

**PLAY**

# ANNUAL REPORT

ON THE ACTIVITY FOR THE YEAR  
ENDED DECEMBER 31, 2017



**Play Communications S.A. and its subsidiaries**  
February 27, 2018



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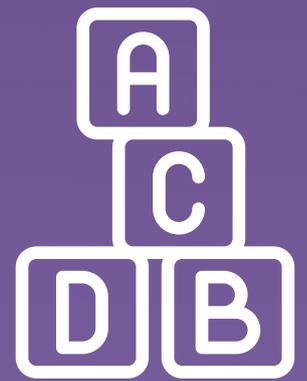
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# DEFINITIONS



## DEFINITIONS

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 Autumn 2017 European Economic Forecast, published on November 9, 2017
- 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
- 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>
<b>Terms related to subscribers</b>	
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.

Term	Usage by Play
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 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)	We define average subscriber base in a reporting period as follows:

Term

Usage by Play

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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).

The above methodology is used to calculate our average reported subscriber base or average active subscriber base.

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.

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).

Term

Usage by Play

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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—Early Adopted Accounting Standards"* for a discussion of the early adoption of IFRS 15.

Term	Usage by Play
	<p>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.</p>
Data usage per subscriber	<p>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.</p>
<b>Terms related to costs</b>	
Subscriber acquisition costs	<p>We define subscriber acquisition costs as the sum of contract subscriber acquisition costs and prepaid subscriber acquisition costs.</p> <p>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).</p> <p>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.</p>
Unit SAC	<p>We define unit SAC as subscriber acquisition costs divided by the total gross additions in a given period.</p>
Unit SAC cash	<p>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.</p>
Unit contract SAC	<p>We define unit contract SAC as contract subscriber acquisition costs divided by the total number of contract gross additions in a given period.</p>

<u>Term</u>	<u>Usage by Play</u>
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.
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.

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.

All other key definitions are listed below.

“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.
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“Bank Zachodni WBK Overdraft Facility”	Overdraft agreement between the Group and Bank Zachodni WBK S.A. in an aggregate principal amount of PLN 100 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 (société à responsabilité limitée) 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 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 (Commission de Surveillance du Secteur Financier) 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 Impera Holdings S.A. and payment of fees and expenses related to such transactions
“Report”	The present report “Board of Directors’ report on the activity in the twelve-month period ended December 31, 2017”
“Revolving Credit Facility”	The PLN 400,000,000 multi-currency revolving credit facility made available pursuant to the Senior Facilities Agreement.

"RLAH"	Roam Like At Home, regulation (EU) 2017/920 concerning the abolition of all roaming charges for temporary roaming within the EEA as of 15 June 2017.
"Telco Holdings"	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).
"Tollerton"	Tollerton Investment Limited, a company organized under the laws of Cyprus, with its registered office at 2 Arch. Makariou III & Nikolaou Gyzi Street, Kyprianou Business Center, 3rd Floor Office 302, 3060, Limassol, Cyprus.
"U.S. GAAP"	Generally accepted accounting principles in the United States.

PLAY

# PART I GENERAL INFORMATION



## 1. 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 February 27, 2018, 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.

## **2. 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 Company 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.

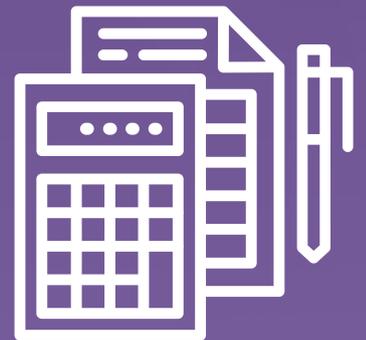
### **3. RECENT DEVELOPMENTS**

On January 15, 2018, the Group entered into a set of agreements with Virgin Mobile Polska sp. z o.o. ("**VMP**") and its shareholders as well as with the group of leading investors in VMP. VMP is the largest Polish MVNO with 412,000 customers as of the end of 2016. These agreements give the Group, among others, a call option to acquire all shares in VMP during 2020 at an agreed valuation methodology based on VMP's one time annual revenue adjusted by certain elements. The investors in VMP undertook to procure that all shares in VMP are sold to the Group in case the Group exercises the call option. In addition, the agreements define terms of future cooperation between the Group and VMP, continuing the successful relationship from the inception of VMP, with increased committed revenues by approximately PLN 25 million up to total of approximately PLN 84 million to the Group for the years 2018-2021. The Group believes these agreements will enhance the Group's leadership in the Polish mobile market.

The Group has not identified any other events after the reporting period that should be disclosed in the Report.

PLAY

# PART II BUSINESS REPORT



## **4. DIRECTORS' REPORT**

### **Group performance**

Operating revenue increased by PLN 552.3 million, or 9.0%, from PLN 6,117.6 million for the year ended December 31, 2016, to PLN 6,669.9 million for the year ended December 31, 2017. This increase resulted primarily from growth in retail contract usage revenue, interconnection revenue and sales of goods and other revenue.

Operating expenses increased by PLN 824.5 million, or 17.3%, from PLN 4,753.5 million for the year ended December 31, 2016, to PLN 5,578.1 million for the year ended December 31, 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.

Our operating profit amounted to PLN 1,106.9 million, or a margin of 16.6%.

Net financial expenses amounted to PLN 477.6 million for the year ended December 31, 2017, including higher interest expenses compared to 2016, mainly due to early redemption fees related to repayment of notes.

Profit before income tax amounted to PLN 629.3 million included the effect of the increase in operating expenses and finance costs.

The Group tax charge amounted to PLN 242.0 million leaving a net profit for the year of PLN 387.3 million compared to PLN 712.0 million in 2016.

### **Share capital**

The Company's share capital currently amounts to EUR 30,445.03 and is comprised of 253,708,444 bearer shares with a nominal value of EUR 0.00012 each.

At December 31, 2017, no treasury shares were held by the Company.

### **Risks and uncertainty factors**

The Group offers mobile voice, messaging, data, video services (including TV distribution) and data transmission, as well as value added services and sales of handsets and other devices, to individual and business customers exclusively in Poland, where substantially all of our reported subscribers are located. For this reason, macroeconomic conditions in Poland, as well as global economic, financial or geopolitical conditions may have a material impact on our business, financial condition and results of operations and prospects.

The mobile telecommunications industry is characterized by rapidly changing technology and related changes in subscriber demand for new offerings and services at competitive prices and the Group cannot assure you that the Group will be able to sufficiently and efficiently adapt the services the Group provides to keep up with rapid developments in the industry. In particular, the Group expects certain communications technologies that have recently been developed or are currently under development to become increasingly important in our market.

The Group faces strong competition for subscribers from established competitors, including, in particular, the other mobile operators operating under following brands: Plus, Orange and T-Mobile, which along with the Group, as of December 31, 2017, based on the CSO's most recent analysis regarding SIM cards in the Polish market, together held over 99% of reported subscriber market share in the Polish market.

Although in recent years we have made extensive capital investments and capital expenditures in order to build and further improve our network, our business remains capital intensive and the Group expects it will always require significant amounts of capital investment.

Further information on these and other key risks as well as our risk management framework are set out in Risk Factors – 13 section of the Annual Report.

## **Financial risk management objectives and policies**

Play's financial risk management policies and objectives, together with a description of the various risks and hedging activities undertaken by the Group, are set out in the Risk Factors section of the Annual Report.

Internal controls and risk management on the preparation of the consolidated financial statements are set out in the Risk Factors section of the Annual Report as well as in the Organization and Corporate Governance section pages.

## **Research and development**

The Group does not have any design department dealing with R&D, however such activities are scattered throughout the organization. The Group considers research and development activities an important tool for competing effectively and commits certain resources to such activities. In order to ensure the quality of our network and to offer the latest and mobile telephony technology as well as innovative services and products to subscribers, we test new equipment, systems and products regularly, install new equipment and systems that we consider useful or cost effective, undertake modifications to existing equipment and systems and test the network quality on a regular basis. We established dedicated team ("UX") that focuses on approaching products/services design from the perspective of customers' usability and efficiency. UX is responsible inter alia for research and enhancement of customers' satisfaction from the innovative products/services by improving the usability, accessibility.

## **Non-financial information**

Non-financial information, such as environmental, social, human rights and the fight against corruption are set out in the Corporate Responsibility – 14 section of this Annual Report.

## **Outlook for the Group**

The Outlook for the Group for year 2018 which includes Play's Strategy for 2018 – 2020, developments in 2018 and guidance for 2018 and going forward is described in section 11 *OUTLOOK OF PLAY'S DEVELOPMENTS IN 2018* of the Annual Report.

## **Subsequent events**

On January 15, 2018, the Group entered into a set of agreements with Virgin Mobile Polska sp. z o.o. ("VMP") and its shareholders as well as with the group of leading investors in VMP. VMP is the largest Polish MVNO with 412,000 customers as of the end of 2016. These agreements give the Group, among others, a call option to acquire all shares in VMP during 2020 at an agreed valuation methodology based on VMP's one time annual revenue adjusted by certain elements. The investors in VMP undertook to procure that all shares in VMP are sold to the Group in case the Group exercises the call option. In addition, the agreements define terms of future cooperation between the Group and VMP, continuing the successful relationship from the inception of VMP, with increased committed revenues by approximately PLN 25 million up to total of approximately PLN 84 million to the Group for the years 2018-2021. The Group believes these agreements will enhance the Group's leadership in the Polish mobile market.

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

Luxembourg, February 27, 2018

A handwritten signature in blue ink, appearing to read 'Ioannis Karagiannis', written over a horizontal line.

Name: Ioannis Karagiannis

Title: Class B director

A handwritten signature in blue ink, appearing to read 'Serdar Çetin', written over a horizontal line.

