(555,488)	(136,991)	(304,539)	(80,575)

The increase in interest expense resulted mainly from redemption costs in the amount of PLN 78,689 thousand related to repayment of Senior Secured Notes and Senior Notes liabilities in March 2017. Please see Note 17.

The loss on finance assets at fair value through profit or loss in the nine-month period ended September 30, 2017 resulted mainly from the de-recognition of early redemption options embedded in the Senior Secured Notes Indenture and Senior Notes Indenture (please see also Note 10) as a result of the repayment of the Notes, as well as losses on derivatives used to hedge the currency risk related to repayment of the EUR-denominated Notes (please see also Note 2.5.1).

30. Taxation

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Current tax benefit/(charge)	6,622	-	(86,395)	(16,558)
Deferred tax charge	(126,051)	(59,781)	(83,076)	(27,245)
Income tax charge	(119,429)	(59,781)	(169,471)	(43,803)

Reconciliation between tax base resulting from accounting profit and income tax charge:

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Profit before income tax	363,880	246,700	731,984	430,217
Tax calculated at tax rates applicable to profit (19%)	(69,137)	(46,873)	(139,077)	(81,741)
Effect of difference between tax rates in Luxembourg and in Poland	9,072	1,001	(10,453)	(8,072)
Expenses not subject to tax	(17,490)	(9,983)	(15,770)	25,187
Income not subject to tax	6,260	1,829	33,494	24,400
Adjustments relating to previous tax years	6,622	-	(28,386)	(13)
Change in unrecognized deferred tax asset arising from tax losses	(54,756)	(5,755)	(620)	(195)
Taxable income not included in accounting profit	-	-	(8,659)	(3,369)
Income tax charge	(119,429)	(59,781)	(169,471)	(43,803)

Most of the Play Group's taxable revenue is generated in Polish tax jurisdiction. The corporate income tax rate applicable to subsidiaries incorporated in Poland is 19%. The corporate income tax rate applied to the Company and the subsidiaries incorporated in Luxembourg was 22.80% as at September 30, 2017 and 29.22% as at September 30, 2016 and as at December 31, 2016.

The line "Effect of difference between tax rates in Luxembourg and in Poland" consists of the effect of different tax rates used in Luxembourg and Poland. As at September 30, 2017 Luxembourg entities incurred tax losses which resulted in positive effect of the higher tax rate in the above reconciliation.

Deferred income tax

The deferred income tax calculation is based upon an assessment of the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized.

As at September 30, 2017 deferred income tax was recognized according to the Group's estimation which assumes that the Group will achieve taxable profits in the future. The estimation is based upon long-term financial projections and the budget for the year 2017.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Therefore Play Group offset deferred income tax assets and liabilities on the level of the standalone financial statements of consolidated entities.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable.

	September 30, 2017	December 31, 2016
	Unaudited	
Temporary differences:		
net deductible timing differences	(268,621)	705,167
unutilized tax loss carry-forwards	452,531	10,861
	183,910	716,028
Potential deferred income tax net asset arising from:		
net deductible timing differences	(30,446)	133,894
unutilized tax loss carry-forwards	95,470	3,045
	65,024	136,939
Recognized deferred income tax assets	8,399	134,446
Recognized deferred income tax liability	(318)	(314)
Not recognized deferred income tax assets	56,943	2,807

As at September 30, 2017 and December 31, 2016 the Play Group did not recognize deferred income tax assets relating to tax losses in the entities for which the likelihood of future taxable profits that would allow realization of these tax losses is insufficient.

The Polish tax system has restrictive provisions for the grouping of tax losses for multiple legal entities under common control, such as those of the Play Group. Thus, each of the Play Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation.

In Luxembourg tax losses can be carried forward during a period of maximum 17 years (tax losses incurred during the period from January 1, 1991 to December 31, 2016, may be carried forward without any time limit). In Poland tax losses are permitted to be utilized over five years with utilization restricted to 50% of the loss per annum (thus, a given loss may be utilized by a taxpayer within 2 years at the earliest).