Name: Serdar Çetin

Title: Class C director

## 5. PRESENTATION OF FINANCIAL INFORMATION

### 5.1 General

The consolidated financial information included herein has been prepared in accordance with IFRS as adopted by the European Union - as presented in Play Communications S.A. and its subsidiaries audited consolidated financial statements prepared in accordance with IFRS as adopted by the European Union as at and for the year ended December 31, 2017 (the “**Financial Statements**”), included elsewhere in this Report. Ernst & Young *société anonyme* have audited the Financial Statements.

The financial information included in this Report is not intended to comply with the United States Securities and Exchange Commission’s reporting requirements.

IFRS differs in various significant respects from U.S. GAAP. You should consult your own professional advisors for an understanding of the differences between IFRS, 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 this Report.

The preparation of financial statements in conformity with IFRS as adopted by the European Union 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 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 PLN as zloty is the functional currency of the Group.

### 5.2 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 non-recurring 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.

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 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. We compensate for these limitations by relying primarily on our results in accordance with IFRS and using non-IFRS measures only supplementally.

### **5.3 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 previous revenue standard, IAS 18 Revenue, 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, telecommunications 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 telecommunications 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, telecommunications 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 costs" 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 had been 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 impairment recognition required against the significant contract assets 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 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 financial liabilities on the balance sheet.

## 6. 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 consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows of the Group set forth below as of and for the year ended December 31, 2017, and the year ended December 31, 2016, have been derived from the Financial Statements included elsewhere in this Report.

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

### 6.1 Consolidated Statement of Comprehensive Income

	Year ended December 31, 2016	Year ended December 31, 2017	Three-month period ended December 31, 2016	Three-month period ended December 31, 2017	Notes to the Financial Statements
	(PLN in millions)	(PLN in millions)	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
<b>Operating revenue</b>	<b>6,117.6</b>	<b>6,669.9</b>	<b>1,620.2</b>	<b>1,739.5</b>	23
Service revenue	4,492.8	4,878.2	1,177.1	1,246.3	
Sales of goods and other revenue	1,624.7	1,791.6	443.1	493.2	
<b>Operating expenses</b>	<b>(4,753.5)</b>	<b>(5,578.1)</b>	<b>(1,254.4)</b>	<b>(1,397.3)</b>	
Interconnection, roaming and other services costs	(1,495.8)	(1,729.5)	(397.5)	(467.2)	24
Contract costs, net	(398.9)	(429.1)	(104.5)	(107.5)	25
Cost of goods sold	(1,366.2)	(1,409.8)	(347.1)	(399.2)	
General and administrative expenses	(858.5)	(1,212.3)	(242.9)	(219.8)	26
Depreciation and amortization	(634.1)	(797.3)	(162.4)	(203.6)	27
Other operating income	70.7	109.8	17.4	57.0	28
Other operating costs	(144.4)	(94.7)	(22.4)	(38.9)	28
<b>Operating profit</b>	<b>1,290.3</b>	<b>1,106.9</b>	<b>360.8</b>	<b>360.2</b>	
Finance income	135.0	178.9	27.9	6.1	29
Finance costs	(499.1)	(656.4)	(194.6)	(100.9)	29
<b>Profit before income tax</b>	<b>926.1</b>	<b>629.3</b>	<b>194.1</b>	<b>265.4</b>	
Income tax charge	(214.1)	(242.0)	(44.6)	(122.5)	30
<b>Net profit</b>	<b>712.0</b>	<b>387.3</b>	<b>149.5</b>	<b>142.9</b>	
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>-</b>	<b>0.1</b>	<b>-</b>	<b>3.0</b>	10
<b>Total comprehensive income</b>	<b>712.0</b>	<b>387.5</b>	<b>149.5</b>	<b>145.9</b>	
Earnings per share (in PLN) (basic equals diluted) <sup>(1)</sup>	2.84	1.54	0.60	0.56	31
Weighted average number of shares (in millions) (basic equals diluted) <sup>(1)</sup>	250.5	251.9	250.5	253.7	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 shares which will potentially be issued under the PIP and VDP4 retention programs as award shares – please see Note 19 of the Financial Statements included elsewhere in this Report. As at December 31, 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 December 31, 2017, amounts to nil.

Please be aware that the financial figures of the Group for the year ended December 31, 2017 are highly influenced by the Refinancing and Recapitalization as well as the IPO, which among others had the significant impact on valuation of the retention programs. For more details please see Note 19 to the Financial Statements included elsewhere in this Report.

## 6.2 Consolidated Statement of Financial Position

	December 31, 2016	December 31, 2017	Notes to the
	(PLN in millions)	(PLN in millions)	Financial
			Statements
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	1,089.4	1,282.3	3
Right-of-use assets	745.5	855.9	4
Intangible assets	2,628.8	2,683.9	5
Assets under construction	540.4	303.4	6
Contract costs	350.7	361.0	7
Long-term finance receivables	341.0	-	8
Other long-term receivables	12.2	13.8	9
Other long-term finance assets	134.2	4.3	10
Deferred tax asset	134.4	-	30
<b>Total non-current assets</b>	<b>5,976.7</b>	<b>5,504.5</b>	
<b>Current assets</b>			
Inventories	149.7	159.3	11
Short-term finance receivables	0.3	-	8
Trade and other receivables	1,259.9	1,100.5	12
Contract assets	997.8	1,366.9	13
Current income tax receivables	-	47.5	
Prepaid expenses	21.2	23.5	14
Cash and cash equivalents	341.0	628.7	15
<b>Total current assets</b>	<b>2,769.9</b>	<b>3,326.4</b>	
<b>TOTAL ASSETS</b>	<b>8,746.6</b>	<b>8,831.0</b>	
<b>EQUITY AND LIABILITIES</b>			
<b>Equity attributable to equity holders of the parent</b>			
Share capital	0.1	0.1	16
Share premium	5,644.2	3,673.4	16
Other reserves	-	28.2	10, 19
Retained losses	(4,301.6)	(3,914.3)	
<b>Total equity</b>	<b>1,342.6</b>	<b>(212.6)</b>	
<b>Non-current liabilities</b>			
Long-term finance liabilities - debt	5,176.4	6,752.9	17
Long-term provisions	47.5	58.3	18
Long-term retention programs liabilities	150.1	-	19
Deferred tax liability	0.3	117.1	30
Other non-current liabilities	10.9	10.1	
<b>Total non-current liabilities</b>	<b>5,385.2</b>	<b>6,938.4</b>	
<b>Current liabilities</b>			
Short-term finance liabilities - debt	277.2	586.0	17
Other short-term finance liabilities	-	6.9	10
Trade and other payables	1,177.6	1,106.5	20
Contract liabilities	99.7	87.0	
Current income tax payable	173.8	10.3	
Accruals	54.4	59.5	21
Short-term provisions	1.0	0.1	18
Short-term retention programs liabilities	17.7	17.7	19
Deferred income	217.4	231.2	22
<b>Total current liabilities</b>	<b>2,018.8</b>	<b>2,105.1</b>	
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,746.6</b>	<b>8,831.0</b>	

## 6.3 Consolidated Statement of Cash Flows

	Year ended December 31, 2016	Year ended December 31, 2017	Three-month period ended December 31, 2016 Unaudited	Three-month period ended December 31, 2017 Unaudited	Notes to the Financial Statements
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)	
<b>Profit before income tax</b>	<b>926.1</b>	<b>629.3</b>	<b>194.1</b>	<b>265.4</b>	
Depreciation and amortization	634.1	797.3	162.4	203.6	
Change in contract costs	(40.7)	(10.3)	(8.1)	(8.8)	
Interest expense (net)	316.9	372.5	77.5	100.6	
(Gain)/Loss on finance instruments at fair value	(115.0)	169.3	(21.4)	(0.2)	
Foreign exchange (gains)/losses	162.2	(64.1)	110.5	(5.2)	
Gain on disposal of non-current assets	(8.8)	(5.8)	(1.1)	(1.2)	
Impairment of non-current assets	6.3	5.6	1.0	2.6	
Change in provisions and liabilities or equity related to retention programs	(17.1)	(123.1)	7.4	7.2	
Changes in working capital and other	(237.1)	201.2	97.8	100.0	33
Change in contract assets	3.1	(369.1)	(63.5)	(99.4)	
Change in contract liabilities	9.8	(12.8)	7.6	1.6	
<b>Cash provided by operating activities</b>	<b>1,639.7</b>	<b>1,589.9</b>	<b>564.4</b>	<b>566.2</b>	
Interest received	0.1	0.5	-	0.3	
Income tax paid	(52.2)	(201.1)	(0.4)	(16.1)	
<b>Net cash provided by operating activities</b>	<b>1,587.5</b>	<b>1,389.3</b>	<b>564.0</b>	<b>550.4</b>	
Proceeds from sale of non-current assets	5.5	3.5	0.4	0.9	
Proceeds from loans given	-	18.3	-	-	8
Proceeds from finance receivables	-	388.3	-	-	8
(Repayment of notes by Impera Holdings S.A.)	-	-	-	-	
Purchase of fixed assets and intangibles and prepayments for assets under construction	(491.4)	(653.8)	(139.3)	(124.2)	
Cash outflows in relation to frequency reservation acquisition	(1,704.4)	(81.0)	-	-	
Loans given	(17.9)	-	-	-	
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	(141.1)	(68.9)	-	-	8
<b>Net cash used in investing activities</b>	<b>(2,349.3)</b>	<b>(393.6)</b>	<b>(138.9)</b>	<b>(123.3)</b>	
Proceeds from equity increase	-	285.4	-	-	
Proceeds from finance liabilities	385.0	6,443.0	-	-	17
Repaid finance liabilities and paid interest and other costs relating to finance liabilities	(839.2)	(5,208.3)	(51.8)	(130.0)	17
Purchase of notes issued by Impera Holdings S.A.	-	(2,227.9)	-	-	8, 17.4
<b>Net cash used in financing activities</b>	<b>(454.2)</b>	<b>(707.8)</b>	<b>(51.8)</b>	<b>(130.0)</b>	
<b>Net change in cash and cash equivalents</b>	<b>(1,215.9)</b>	<b>287.9</b>	<b>373.4</b>	<b>297.2</b>	
Effect of exchange rate change on cash and cash equivalents	0.1	(0.4)	(0.0)	(0.4)	
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,556.8</b>	<b>341.0</b>	<b>(32.4)</b>	<b>331.7</b>	
<b>Cash and cash equivalents at the end of the period</b>	<b>341.0</b>	<b>628.5</b>	<b>341.0</b>	<b>628.5</b>	32