31. Earnings per share

Basic earnings per share are calculated by dividing the period's profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share are calculated by dividing the period's profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted by the effects of all dilutive potential ordinary shares. The dilutive potential ordinary shares are Award shares which will potentially be issued under the PIP and VDP4 retention programs – please see Note 19. As at September 30, 2017 the number of potential PIP and VDP4 Award shares, estimated based on historical performance of the Company's shares in comparison to peer companies for the period from the IPO date to September 30, 2017, amounts to nil.

	Nine-month period ended September 30, 2017	Three-month period ended September 30, 2017	Nine-month period ended September 30, 2016	Three-month period ended September 30, 2016
Net profit for the period	244,451	186,919	562,513	386,414
<u>Weighted average number of shares (in thousands)</u>				
Beginning of period	250,538	250,538	250,538	250,538
- issue of initial shares	250,000	250,000	250,000	250,000
- VDP4 shares issued without consideration	538	538	538	538
Issue of PIP shares	758	2,264	-	-
Weighted average number of shares (basic equals diluted)	251,296	252,803	250,538	250,538
Earnings per share (in PLN) (basic equals diluted)	0.97	0.74	2.25	1.54

32. Cash and cash equivalents presented in statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents are presented net of bank overdrafts. Restricted cash is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

	September 30, 2017 Unaudited	December 31, 2016	September 30, 2016 Unaudited	December 31, 2015
Cash and cash equivalents in statement of financial position	331,718	340,994	55,799	1,556,801
Interest accrued on cash	(10)	-	-	-
Bank overdrafts	-	-	(88,159)	-
Cash and cash equivalents in statement of cash flows	331,708	340,994	(32,360)	1,556,801

33. Changes in working capital and other

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
(Increase)/decrease of inventories	(37,481)	849	13,481	72,061
(Increase)/decrease of receivables	153,354	(5,035)	(330,333)	(156,976)
(Increase)/decrease of prepaid expenses	(8,853)	(7,714)	7,211	3,033
Increase/(decrease) of payables excluding investment payables	(18,512)	55,524	5,310	42,278
Increase/(decrease) of accruals	(12,171)	(17,741)	(28,960)	8,537
Increase/(decrease) of deferred income	24,706	(2,740)	(10,935)	(3,260)
(Increase)/decrease of long-term receivables	(1,321)	(959)	(634)	(441)
Increase/(decrease) of other non-current liabilities	(847)	(375)	(462)	(73)
	98,875	21,809	(345,322)	(34,841)

34. Cash flows relating to finance liabilities

	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Proceeds from finance liabilities				
loans	6,443,000	-	385,000	20,000
	6,443,000	-	385,000	20,000
Repaid finance liabilities and paid costs relating to finance liabilities				
loans	(265,904)	(83,764)	(391,284)	(21,295)
- principal	-	-	(385,000)	(20,000)
- interests	(160,873)	(77,560)	(4,294)	(878)
- other	(105,031)	(6,204)	(1,990)	(417)
notes	(4,660,706)	-	(250,720)	(123,273)
- principal	(4,425,794)	-	-	-
- interests	(156,223)	-	(250,720)	(123,273)
- other	(78,689)	-	-	-
leases	(147,262)	(49,044)	(145,006)	(48,447)
other debt	(4,395)	(2,416)	(402)	(402)
- principal	(4,191)	(2,315)	(395)	(395)
- interests	(204)	(101)	(7)	(7)
	(5,078,267)	(135,224)	(787,412)	(193,417)

Other payments relating to loans represent the loan origination fees incurred in relation with the Senior Facilities Agreement signed in March 2017 – please see also Note 17.1.1. Other payments relating to Notes represent the early redemption fees paid in relation to repayment of the Notes – please see also Note 17.2.