## 6.4 Other Operating and Financial Information

	Year ended December 31, 2016	Year ended December 31, 2017	Three-month period ended December 31, 2016	Three-month period ended December 31, 2017
			Unaudited	Unaudited
	(PLN in millions, except percentages)	(PLN in millions, except percentages)	(PLN in millions, except percentages)	(PLN in millions, except percentages)
Adjusted EBITDA <sup>(1)</sup>	2,035.3	2,297.7	560.6	569.5
Adjusted EBITDA margin <sup>(1)</sup>	33.3%	34.4%	34.6%	32.7%
Total cash capital expenditures <sup>(2)</sup>	2,190.4	731.3	138.9	123.3
of which cash outflows in relation to frequency reservation acquisition <sup>(3)</sup>	1,704.4	81.0	-	-
Adjusted EBITDA less total cash capital expenditures (excl. cash outflows in relation to frequency reservation acquisition) <sup>(1)(3)</sup>	1,549.3	1,647.4	421.8	446.3
Cash conversion <sup>(1)(4)</sup>	76.1%	71.7%	75.2%	78.4%
Free cash flow to equity (post lease payments) <sup>(1)(5)</sup>	782.7	664.3	405.8	297.0

- (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. For a reconciliation of Adjusted EBITDA to operating profit, see *"EBITDA and Adjusted EBITDA reconciliation"*.
- (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 year ended December 31, 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 year ended December 31, 2017, the Group acquired a reservations 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.
- (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."*

## 6.5 EBITDA and Adjusted EBITDA reconciliation

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

	Year ended December 31, 2016	Year ended December 31, 2017	Three-month period ended December 31, 2016	Three-month period ended December 31, 2017
			Unaudited	Unaudited
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)
<b>Operating profit</b>	<b>1,290.3</b>	<b>1,106.9</b>	<b>360.8</b>	<b>360.2</b>
Add depreciation and amortization	634.1	797.3	162.4	203.6
<b>EBITDA</b>	<b>1,924.3</b>	<b>1,904.1</b>	<b>523.2</b>	<b>563.9</b>
Add management fees <sup>(a)</sup>	35.9	48.6	12.1	(0.4)
Add valuation of retention programs and special bonuses <sup>(b)</sup>	7.2	282.9	6.1	7.2
Add other non-recurring costs <sup>(c)</sup>	67.9	62.1	19.2	(1.1)
<b>Adjusted EBITDA</b>	<b>2,035.3</b>	<b>2,297.7</b>	<b>560.6</b>	<b>569.5</b>

- (a) Costs of management fees for the year ended December 31, 2016 comprised: costs in relation to regular advisory services agreements entered into by the Group with Novator Partners LLP and Olympia, and for the year ended December 31, 2017: 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. Those additional fees were the main reason of increase of costs of management fees for the year ended December 31, 2017. Regular advisory services agreements with all partners were terminated on completion of IPO. The additional IPO advisory services agreement with Novator Partners LLP and Tollerton Investments Limited is still in place but will not generate more costs for the Group except for potential foreign exchange differences on the outstanding trade and other payables balance. The outstanding trade and other payables balance as at December 31, 2017 results mainly from the fact that settlement of payables resulting from the IPO advisory service agreement was due in two instalments – the first was payable within 6 months from the IPO and the second is 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 and value 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 year ended December 31, 2017 due to the settlement of certain programs in relation to the Refinancing and Recapitalization as well as IPO; for more information see Note 19 of the Financial Statements included elsewhere in this Report.
- (c) Other non-recurring costs for the year ended December 31, 2017 comprised: (i) costs of the IPO in the amount of PLN 45.9 million; (ii) non-recurring costs of PLN 11.4 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) net non-recurring costs of strategic projects out of usual scope of our business of PLN 3.4 million and other non-recurring costs of PLN 1.3 million.

Other non-recurring costs for the year ended December 31, 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) non-recurring write-off of interconnection receivables from the years 2011-2013 in the amount of PLN 12.7 million due to unfavorable court ruling; (iii) non-recurring costs of strategic projects out of usual scope of our business of PLN 12.0 million; (iv) a non-cash adjustment of prior years' deferred income balances of PLN 7.7 million; (v) impairment allowance for other non-current assets in the amount of PLN 4.6 million; and (vi) other non-recurring costs of PLN 10.5 million comprised mostly of costs of prepaid registration process to comply with new regulations.

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.

## 6.6 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.

	Year ended December 31, 2016	Year ended December 31, 2017	Three-month period ended December 31, 2016	Three-month period ended December 31, 2017
			Unaudited	Unaudited
	(PLN in millions)	(PLN in millions)	(PLN in millions)	(PLN in millions)
Adjusted EBITDA	2,035.3	2,297.7	560.6	569.5
Total cash capital expenditures <sup>(1)</sup>	(485.9)	(650.3)	(138.9)	(123.3)
Total change in net working capital and other, change in contract assets, change in contract liabilities and change in contract costs	(264.9)	(191.0)	33.8	(6.6)
Cash interest <sup>(2)</sup>	(256.8)	(395.0)	(1.8)	(77.7)
Income tax paid	(52.2)	(201.1)	(0.4)	(16.1)
Lease payments	(192.7)	(196.1)	(47.7)	(48.8)
<b>Free cash flow to equity (post lease payments)</b>	<b>782.7</b>	<b>664.3</b>	<b>405.8</b>	<b>297.0</b>

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

(2) 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.

## 6.7 Capitalization

As of December 31, 2017

	PLN in millions	xLTM Adjusted EBITDA <sup>(1)</sup>
Cash and cash equivalents	628.7	0.27x
Senior Facilities <sup>(2)</sup>	6,444.6	2.80x
Leases	948.8	0.41x
Other debt	26.4	0.01x
Total debt	7,419.9	3.23x
<b>Net debt</b>	<b>6,791.1</b>	<b>2.96x</b>

As of September 30, 2017, unaudited

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

(1) LTM Adjusted EBITDA amounted to PLN 2,297.7 million as of December 31, 2017, and PLN 2,288.8 million as of September 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.

## 6.8 Summary of Key Performance Indicators<sup>(1)</sup>

	Year ended		Three-month period ended	
	December 31, 2016	December 31, 2017	December 31, 2016	December 31, 2017
<b>Reported subscribers (thousands)</b>	<b>14,414.5</b>	<b>15,219.7</b>	<b>14,414.5</b>	<b>15,219.7</b>
Contract	8,366.4	9,430.4	8,366.4	9,430.4
Prepaid	6,048.1	5,789.3	6,048.1	5,789.3
<b>Active subscribers (thousands)</b>	<b>12,011.4</b>	<b>12,394.1</b>	<b>12,011.4</b>	<b>12,394.1</b>
Contract	7,984.0	8,628.4	7,984.0	8,628.4
Prepaid	4,027.4	3,765.8	4,027.4	3,765.8
<b>Net additions (thousands)</b>	<b>264.3</b>	<b>805.2</b>	<b>-224.7</b>	<b>330.8</b>
Contract	1,296.8	1,064.0	367.4	226.9
Prepaid	-1,032.5	-258.8	-592.1	103.8
<b>Churn (%)<sup>(2)</sup></b>	<b>3.4%</b>	<b>2.1%</b>	<b>3.4%</b>	<b>1.6%</b>
Contract	0.7%	0.7%	0.6%	0.8%
Prepaid	6.4%	4.3%	6.9%	2.9%
<b>ARPU (PLN)<sup>(2)(3)</sup></b>	<b>31.4</b>	<b>32.0</b>	<b>32.2</b>	<b>32.3</b>
Contract	39.1	38.4	39.4	38.1
Prepaid	17.4	18.2	17.8	19.1
<b>Data usage per subscriber (MB)<sup>(2)</sup></b>	<b>2,773.2</b>	<b>4,117.9</b>	<b>3,335.2</b>	<b>4,790.4</b>
Contract	3,493.6	5,013.9	4,039.5	5,824.1
Prepaid	1,468.5	2,188.7	1,941.0	2,473.9
<b>unit SAC cash (PLN)</b>				
Contract	354.1	349.1	321.7	377.3
Prepaid	3.5	5.1	3.4	6.1
<b>unit SRC cash (PLN)</b>	<b>363.6</b>	<b>339.2</b>	<b>339.1</b>	<b>356.3</b>
<b>unit SAC (PLN)</b>				
Contract	264.5	328.7	266.2	353.6
Prepaid	3.5	5.1	3.4	6.1
<b>unit SRC (PLN)</b>	<b>261.2</b>	<b>335.4</b>	<b>281.9</b>	<b>353.1</b>

(1) See "Definitions" 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.