The Group presents cash outflows in the amount of PLN 2,227,933 thousands relating to purchase of notes issued by Impera Holdings S.A. in March 2017 (see Note 8) in cash flows from financing activities in the nine-month period ended September 30, 2017. The purpose of the notes was to facilitate the repayment by Impera Holdings S.A. of the EUR 415,000 thousand 7.75%/8.50% Senior PIK Toggle Notes due 2020 issued on August 6, 2014, proceeds of which had been used to finance distribution of share premium to Impera Holdings S.A. shareholders.

35. Commitments

35.1 2100 MHz and 900 MHz license requirements

As of the date of issuance of these consolidated financial statements, the Group believes to have met the coverage obligations imposed in the frequency reservation decisions relating to 2100 MHz and 900 MHz spectrums. The Group is not aware of any circumstances which may currently give rise to a potential claim in this respect.

35.2 1800 MHz license requirements

The 1800 MHz frequency reservation decision granted to P4 on June 14, 2013 outlines a set of regulatory requirements towards P4. These pertain mainly to realization of investment in telecommunications network encompassing 3200 sites no later than in 24 months from the date of the frequency reservation. 50% of the investment must be pursued in rural or suburban areas or towns with population less than 100 thousand people. Additionally, P4 had to commence provision of services which utilize 1800 MHz frequencies no later than in 12 months from the date of the frequency reservation. As of the date of issuance of these consolidated financial statements, the Group has fulfilled all these obligations.

35.3 800 MHz license requirements

The 800 MHz frequency reservation decision granted to P4 on January 25, 2016 and replaced by decision granted to P4 on June 23, 2016 outlines a set of regulatory requirements towards P4. These pertain mainly to realization of investment in telecommunications network covering 84% of communes (“gmina”) defined as “white spots” in the Appendix 2 to Decision no later than in 24 months from the date of the frequency reservation, additionally to invest in telecommunications network in 90% of communes defined in Appendix 3 no later than in 36 months and in 90% of communes defined in Appendix 4 no later than in 48 months. Additionally, P4 had to commence provision of services which utilize 800 MHz frequencies no later than in 12 months from the date of the frequency reservation.

35.4 2600 MHz license requirements

4 reservation decisions in the 2600 MHz spectrum granted to P4 on January 25, 2016 require that P4 must commence provision of services which utilize 2600 MHz frequencies no later than in 36 months from the date of the frequency reservation.

36. Contingencies and legal proceedings

36.1 Tax contingent liability

Play Group conducts its operations mainly in the area of Polish tax jurisdiction. Regulations relating to value-added tax, corporate income tax, and payroll (social) taxes change often. The lack of reference to well-established tax regulations results in a lack of clarity and consistency. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems. The tax authorities may at any time inspect the books and records and

may impose additional tax assessments with penalty interest and penalties within 5 years from the end of the year in which a tax is due.

On 15 July 2016, amendments were made to the Polish Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. GAAR define tax evasion as an activity performed mainly with a view to realizing tax gains, which is contrary, under given circumstances, to the subject and objective of the tax law. In accordance with GAAR, an activity does not bring about tax gains, if its *modus operandi* was false. Any instances of (i) unreasonable division of an operation (ii) involvement of agents despite lack of economic rationale for such involvement, (iii) mutually exclusive or mutually compensating elements, as well as (iv) other activities similar to those referred to earlier may be treated as a hint of artificial activities subject to GAAR. New regulations will require considerably greater judgment in assessing tax effects of individual transactions.

The GAAR clause should be applied to the transactions performed after clause effective date and to the transactions which were performed prior to GAAR clause effective date, but for which after the clause effective date tax gains were realized or continue to be realized. The implementation of the above provisions will enable Polish tax authority challenge such arrangements realized by tax remitters as restructuring or reorganization.

The Play Group is not aware of any circumstances, which may currently give rise to a potential material liability in this respect.