## 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF DECEMBER 31, 2017

The following discussion and analysis of our financial condition and results of operations are based on the consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows as of and for the three-month and year ended December 31, 2017, and December 31, 2016, which have been derived from or calculated based on the Financial Statements reproduced elsewhere in this Report, as well as other consolidated financial statements for prior periods which had been published before. See "Presentation of Financial Information" in this Report. This section should be read in conjunction with the above mentioned 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 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 as adopted by the European Union, 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 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 "*Definitions*" for a discussion of how we define and calculate our KPIs.

### 7.1 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.

### 7.2 Overview

We are a consumer-focused mobile network operator ("**MNO**") in Poland with approximately 15.2 million subscribers as of December 31, 2017. In the fourth quarter of 2017, we have added 227 thousands of contract subscriber which allowed us to achieve an overall market share of 28.8% in terms of reported subscribers as of December 31, 2017. Our current market share resulted from an 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 full year ended December 31, 2017. During the year ended December 31, 2017, we generated total revenues of PLN 6,669.9 million and an increase of 9.0% year on year in PLN terms, while our Adjusted EBITDA for the year ended December 31, 2017, amounted to PLN 2,297.7 million, an increase of 12.9% 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 December 31, 2017, contract subscribers accounted for 62.0% 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 year ended December 31, 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 fourth 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 fourth quarter of 2017, the net promoter score for “PLAY” was 20<sup>1</sup> (increased versus third quarter 2017 when it amounted to slightly above 18).

We market our offerings and services primarily through our nationwide distribution network of 839 “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 94.7% of the Polish population as of December 31, 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 December 31, 2017, we provided 4G LTE and 4G LTE Ultra coverage, to 93.4% and 80.7% of the Polish population, respectively.

In fourth quarter of 2017, the change of international roaming revenue and international roaming costs amounted to PLN 43m YoY (Q4’16 vs Q4’17), mainly due to the RLAH legislation. The traffic generated by our customers is slightly higher than expected. We have filed for sustainability and we received the positive response from UKE on January 15, 2018. On January 25, 2018 we announced some modifications of new offerings. Based on the decision of the President of the Office of Electronic Communications PLAY changed the functioning of Roam Like At Home offers for new post-paid, pre-paid and retained customers. Current customers of PLAY post-paid offers will use roaming on the existing RLAH terms. As part of new offers, post-paid customers will receive a free 1 GB monthly package for use in EU roaming. In addition, they will be able to use calls and text messages as domestically. During weekend trips, winter or summer holidays, customers will not feel the difference compared to the current terms and conditions. The surcharges apply only after a period of 30 days during which the use of roaming services exceeds domestic use. The changes are effective since January 26, 2018.

As a result of consultations with UKE, the surcharges have been set at the following level:

- 6 grosze<sup>2</sup> per minute of outgoing call
- 3 grosze per minute of incoming call
- 1 grosz for an SMS or MMS sent
- 1.2327 grosze per MB of data transmission

The surcharges also apply to customers of pre-paid users and will be introduced as of March 1, 2018. The customers of the Formuła Unlimited na Kartę offer will receive a free roaming package every month, containing 100 minutes for calls, 50 SMS and 500 MB of data. After using the package, the above-mentioned surcharges will apply. Remaining pre-paid

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<sup>1</sup> Calculated as quarterly average

<sup>2</sup> 1 grosz = PLN 0.01

customers will use roaming with the above surcharges. In pre-paid, we have a certain group of customers using the EU roaming intensively, the introduction of the surcharges will allow maintaining the national offer at the current price level.

The above changes, based on the UKE decision, shall be in force until January 14, 2019.

### **7.3 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 Autumn 2017 of real GDP growth 4.2% in 2017 and 3.8% in 2018, Poland is expected to continue to grow at a faster rate than the estimated EU average real GDP growth rates of 2.2% in 2017 and 2.0% 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 end of December, 2017, the harmonized unemployment rate in Poland was approximately 5.3% compared to approximately 7.3% 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.

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 June 15, 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 fourth quarter of 2017, the change of international roaming revenue and international roaming costs amounted to PLN 43m YoY (Q4'16 vs Q4'17), mainly due to the RLAH legislation. In September 2017, with reference to the Roam Like At Home regulation, we applied for the sustainability. On January 15, 2018 we received positive decision from UKE. The implementation of decision is described in chapter 11.2 "Developments in 2018".

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 historical periods.

<i>expressed in PLN</i>	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>ARPU</b>	<b>31.2</b>	<b>32.1</b>	<b>32.1</b>	<b>31.5</b>	<b>30.5</b>	<b>31.0</b>	<b>31.8</b>	<b>32.2</b>	<b>31.0</b>	<b>32.3</b>	<b>32.3</b>	<b>32.3</b>
- Contract	40.9	41.3	41.5	40.3	39.0	39.0	39.0	39.4	38.2	38.5	38.6	38.1
- Prepaid	16.6	17.7	17.6	17.4	16.4	17.1	18.1	17.8	16.3	18.7	18.7	19.1

<i>expressed in PLN</i>	2015	2016	2017
	FY		
<b>ARPU</b>	<b>31.7</b>	<b>31.4</b>	<b>32.0</b>
- Contract	41.0	39.1	38.4
- Prepaid	17.3	17.4	18.2

See "ARPU and Contract/Prepaid ARPU" for an explanation of ARPU trends in fourth quarter of 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>Year ended December 31, 2016</u>	<u>Year ended December 31, 2017</u>
<b>Foreign exchange rates</b>		
Zloty per euro (EOP) <sup>(1)</sup> .....	4.4240	4.1709
Zloty per euro (average in period) <sup>(2)</sup> .....	4.3625	4.2576

(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 changed from 56.2 million reported subscribers (a penetration rate of 146.2%) as of December 31, 2015 to 54.7 million reported subscribers (a penetration rate of 142.2%) as of December 31, 2016 and to 52.9 million reported subscribers (a penetration rate of 137.5%) as of December 31, 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 December 31, 2017 compared to December 31, 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 14.2 million as of December 31, 2015 (market share of 25.2%) which increased to 14.4 million as of December 31, 2016 (market share of 26.3%) and to 15.2 million as of December 31, 2017 (market share 28.8%). The proportion of contract subscribers to total reported subscriber base was 50.0% as of December 31, 2015 and 58.0% as of December 31, 2016, and 62.0% as of December 31, 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 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. In June 2017, we have introduced Stan Nielimitowany (Unlimited) offerings which we continue to sell. There has been high uptake of these tariffs.

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 (like PLAY NOW, Showmax, Tidal, etc.) 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 December 31, 2017, held approximately 99% of the reported subscriber market share. According to CSO the total number of reported mobile subscribers in Poland as of December 31, 2017 amounted to 52.9 million, and Play with its 15.2 million reported subscriber base had approximately 28.8%.

We believe the Polish mobile telecommunications market is roughly 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. Polish MNOs have slightly different market focus. 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 up-selling and cross-selling offerings and services and partially from some growth in the number of our subscribers (including in particular, the improvement of our quality mix of subscribers by attracting more contract subscribers), increased coverage of the 4G LTE network, 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 December 31, 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 94.7% of the Polish population as of December 31, 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 third quarter of 2017, the Group was granted a reservations 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 used 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. The decision related to 3700 MHz expires on December 29, 2019, we intend to file for a renewal of these frequency reservations.

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
- 3700 MHz for 28 MHz of TDD (time division duplex) continuous spectrum (decisions issued on August 16, 2017) that expire on December 29, 2019, which cost the Group PLN 81 million.

We believe our current spectrum position is on a par with our competitors and have no renewals until the end of 2019.

### **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.

## **7.4 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 “Definitions” 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:

	<u>December 31, 2016</u>	<u>December 31, 2017</u>	<u>Change</u>
<b>Reported subscribers</b>			
<b>(thousands)</b>	<b>14,414.5</b>	<b>15,219.7</b>	<b>5.6%</b>
Contract	8,366.4	9,430.4	12.7%
Prepaid	6,048.1	5,789.3	(4.3%)
<b>Active subscribers</b>			
<b>(thousands)</b>	<b>12,011.4</b>	<b>12,394.1</b>	<b>3.2%</b>
Contract	7,984.0	8,628.4	8.1%
Prepaid	4,027.4	3,765.8	(6.5%)

As of December 31, 2017, the total number of our reported subscriber base was approximately 15.2 million, of which 62.0% were contract subscribers. Our reported subscriber base represents approximately 28.8% of the total number of reported subscribers in the Polish mobile market compared to 26.3% as of the end of December 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 52.9 million subscribers at the end of December, in 2017 meaning, the total number of subscribers on Polish market decreased by 1.9 million (at the end of December 2016, there were 54.7 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 8.4 million as of December 31, 2016, to 9.4 million as of December 31, 2017. This increase the share of contract subscribers as a proportion of our total reported subscriber base from 58.0% as of December 31, 2016, to 62.0% as of December 31, 2017.

As of December 31, 2017, the total number of our active subscriber base was approximately 12.4 million, of which 70% were contract subscribers. It increased from 8.0 million as of December 31, 2016 to 8.6 million as of December 31, 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 December 31, 2017, contract net additions were 226.9 thousand, representing a decrease of 38.2% relative to the comparable period in 2016.

For the last twelve months ended December, 2017, contract net additions were 1,064.0 thousands, which represented an decrease of 18.0% relative to the comparable period in 2016.

In the three months ended December 31, 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 higher impact of the ATO than in 2017. The impact in 2016 partially shifted net additions from prepaid to contract.