36.2 Universal service liability to Orange Polska S.A.

The Telecommunications Law states that the obligation to provide universal services shall rest with the operator selected pursuant to a decision of the President of Polish regulator Urząd Komunikacji Elektronicznej ("UKE") issued after a tender procedure. The President of UKE issued a decision assigning Orange Polska S.A. (formerly Telekomunikacja Polska S.A.) as the operator required to provide universal services until May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 thousand have to co-finance the fulfillment of this obligation. The share in the funding that a telecommunications provider will be required to provide shall also be established by a decision of the President of UKE; however, it may not exceed 1% of the telecommunications provider's revenues in the given calendar year, and must be proportionate to its market share vis a vis other entities obliged to co-fund the universal service. The amount of the share in the funding of the universal service shall constitute a deductible cost, as defined by the Act on Corporate Income Tax.

On May 9, 2011, the decision of the President of UKE imposing a universal service obligation on Orange Polska S.A. expired, and since then Orange Polska S.A. is not required to provide this service. The President of UKE for the moment has not initiated a procedure for the designation of the entrepreneur or entrepreneurs required to provide universal service.

Orange Polska S.A. applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision. The application pertains to the subsidy towards the costs for the period from May 8, 2006 to December 31, 2006 and for the years 2007-2009, 2010, 2011 (from January 1, 2011 to May 8, 2011).

On May 24, 2011 the President of UKE issued decisions that granted Orange Polska S.A. a subsidy towards the incurred costs regarding the provision of the universal service for the period 2006-2009 in the total amount of PLN 66,994 thousand (the total amount requested by Orange Polska S.A. was PLN 803,653 thousand).

On January 10, 2012 the President of UKE issued decisions that granted Orange Polska S.A. a subsidy towards the incurred costs regarding the provision of the universal service for the year 2010 in the amount of PLN 55,102 thousand (the amount requested by Orange Polska S.A. was PLN 269,436 thousand). On September 17, 2013 the President of UKE issued a decision that granted Orange Polska S.A. a subsidy towards the incurred costs regarding the provision of the universal service for the period from January to May 2011 in the amount of PLN 14,903 thousand (the amount requested by Orange Polska S.A. was PLN 33,839 thousand).

The administrative procedures to set the level of P4's contribution to universal service for the year 2007 have started on September 30, 2011, for the year 2008 - on November 30, 2011, for the year 2009 - on December 9, 2011, for the year 2010 - on May 22, 2012, for the year 2011 - on October 14, 2013. In December 2016 and on January 18, 2017 and on February 2, 2017, the President of UKE issued Decisions setting the list of operators and the level of their

contribution to the universal service for the years 2007, 2008, 2009 and 2010. On March 30, 2017, the President of UKE issued the decision determining the exact amount of Play Group's contribution for 2007, which was PLN 6 thousand. On April 14, 2017 the President of UKE issued Decision in the proceedings of a request for reconsideration of a case and setting the list of operators and the level of their contribution to the universal service for the year 2008. On May 25, 2017, the President of UKE commenced the proceedings to determine the exact amount of Play Group's contribution for the year 2008. On June 22, 2017 the President of UKE issued Decision setting the list of operators and the level of their contribution to the universal service for the year 2011. On June 27, 2017 the President of UKE issued Decision in the proceedings of a request for reconsideration of a case and setting the list of operators and the level of their contribution to the universal service for the year 2009. On June 29, 2017 the President of UKE issued Decision in the proceedings of a request for reconsideration of a case and setting the list of operators and the level of their contribution to the universal service for the year 2010. Decisions relating to Play Group's contribution to universal service for the years 2008 -2011 are expected in the second half of 2017. On September 15, 2017, the President of UKE issued the decision determining the exact amount of Play Group's contribution for 2008, which was PLN 33 thousand. The Play Group has created a provision in the consolidated financial statements for P4's share in the universal service contributions based on the UKE decisions and on estimates prepared for the years 2009, 2010 and 2011.