Total net additions in the three months ended December 31, 2017 highly differs from three months ended December 31, 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:

	Year ended			Three-month period ended		
	December 31, 2016	December 31, 2017	Change	December 31, 2016	December 31, 2017	Change
<b>Net additions (thousands)</b>	<b>264.3</b>	<b>805.2</b>	<b>204.6%</b>	<b>(224.73)</b>	<b>330.8</b>	<b>na</b>
Contract	1,296.8	1,064.0	(18.0%)	367.4	226.9	(38.2%)
Prepaid	(1,032.50)	(258.76)	(74.9%)	(592.11)	103.8	na
<b>Churn (%)<sup>(1)</sup></b>	<b>3.4%</b>	<b>2.1%</b>		<b>3.4%</b>	<b>1.6%</b>	
Contract	0.7%	0.7%		0.6%	0.8%	
Prepaid	6.4%	4.3%		6.9%	2.9%	

(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 December 31, 2017 versus comparable period ended in 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 December 31, 2017, our ARPU was PLN 32.3, 0.3% higher relative to the comparable period in 2016.

Contract ARPU for the three-month period ended December 31, 2017, amounted to PLN 38.1, a decrease of 3.3% compared to the same period in 2016, while prepaid ARPU for the three-month period ended December 31, 2017, amounted to PLN 19.1, an increase of 7.3% compared to the same period in 2016. The overall ARPU remained stable. 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 regulatory environment); and (ii) growing number of customers using family and duo offers which were introduced in Q2 2014 and Q2 2016 respectively. While selling these packages the number of subscribers increased, however, these tariffs were sold with a discount for bundling. The twelve month ARPU increased by 1.9% YOY representing PLN 32.0 in 2017.

The following table presents ARPU during the periods under review:

	Year ended			Three-month period ended		
	December 31, 2016	December 31, 2017	Change	December 31, 2016	December 31, 2017	Change
<b>ARPU (PLN)<sup>(1)</sup></b>	<b>31.4</b>	<b>32.0</b>	<b>1.9%</b>	<b>32.2</b>	<b>32.3</b>	<b>0.3%</b>
Contract	39.1	38.4	(1.9%)	39.4	38.1	(3.3%)
Prepaid <sup>(3)</sup>	17.4	18.2	4.9%	17.8	19.1	7.3%

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

### **Data traffic**

Data usage per subscriber increased from 3,335.2 MB monthly in the three-month period ended December 31, 2016, to 4,790.4 MB in the three-month period ended December 31, 2017, representing a growth of 43.6%. 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:

	Year ended			Three-month period ended		
	December 31, 2016	December 31, 2017	Change	December 31, 2016	December 31, 2017	Change
<b>Data usage per subscriber (MB)<sup>(1)</sup></b>	<b>2,773.2</b>	<b>4,117.9</b>	<b>48.5%</b>	<b>3,335.2</b>	<b>4,790.4</b>	<b>43.6%</b>
Contract	3,493.6	5,013.9	43.5%	4,039.5	5,824.1	44.2%
Prepaid	1,468.5	2,188.7	49.0%	1,941.0	2,473.9	27.5%

(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 December 31, 2017, our unit contract SAC cash amounted to PLN 377.3, an increase of 17.3% compared to the three month period ended December 31, 2016. In the three-month period ended December 31, 2017, our unit prepaid SAC cash amounted to PLN 6.1, comparable to the same period of 2016. In the twelve months ended December 31, 2017, our unit contract SAC cash amounted to PLN 349.1, a decrease by 1.4% compared to PLN 354.1 in the twelve months ended December 31, 2016. The increase was mainly driven by market conditions and customers' preference to acquire high-end smartphones.

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

	Year ended			Three-month period ended		
	December 31, 2016	December 31, 2017	Change	December 31, 2016	December 31, 2017	Change
<b>unit SAC cash (PLN)</b>						
Contract	354.1	349.1	(1.4%)	321.7	377.3	17.3%
Prepaid	3.5	5.1	44.7%	3.4	6.1	82.8%
<b>unit SRC cash (PLN)</b>	<b>363.6</b>	<b>339.2</b>	<b>(6.7%)</b>	<b>339.1</b>	<b>356.3</b>	<b>5.1%</b>
<b>unit SAC (PLN)</b>						
Contract	264.5	328.7	24.2%	266.2	353.6	32.8%
Prepaid	3.5	5.1	44.7%	3.4	6.1	82.8%
<b>unit SRC (PLN)</b>	<b>261.2</b>	<b>335.4</b>	<b>28.4%</b>	<b>281.9</b>	<b>353.1</b>	<b>25.2%</b>

## 7.5 Explanation of Key Items from the Consolidated Statement of Comprehensive Income

For the purposes of the following discussion of our results of operations, the key line items from the consolidated 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 resulting from usage of the international roaming.

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 estimated based on cost of sale plus margin. Stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services. 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 top-up sold, net of VAT. The difference between the face value of a prepaid offerings and the value for which the offerings are sold by the Group to its 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 recognized as other service costs when the distribution service is provided, i.e. when the prepaid product is delivered to the end customer. The revenue from the sale of prepaid products is deferred until the end customer commences using the product and presented in the statement of financial position as deferred income in case the prepaid product is held by a distributor or as contract liability in case the prepaid product had been transferred to the end customer but not yet used. The revenue from the sale of prepaid products is recognized in the profit or loss as telecommunications services are provided, based on the actual airtime or data usage at an agreed tariff, or upon expiration of the obligation to provide the service. Revenues from the value added services 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 amount of revenue recognized for mobile devices is adjusted for expected returns, which are estimated based on the historical data. For mobile devices sold separately (i.e. without the telecommunications contract), a customer usually pays full price at the point of sale. 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 frequencies 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, gain on sale of receivables and certain other miscellaneous items.

Other operating costs consist primarily of impairment charges of contract assets and non-current assets, bad debts, 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).

**7.6 Results of Operations: Comparison of the Year Ended December 31, 2017, and the Year Ended December 31, 2016.**

	Year ended December 31, 2016	Year ended December 31, 2017	Change %
	(PLN in millions)	(PLN in millions)	
<b>Operating revenue</b>	<b>6,117.6</b>	<b>6,669.9</b>	<b>9.0</b>
Service revenue	4,492.8	4,878.2	8.6
Sales of goods and other revenue	1,624.7	1,791.6	10.3
<b>Operating expenses</b>	<b>(4,753.5)</b>	<b>(5,578.1)</b>	<b>17.3</b>
Interconnection, roaming and other services costs	(1,495.8)	(1,729.5)	15.6
Contract costs, net	(398.9)	(429.1)	7.6
Cost of goods sold	(1,366.2)	(1,409.8)	3.2
General and administrative expenses	(858.5)	(1,212.3)	41.2
Depreciation and amortization	(634.1)	(797.3)	25.7
Other operating income	70.7	109.8	55.4
Other operating costs	(144.4)	(94.7)	(34.4)
<b>Operating profit</b>	<b>1,290.3</b>	<b>1,106.9</b>	<b>(14.2)</b>
Finance income	135.0	178.9	32.5
Finance costs	(499.1)	(656.4)	31.5
<b>Profit before income tax</b>	<b>926.1</b>	<b>629.3</b>	<b>(32.0)</b>
Income tax charge	(214.1)	(242.0)	13.0
<b>Net profit</b>	<b>712.0</b>	<b>387.3</b>	<b>(45.6)</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>-</b>	<b>0.1</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>712.0</b>	<b>387.5</b>	<b>(45.6)</b>

### **Operating revenue**

Operating revenue increased by PLN 552.3 million, or 9.0%, from PLN 6,117.6 million for the year ended December 31, 2016, to PLN 6,669.9 million for the year ended December 31, 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.

	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2017</b>	
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	<b>Change %</b>
<b>Service revenue</b>	<b>4,492.8</b>	<b>4,878.2</b>	<b>8.6</b>
Usage revenue	3,432.0	3,645.8	6.2
Retail contract revenue	2,679.1	2,875.6	7.3
Retail prepaid revenue	640.0	619.0	(3.3)
Other revenue	113.0	151.2	33.9
Interconnection revenue	1,060.8	1,232.4	16.2
<b>Sales of goods and other revenue</b>	<b>1,624.7</b>	<b>1,791.6</b>	<b>10.3</b>
<b>Operating revenue</b>	<b>6,117.6</b>	<b>6,669.9</b>	<b>9.0</b>

#### *Retail contract usage revenue*

Revenue from retail contract usage increased by PLN 196.5 million, or 7.3%, from PLN 2,679.1 million for the year ended December 31, 2016, to PLN 2,875.6 million for the year ended December 31, 2017. The increase was primarily due to growth in the reported contract subscriber base of 1.1 million, or 12.7%, from December 31, 2016, to December 31, 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 21.0 million, or 3.3%, from PLN 640.0 million for the year ended December 31, 2016, to PLN 619.0 million for the year ended December 31, 2017. The decrease was primarily due to decrease in the reported prepaid subscriber base of 0.3 million, or 4.3%, from December 31, 2016, to December 31, 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 38.3 million, or 33.9%, from PLN 113.0 million for the year ended December 31, 2016, to PLN 151.2 million for the year ended December 31, 2017. This increase resulted mainly from the increase in revenue from the agreements with our wholesale partners.

#### *Interconnection revenue*

Interconnection revenue increased by PLN 171.6 million, or 16.2%, from PLN 1,060.8 million for the year ended December 31, 2016, to PLN 1,232.4 million for the year ended December 31, 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 166.9 million, or 10.3%, from PLN 1,624.7 million for the year ended December 31, 2016, to PLN 1,791.6 million for the year ended December 31, 2017. This increase resulted primarily from the increased sales of devices to retained subscribers.

#### **Operating expenses**

Operating expenses increased by PLN 824.5 million, or 17.3%, from PLN 4,753.5 million for the year ended December 31, 2016, to PLN 5,578.1 million for the year ended December 31, 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*

	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2017</b>	
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	<b>Change %</b>
Interconnection costs	(1,154.3)	(1,291.4)	11.9
National roaming/network sharing	(176.3)	(192.3)	9.1
Other services costs	(165.3)	(245.7)	48.6
<b>Interconnection, roaming and other services costs</b>	<b>(1,495.8)</b>	<b>(1,729.5)</b>	<b>15.6</b>

Interconnection, roaming and other services costs increased by PLN 233.7 million, or 15.6%, from PLN 1,495.8 million for the year ended December 31, 2016, to PLN 1,729.5 million for the year ended December 31, 2017, mainly due to increase of interconnection costs and other services costs. Interconnection costs increased by PLN 137.2 million, or 11.9%, from PLN 1,154.3 million for the year ended December 31, 2016, to PLN 1,291.4 million for the year ended December 31, 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 80.4 million, or 48.6%, from PLN 165.3 million for the year ended December 31, 2016, to PLN 245.7 million for the year ended December 31, 2017, was mainly impacted by new international roaming regulations (RLAH) introduced since June 15, 2017 (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – General regulatory environment").

*Contract costs, net*

	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2017</b>	<b>Change %</b>
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	
Contract costs incurred	(439.6)	(439.5)	(0.0)
Contract costs capitalized	422.0	414.2	(1.8)
Amortization and impairment of contract costs	(381.2)	(403.8)	5.9
<b>Contract costs, net</b>	<b>(398.9)</b>	<b>(429.1)</b>	<b>7.6</b>

Contract costs, net increased by PLN 30.2 million, or 7.6%, from PLN 398.9 million for the year ended December 31, 2016, to PLN 429.1 million for the year ended December 31, 2017, due to continuous but slower growth of number of customer contracts signed resulting in current period amortization of contract costs incurred and capitalized in prior periods exceeding the value of contract costs incurred and capitalized in the current period.

*Cost of goods sold*

Cost of goods sold increased by PLN 43.7 million, or 3.2%, from PLN 1,366.2 million for the year ended December 31, 2016, to PLN 1,409.8 million for the year ended December 31, 2017, mainly due to increased sales of devices to retained customers partially offset by the decrease of unit cost of goods sold.

General and administrative expenses

	Year ended December 31, 2016	Year ended December 31, 2017	
	(PLN in millions)	(PLN in millions)	Change %
Salaries and social security	(220.3)	(242.7)	10.2
Special bonuses and retention programs	(7.2)	(282.9)	3,843.9
<b>Employee benefits</b>	<b>(227.5)</b>	<b>(525.6)</b>	<b>131.0</b>
Network maintenance, leased lines and energy	(119.4)	(131.1)	9.7
Advertising and promotion expenses	(198.1)	(169.3)	(14.5)
Customer relations costs	(65.7)	(70.3)	7.1
Office and points of sale maintenance	(15.7)	(16.1)	2.3
IT expenses	(29.5)	(28.3)	(4.0)
People related costs	(18.9)	(20.6)	9.0
Finance and legal services	(19.9)	(55.2)	177.3
Management fees	(35.9)	(48.6)	35.4
Other external services	(63.9)	(66.7)	4.4
<b>External services</b>	<b>(567.0)</b>	<b>(606.3)</b>	<b>6.9</b>
<b>Taxes and fees</b>	<b>(64.0)</b>	<b>(80.5)</b>	<b>25.7</b>
<b>General and administrative expenses</b>	<b>(858.5)</b>	<b>(1,212.3)</b>	<b>41.2</b>
<b>General and administrative expenses excluding costs of management fees, retention programs valuation and special bonuses and other non-recurring costs</b>	<b>(793.0)</b>	<b>(817.8)</b>	<b>3.1</b>

Total general and administrative expenses increased by PLN 353.8 million, or 41.2%, from PLN 858.5 million for the year ended December 31, 2016, to PLN 1,212.3 million for the year ended December 31, 2017, mainly due to increased expenses relating to special bonuses and retention programs, finance and legal services, salaries and social security, management fees, as well as costs of network maintenance, leased lines and energy partially offset by decreased advertising and promotion expenses.

Excluding the impact of increase in retention programs valuation and costs of special bonuses of PLN 275.7 million, increase in the cost of management fees of PLN 12.7 million and increase in other non-recurring costs of PLN 40.6 million, general and administrative expenses increased by PLN 24.8 million, or 3.1%, from PLN 793.0 million for the year ended December 31, 2016, to PLN 817.8 million for the year ended December 31, 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 year ended December 31, 2017, increased by PLN 22.4 million, or 10.2%, compared to the year ended December 31, 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 year ended December 31, 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 39.3 million, or 6.9%, from PLN 567.0 million for the year ended December 31, 2016, to PLN 606.3 million for the year ended December 31, 2017, which was caused mainly by the following reasons. Finance and legal services increased by PLN 35.3 million due to additional costs related to the IPO process, costs of management fees increased by PLN 12.7 million due to additional services provided in connection with the IPO process. Costs of network maintenance, leased lines and energy increased by PLN 11.6 million due to higher number of sites maintained in the year ended December 31, 2017 resulting from nationwide network rollout. Customer relations costs increased by PLN 4.6 million mainly due to higher costs of call center services resulting from the increased subscriber base.

### Taxes and fees

The cost of taxes and fees, comprising mainly frequency reservation charges and property tax, increased by PLN 16.4 million, or 25.7%, from PLN 64.0 million for the year ended December 31, 2016, to PLN 80.5 million for the year ended December 31, 2017, primarily due to higher fees for the use of frequencies resulting from the purchase of frequencies in the 800 MHz and 2600 MHz bands by the end of January 2016 as well as increased non-deductible VAT.

### *Depreciation and amortization*

Depreciation and amortization increased by PLN 163.2 million, or 25.7%, from PLN 634.1 million for the year ended December 31, 2016, to PLN 797.3 million for the year ended December 31, 2017. This increase resulted primarily from an increase in gross book value of assets due to completion of certain IT projects and 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 increased by PLN 39.1 million, or 55.4%, from PLN 70.7 million for the year ended December 31, 2016, to PLN 109.8 million for the year ended December 31, 2017. This increase resulted primarily from exchange rate gains mainly on trade receivables and payables in the amount of PLN 7.8 million due to appreciation of PLN against EUR for the year ended December 31, 2017 comparing to depreciation for the year ended December 31, 2016 as well as from reversal of bad debt described below.

Other operating costs decreased by PLN 49.8 million, or 34.4%, for the same period under review. This decrease resulted primarily from costs of bad debt of PLN 53.3 million for the year ended December 31, 2016, compared to income from reversal of bad debt of PLN 21.0 million for the year ended December 31, 2017, mainly due to improved recoverability of overdue receivables, significantly lower allowance for installment receivables due to termination of installment sales in the fourth quarter of 2016 as well as an accelerated sale of a substantial volume of overdue receivables, which was pursued given favorable market circumstances for such sale. Another reason for relatively high cost of bad debt for the

year ended December 31, 2016 was the fact that during that period the Group recorded a non-recurring 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 20.5 million, mainly caused by an non-recurring early termination fee related to one of Group's commercial agreements in the amount of PLN 20.4 million recorded in the year ended December 31, 2016.

### **Finance Income and Costs**

	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2017</b>	
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	<b>Change %</b>
Interest income	19.9	114.4	473.9
Interest expense	(336.8)	(486.8)	44.5
Exchange rate gains/(losses)	(162.3)	64.5	-
Net gain/(loss) on finance instruments at fair value	115.0	(169.6)	-
<b>Finance income and costs</b>	<b>(364.1)</b>	<b>(477.6)</b>	<b>31.1</b>

#### *Interest income*

Interest income increased by PLN 94.4 million, from PLN 19.9 million for the year ended December 31, 2016, to PLN 114.4 million for the year ended December 31, 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 redemption 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 150.0 million, or 44.5%, from PLN 336.8 million for the year ended December 31, 2016, to PLN 486.8 million for the year ended December 31, 2017. Higher interest expense in the year ended December 31, 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 162.3 million for the year ended December 31, 2016, to exchange rate gains of PLN 64.5 million for the year ended December 31, 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 year ended December 31, 2016.

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

In the year ended December 31, 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 115.0 million. In the year ended December 31, 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 35.4 million on derivatives used to hedge the currency risk. During the year ended December 31, 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).

## **7.7 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 100 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 year ended December 31, 2017 and for the year ended December 31, 2016.