36.3 Legal and regulatory proceedings

In April 2013 Sferia S.A., Polkomtel Sp. z o.o. and Polska Izba Radiodfuzji Cyfrowej ("PIRC") applied for annulment of the tender for 1800 MHz frequencies in its entirety due to the violation of the principles of open and transparent, non-discriminatory and proportionate procedures aimed at allocating frequencies and incorrect assessment of bids during the first stage of the tender, which led to the rejection of the Sferia's and Emitel's bids. UKE President in its decision of 27 October 2015 refused to annul the tender. Polkomtel, PIRC, and Sferia placed with the UKE President requests for reconsideration of the decision. In May 2016, we filed our response to the claims raised by Sferia, Plus and PIRC and requested that the UKE President dismiss the applications for annulment. President of UKE in its decision of August 3, 2016 upheld the decision refusing to invalidate the 1800 MHz tender. The President UKE's decision was appealed against at the lower administrative court (Voivodship Administrative Court) by Polkomtel, PIRC and Sferia. The Voivodship Administrative Court in its judgment of September 25, 2017 dismissed Polkomtel's, Sferia's and PIRC's appeals. The judgements may be appealed against at the Supreme Administrative Court. The Group assesses the risk of the outcome that would be unfavorable for P4 as low.

In July 2013 Sferia S.A., Polkomtel Sp. z o.o. and Emitel S.A. applied for reconsideration of the three decisions on reservation of 1800 MHz frequencies for P4. Sferia, Polkomtel and Emitel demand, inter alia, the cancelation of the three decisions and suspension of this proceeding until the proceeding regarding the annulment of the 1800 tender is finalized. UKE President in its decisions of October 30, 2015 upheld the 3 decisions on reservation for P4 of the frequencies in the 1800 MHz spectrum. UKE President's decisions were appealed against at the lower administrative court by Polkomtel. In March 2016, acting as a party to the proceedings, we filed our response to the Polkomtel's motion to withhold the enforceability of the decisions and requested the court to dismiss the motion. In three of the proceedings the court refused to withhold the enforceability of the three P4's decisions. In July 2016, we filed our answers to the Polkomtel's appeals against the reservation decisions and requested the court to dismiss the appeals in the whole. The Voivodship Administrative Court in judgments of August 25, 2016 and August 30, 2016 dismissed Polkomtel's complaints against three decisions. The judgements were appealed against at the Supreme Administrative Court by Polkomtel. The Group assesses the risk of the outcome that would be unfavorable for P4 as low.

President of the Office of Competition and Consumer Protection (UOKiK) in its decision of November 23, 2011 imposed a fine of PLN 10,706 thousand on P4 for the participation in the anti-competitive agreement aimed at coordination of the business relations with Info-TV-FM Sp. z o.o., including exchange of information pertaining to evaluation of Info-TV-FM's wholesale offer and agreeing public questioning the said offer. District Court in Warsaw in its judgment of June 19, 2015 repealed UOKiK's decision. Therefore the provision for potential penalty resulting from the proceeding has been released in the year ended December 31, 2015. On March 15, 2017 the Appeal Court dismissed the appeal of UOKiK and confirmed that there wasn't any anti-competitive arrangement/collusion between Plus, Orange, T-Mobile and P4. President of UOKiK filed a cassation against the judgment, the Supreme Court hasn't decided on its admissibility yet.

In November 2015, Polkomtel, T-Mobile and Net sp. z o.o. applied to the UKE President for the annulment of the auction for the 800/2600 MHz frequency in its entirety, claiming the violation of procedures applicable to the allocation of frequencies. The motions to invalidate the tender initiated administrative proceeding before the UKE President. The UKE President has not reviewed the case yet. It is difficult to assess the legal risk of the aforementioned motions at this stage.