	Year ended December 31, 2016	Year ended December 31, 2017	Change %
	(PLN in millions)	(PLN in millions)	
<b>Profit before income tax</b>	<b>926.1</b>	<b>629.3</b>	<b>(32.0)</b>
Depreciation and amortization	634.1	797.3	25.7
Change in contract costs	(40.7)	(10.3)	(74.7)
Interest expense (net)	316.9	372.5	17.5
(Gain)/Loss on finance instruments at fair value	(115.0)	169.3	-
Foreign exchange (gains)/losses	162.2	(64.1)	-
Gain on disposal of non-current assets	(8.8)	(5.8)	(34.3)
Impairment of non-current assets	6.3	5.6	(11.0)
Change in provisions and liabilities or equity related to retention programs	(17.1)	(123.1)	619.4
Changes in working capital and other	(237.1)	201.2	-
Change in contract assets	3.1	(369.1)	-
Change in contract liabilities	9.8	(12.8)	-
<b>Cash provided by operating activities</b>	<b>1,639.7</b>	<b>1,589.9</b>	<b>(3.0)</b>
Interest received	0.1	0.5	487.7
Income tax paid	(52.2)	(201.1)	284.9
<b>Net cash provided by operating activities</b>	<b>1,587.5</b>	<b>1,389.3</b>	<b>(12.5)</b>
Proceeds from sale of non-current assets	5.5	3.5	(35.8)
Proceeds from loans given	-	18.3	-
Proceeds from finance receivables (Repayment of notes by Impera Holdings S.A.)	-	388.3	-
Purchase of fixed assets and intangibles and prepayments for assets under construction	(491.4)	(653.8)	33.0
Cash outflows in relation to frequency reservation acquisition	(1,704.4)	(81.0)	(95.2)
Loans given	(17.9)	-	(100.0)
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	(141.1)	(68.9)	(51.1)
<b>Net cash used in investing activities</b>	<b>(2,349.3)</b>	<b>(393.6)</b>	<b>(83.2)</b>
Proceeds from equity increase	-	285.4	-
Proceeds from finance liabilities	385.0	6,443.0	1,573.5
Repaid finance liabilities and paid interest and other costs relating to finance liabilities	(839.2)	(5,208.3)	520.6
Purchase of notes issued by Impera Holdings S.A.	-	(2,227.9)	-
<b>Net cash used in financing activities</b>	<b>(454.2)</b>	<b>(707.8)</b>	<b>55.8</b>
<b>Net change in cash and cash equivalents</b>	<b>(1,215.9)</b>	<b>287.9</b>	<b>-</b>
Effect of exchange rate change on cash and cash equivalents	0.1	(0.4)	-
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,556.8</b>	<b>341.0</b>	<b>(78.1)</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>341.0</b>	<b>628.5</b>	<b>84.3</b>

#### *Net cash provided by operating activities*

Net cash provided by operating activities decreased by PLN 198.2 million, or 12.5%, from PLN 1,587.5 million for the year ended December 31, 2016, to PLN 1,389.3 million for the year ended December 31, 2017, mainly caused by decrease in profit before income tax of PLN 296.8 million, or 32.0%, from PLN 926.1 million for the year ended December 31, 2016, to PLN 629.3 million for the year ended December 31, 2017.

Change in provisions and liabilities or equity related to retention programs of PLN 123.1 million was caused by repayment of incentive plans settled in the year ended December 31, 2017 (please see Note 19 to our Financial Statements included elsewhere in this Report).

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 191.0 million for the year ended December 31, 2017 compared to a negative change of PLN 264.9 million for the year ended December 31, 2016. 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 162.8 million for the year ended December 31, 2017, generating positive cash flows), which was offset by growing contract assets (contract assets increased by PLN 369.1 million for the year ended December 31, 2017). Having largely terminated the installment sales in the fourth quarter of 2016, we observe installment receivables to further decline over the next few quarters, benefiting the change in working capital dynamics.

The increase of income tax paid of PLN 148.8 million from PLN 52.2 million for the year ended December 31, 2016 to PLN 201.1 million for the year ended December 31, 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 2,349.3 million for the year ended December 31, 2016, to PLN 393.6 million for the year ended December 31, 2017. In the year ended December 31, 2016 the Group paid to UKE for new frequencies in the 800 MHz and 2600 MHz spectrum in the amount of PLN 1,704.4 million. In the year ended December 31, 2017 the Group received proceeds from repayment of notes issued by Impera Holdings S.A. of PLN 388.3 million. Cash capital expenditures excluding cash outflows in relation to frequency reservation acquisition increased by PLN 164.4 million, or 33.8%, from PLN 485.9 million for the year ended December 31, 2016, to PLN 650.3 million for the year ended December 31, 2017, mainly due to increase in fixed assets and intangibles purchases relating to nationwide network rollout.

#### *Net cash used in financing activities*

Net cash used in financing activities increased from PLN 454.2 million for the year ended December 31, 2016 to PLN 707.8 million for the year ended December 31, 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 (which had been later redeemed against the Company's share premium), 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 year ended December 31, 2017.

**7.8 Results of Operations: Comparison of the Three-Month Period Ended December 31, 2017 and the Three-Month Period Ended December 31, 2016**

	Three-month period ended December 31, 2016 Unaudited (PLN in millions)	Three-month period ended December 31, 2017 Unaudited (PLN in millions)	Change %
<b>Operating revenue</b>	<b>1,620.2</b>	<b>1,739.5</b>	<b>7.4</b>
Service revenue	1,177.1	1,246.3	5.9
Sales of goods and other revenue	443.1	493.2	11.3
<b>Operating expenses</b>	<b>(1,254.4)</b>	<b>(1,397.3)</b>	<b>11.4</b>
Interconnection, roaming and other services costs	(397.5)	(467.2)	17.5
Contract costs, net	(104.5)	(107.5)	2.8
Cost of goods sold	(347.1)	(399.2)	15.0
General and administrative expenses	(242.9)	(219.8)	(9.5)
Depreciation and amortization	(162.4)	(203.6)	25.4
Other operating income	17.4	57.0	227.1
Other operating costs	(22.4)	(38.9)	73.8
<b>Operating profit</b>	<b>360.8</b>	<b>360.2</b>	<b>(0.2)</b>
Finance income	27.9	6.1	(78.0)
Finance costs	(194.6)	(100.9)	(48.1)
<b>Profit before income tax</b>	<b>194.1</b>	<b>265.4</b>	<b>36.7</b>
Income tax charge	(44.6)	(122.5)	174.4
<b>Net profit</b>	<b>149.5</b>	<b>142.9</b>	<b>(4.4)</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	<b>-</b>	<b>3.0</b>	<b>-</b>
<b>Total comprehensive income</b>	<b>149.5</b>	<b>145.9</b>	<b>(2.4)</b>

**Operating revenue**

Operating revenue increased by PLN 119.3 million, or 7.4%, from PLN 1,620.2 million for the three-month period ended December 31, 2016 to PLN 1,739.5 million for the three-month period ended December 31, 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.

	<b>Three-month period ended December 31, 2016 Unaudited</b>	<b>Three-month period ended December 31, 2017 Unaudited</b>	<b>Change %</b>
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	
<b>Service revenue</b>	<b>1,177.1</b>	<b>1,246.3</b>	<b>5.9</b>
Usage revenue	890.0	914.8	2.8
Retail contract revenue	705.5	717.5	1.7
Retail prepaid revenue	154.8	158.7	2.5
Other revenue	29.7	38.6	29.9
Interconnection revenue	287.1	331.5	15.5
<b>Sales of goods and other revenue</b>	<b>443.1</b>	<b>493.2</b>	<b>11.3</b>
<b>Operating revenue</b>	<b>1,620.2</b>	<b>1,739.5</b>	<b>7.4</b>

#### *Retail contract usage revenue*

Revenue from retail contract usage increased by PLN 11.9 million, or 1.7%, from PLN 705.5 million for the three-month period ended December 31, 2016 to PLN 717.5 million for the three-month period ended December 31, 2017. The increase was primarily due to growth in the reported contract subscriber base of 1.1 million, or 12.7%, from December 31, 2016 to December 31, 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 increased by PLN 3.9 million, or 2.5%, from PLN 154.8 million for the three-month period ended December 31, 2016 to PLN 158.7 million for the three-month period ended December 31, 2017. This increase resulted from the increase in prepaid ARPU (mainly due to increased data consumption) despite of the decrease in the reported prepaid subscriber base of 0.3 million, or 4.3%, 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 8.9 million, or 29.9%, from PLN 29.7 million for the three-month period ended December 31, 2016 to PLN 38.6 million for the three-month period ended December 31, 2017. This increase resulted mainly from the increase in revenue from the agreements with our wholesale partners.

#### *Interconnection revenue*

Interconnection revenue increased by PLN 44.5 million, or 15.5%, from PLN 287.1 million for the three-month period ended December 31, 2016 to PLN 331.5 million for the three-month period ended December 31, 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 50.1 million, or 11.3%, from PLN 443.1 million for the three-month period ended December 31, 2016 to PLN 493.2 million for the three-month period ended December 31, 2017. This increase resulted primarily from the increase in sales of devices to retained subscribers.

### **Operating expenses**

Operating expenses increased by PLN 142.9 million, or 11.4%, from PLN 1,254.4 million for the three-month period ended December 31, 2016 to PLN 1,397.3 million for the three-month period ended December 31, 2017. This increase resulted primarily from increase in interconnection, roaming and other services costs, cost of goods sold and depreciation and amortization partially offset by decrease in general and administrative expenses.

### *Interconnection, roaming and other services costs*

	<b>Three-month period ended December 31, 2016 Unaudited</b>	<b>Three-month period ended December 31, 2017 Unaudited</b>	<b>Change %</b>
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	
Interconnection costs	(306.4)	(338.0)	10.3
National roaming/network sharing	(47.6)	(49.8)	4.5
Other services costs	(43.5)	(79.4)	82.7
<b>Interconnection, roaming and other services costs</b>	<b>(397.5)</b>	<b>(467.2)</b>	<b>17.5</b>

Interconnection, roaming and other services costs increased by PLN 69.7 million, or 17.5%, from PLN 397.5 million for the three-month period ended December 31, 2016 to PLN 467.2 million for the three-month period ended December 31, 2017 mainly due to increase of interconnection costs and other services costs. Interconnection costs increased by PLN 31.6 million, or 10.3%, from PLN 306.4 million for the three-month period ended December 31, 2016 to PLN 338.0 million for the three-month period ended December 31, 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 36.0 million, or 82.7%, from PLN 43.5 million for the three-month period ended December 31, 2016, to PLN 79.4 million for the three-month period ended December 31, 2017, was mainly impacted by new international roaming regulations (RLAH) introduced since June 15, 2017 (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – General regulatory environment").