In February 2016, Polkomtel, T-Mobile and Net Net sp. z o.o. applied to the UKE President for reconsideration of the decision on reservation of 800/2600 MHz frequencies for P4. Polkomtel, T-Mobile and Net Net sp. z o.o. demand inter alia the cancelation of the decision on reservation of 800 MHz and relocation of the 800 MHz block of frequency. The motions initiate administrative procedures before the President of UKE. In June 2016, The UKE President issued new decisions on reservation of 800/2600 MHz frequencies and in case of P4 decided about the relocation of the 800 MHz block of frequency (P4 received the Block C instead of the Block D). The UKE President's decisions on reservation of 800/2600 MHz frequencies were appealed against at the lower administrative court (Voivodship Administrative Court) by Polkomtel. T-Mobile also appealed against the decisions on reservation of 800 MHz with regard to Block C and E. The Voivodship Administrative Court in judgments of 30 January 2017 dismissed Polkomtel's and T-Mobile's complaints against the P4's decisions. The judgements may be appealed against at the Supreme Administrative Court. It is difficult to assess the legal risk at this stage.

There is a number of other proceedings involving the Group initiated among others by UKE or UOKiK. As at September 30, 2017, the Group recognized provisions for known and quantifiable risks related to these proceedings, 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 Group such disclosure could prejudice the outcome of the pending cases.

37. Related party transactions

37.1 Transactions with Shareholders and with entities related via Shareholders

	September 30, 2017 Unaudited	December 31, 2016		
Loans given	-	18,634		
Long-term receivables - debt securities	-	322,641		
Other long-term receivables	12	25		
Trade and other receivables	3,718	59		
Trade and other payables	46,597	4,928		
	Nine-month period ended September 30, 2017 Unaudited	Three-month period ended September 30, 2017 Unaudited	Nine-month period ended September 30, 2016 Unaudited	Three-month period ended September 30, 2016 Unaudited
Management fees	(49,034)	(14,739)	(23,776)	(7,756)
Other operating income	55	4	384	11
Other operating costs	(70)	-	(69)	(23)
Recharge of operating costs	3,798	1,243	70	-
Interest income	113,595	72,180	13,310	4,672

In the nine-month period ended September 30, 2017 the A Series Notes issued by Impera Holdings S.A. were redeemed against the Company's share premium. For more information regarding repayment, purchase or redemption

of intercompany notes please see Note 8. For other transactions with Shareholders affecting the share capital or share premium please see Note 16.

37.2 Remuneration of management and supervisory bodies

Cost of remuneration (including accrued bonuses and special bonuses) of members of Boards of Directors or Boards of Managers in Group entities incurred for the nine-month period ended September 30, 2017 amounted to PLN 31,190 thousand (PLN 7,080 thousand for the nine-month period ended September 30, 2016).

Cost of remuneration of members of Supervisory Board of P4 incurred during the nine-month period ended September 30, 2017 amounted to PLN 1,663 thousand (for the nine-month period ended September 30, 2016 PLN 1,876 thousand). The Supervisory Board ceased to exist in June 2017.

Additionally, the members of the P4's Management Board participated in the retention programs (see Note 19). The valuation of the programs resulted in cost of PLN 229,301 thousand for the nine-month period ended September 30, 2017 and income of PLN 9,465 thousand for the nine-month period ended September 30, 2016. Relating costs and income are included in general and administrative expenses in the consolidated statement of comprehensive income.

During the nine-month period ended September 30, 2017 the members of the P4's Management Board acquired Company's shares under the new PIP retention program. Please see Note 16 and Note 19.

Apart from the transactions mentioned above the Group is not aware of any other material transactions related to members of the Board of Directors of Play Communications S.A., Supervisory Board or the Management Board of P4, or supervisory or management bodies of any other entities within the Group.

38. Events after the reporting period

In October 2017 the lower chamber of the Polish Parliament accepted the bill amending the Corporate Income Tax Act and Personal Income Tax Act. The planned changes may come into force with effective date January 1, 2018. The Group expects that due to the changes in legislation the Group's effective tax rate will increase. However, the works on the bill are still in progress and the final wording of the legislation may differ from the current version of the bill in question. Thus, potential impact on our financial results for 2017, 2018 and following years is difficult to assess.

The Group has not identified any other events after the reporting period that should be disclosed in the interim condensed consolidated financial statements.



Name: Ioannis Karagiannis
Title: Class B director



Name: Serdar Çetin
Title: Class C director