### *Contract costs, net*

	<b>Three-month period ended December 31, 2016 Unaudited</b>	<b>Three-month period ended December 31, 2017 Unaudited</b>	<b>Change %</b>
	<b>(PLN in millions)</b>	<b>(PLN in millions)</b>	
Contract costs incurred	(112.6)	(116.3)	3.3
Contract costs capitalized	107.0	108.6	1.5
Amortization and impairment of contract costs	(98.9)	(99.8)	0.9
<b>Contract costs, net</b>	<b>(104.5)</b>	<b>(107.5)</b>	<b>2.8</b>

Contract costs, net amounted to PLN 107.5 million for the three-month period ended December 31, 2017, and remained stable with comparison to the three-month period ended December 31, 2016.

#### *Cost of goods sold*

Cost of goods sold increased by PLN 52.1 million, or 15.0%, from PLN 347.1 million for the three-month period ended December 31, 2016, to PLN 399.2 million for the three-month period ended December 31, 2017, mainly due to increased number of devices sold to retained customers.

#### *General and administrative expenses*

	Three-month period ended December 31, 2016 Unaudited (PLN in millions)	Three-month period ended December 31, 2017 Unaudited (PLN in millions)	Change %
Salaries and social security	(62.5)	(65.5)	4.8
Special bonuses and retention programs	(6.1)	(7.2)	18.1
<b>Employee benefits</b>	<b>(68.6)</b>	<b>(72.7)</b>	<b>6.0</b>
Network maintenance, leased lines and energy	(31.7)	(33.7)	6.5
Advertising and promotion expenses	(45.0)	(37.5)	(16.6)
Customer relations costs	(18.6)	(16.2)	(12.8)
Office and points of sale maintenance	(4.4)	(4.0)	(8.8)
IT expenses	(7.6)	(7.3)	(4.2)
People related costs	(6.4)	(5.9)	(8.0)
Finance and legal services	(7.3)	(4.4)	(40.1)
Management fees	(12.1)	0.4	(103.5)
Other external services	(26.1)	(16.8)	(35.6)
<b>External services</b>	<b>(159.1)</b>	<b>(125.3)</b>	<b>(21.2)</b>
<b>Taxes and fees</b>	<b>(15.2)</b>	<b>(21.7)</b>	<b>43.1</b>
<b>General and administrative expenses</b>	<b>(242.9)</b>	<b>(219.8)</b>	<b>(9.5)</b>
<b>General and administrative expenses excluding costs of management fees, retention programs valuation and special bonuses and other non-recurring costs</b>	<b>(207.5)</b>	<b>(212.0)</b>	<b>2.2</b>

Total general and administrative expenses decreased by PLN 23.1 million, or 9.5%, from PLN 242.9 million for the three-month period ended December 31, 2016 to PLN 219.8 million for the three-month period ended December 31, 2017, mainly due to decreased expenses relating to management fees as well as other external services partially offset by increased costs of taxes and fees as well as salaries and social security.

Excluding the impact of increase in retention programs valuation and costs of special bonuses of PLN 1.1 million, decrease in cost of management fees of PLN 12.6 million and decrease in other non-recurring costs of PLN 16.2 million, general and administrative expenses increased by PLN 4.5 million, or 2.2%, from PLN 207.5 million for the three-month period ended December 31, 2016 to PLN 212.0 million for the three-month period ended December 31, 2017, mainly as a result of increased costs of taxes and fees as well as salaries and social security.

#### Salaries and social security

The cost of salaries and social security for the three-month period ended December 31, 2017, increased by PLN 3.0 million, or 4.8%, compared to the three-month period ended December 31, 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 amounted to PLN 7.2 million in the three-month period ended December 31, 2017 and remained stable with comparison to the three-month period ended December 31, 2016.

#### External services

External services costs decreased by PLN 33.8 million, or 21.2%, from PLN 159.1 million for the three-month period ended December 31, 2016 to PLN 125.3 million for the three-month period ended December 31, 2017, which was caused mainly by reasons as follows. Costs of management fees decreased by PLN 12.6 million due to termination of management services agreements upon IPO. Costs of other external services decreased by PLN 9.3 million due to non-recurring expenses incurred in the three-month period ended December 31, 2016 in relation to prepaid registration process to comply with new regulations.

#### Taxes and fees

The cost of taxes and fees comprising mainly frequency reservation charges and property tax increased by PLN 6.5 million, or 43.1%, from PLN 15.2 million for the three-month period ended December 31, 2016 to PLN 21.7 million for the three-month period ended December 31, 2017, mainly due to increase of non-deductible VAT.

#### *Depreciation and amortization*

Depreciation and amortization increased by PLN 41.2 million, or 25.4%, from PLN 162.4 million for the three-month period ended December 31, 2016 to PLN 203.6 million for the three-month period ended December 31, 2017. This increase resulted primarily from an increase in gross book value of assets due to completion of certain IT projects and 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 increased by PLN 39.5 million, or 227.1%, from PLN 17.4 million for the three-month period ended December 31, 2016 to PLN 57.0 million for the three-month period ended December 31, 2017. This increase resulted primarily from income from reversal of bad debt of PLN 21.3 million for the three-month period ended December 31, 2017 comparing to cost of bad debt of PLN 3.8 million for the three-month period ended December 31, 2016 due to improved recoverability of overdue receivables, significantly lower allowance for installment receivables due to termination of installment sales in the fourth quarter of 2016 as well as an accelerated sale of a substantial volume of overdue receivables, which was pursued given favorable market circumstances for such sale. The increase resulted also from exchange rate gains mainly on trade receivables and payables in the amount of PLN 6.7 million due to appreciation of

PLN against EUR for the three-month period ended December 31, 2017 comparing to depreciation for the three-month period ended December 31, 2016.

Other operating costs increased by PLN 16.5 million, or 73.8%, for the same period under review. This increase resulted mainly from the reversed trend in bad debt allowance described above.

### **Finance Income and Cost**

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

	<b>Three-month period ended December 31, 2016 Unaudited (PLN in millions)</b>	<b>Three-month period ended December 31, 2017 Unaudited (PLN in millions)</b>	<b>Change %</b>
Interest income	6.5	0.5	(91.9)
Interest expense	(84.1)	(101.1)	20.3
Exchange rate gains/(losses)	(110.5)	5.6	-
Net gain on finance instruments at fair value	21.4	0.2	(99.2)
<b>Finance income and costs</b>	<b>(166.7)</b>	<b>(94.8)</b>	<b>(43.1)</b>

#### *Interest income*

Interest income decreased by PLN 6.0 million from PLN 6.5 million for the three-month period ended December 31, 2016 to PLN 0.5 million for the three-month period ended December 31, 2017. This decrease resulted mainly from the fact that in the three-month period ended December 31, 2016 the Group earned interest on notes issued by Impera Holdings S.A. to the Group, which were redeemed or repaid in 2017.

#### *Interest expense*

Interest expense increased by PLN 17.1 million, or 20.3%, from PLN 84.1 million for the three-month period ended December 31, 2016 to PLN 101.1 million for the three-month period ended December 31, 2017. This increase resulted from higher average indebtedness.

#### *Exchange rate gains or losses*

Exchange rate differences changed from exchange rate losses of PLN 110.5 million for the three-month period ended December 31, 2016 to exchange rate gains of PLN 5.6 million for the three-month period ended December 31, 2017 as a result of valuation of EUR-denominated debt (repaid in the first quarter of 2017) due to depreciation of PLN against EUR in the three-month period ended December 31, 2016.

#### *Net gain on finance instruments at fair value*

In the three-month period ended December 31, 2016, net gain on finance instruments at fair value through profit or loss of PLN 21.4 million resulted from the valuation of early redemption options embedded in the Initial Fixed Rate Senior Secured Notes indenture and Senior Notes indenture.

## 7.9 Liquidity and Capital Resources

### Cash flows

The following table summarizes net cash flows from operating, investing and financing activities for the three-month period ended December 31, 2017 and for the three-month period ended December 31, 2016.

	Three-month period ended December 31, 2016	Three-month period ended December 31, 2017	Change %
	Unaudited (PLN in millions)	Unaudited (PLN in millions)	
<b>Profit before income tax</b>	<b>194.1</b>	<b>265.4</b>	<b>36.7</b>
Depreciation and amortization	162.4	203.6	25.4
Change in contract costs	(8.1)	(8.8)	9.0
Interest expense (net)	77.5	100.6	29.7
Gain on finance instruments at fair value	(21.4)	(0.2)	(99.2)
Foreign exchange (gains)/losses	110.5	(5.2)	-
Gain on disposal of non-current assets	(1.1)	(1.2)	9.6
Impairment of non-current assets	1.0	2.6	163.1
Change in provisions and liabilities or equity related to retention programs	7.4	7.2	(3.3)
Changes in working capital and other	97.8	100.0	2.2
Change in contract assets	(63.5)	(99.4)	56.5
Change in contract liabilities	7.6	1.6	(79.0)
<b>Cash provided by operating activities</b>	<b>564.4</b>	<b>566.2</b>	<b>0.3</b>
Interest received	-	0.3	-
Income tax paid	(0.4)	(16.1)	4,144.6
<b>Net cash provided by operating activities</b>	<b>564.0</b>	<b>550.4</b>	<b>(2.4)</b>
Proceeds from sale of non-current assets	0.4	0.9	118.5
Purchase of fixed assets and intangibles and prepayments for assets under construction	(139.3)	(124.2)	(10.8)
<b>Net cash used in investing activities</b>	<b>(138.9)</b>	<b>(123.3)</b>	<b>(11.2)</b>
Repaid finance liabilities and paid interest and other costs relating to finance liabilities	(51.8)	(130.0)	151.1
<b>Net cash used in financing activities</b>	<b>(51.8)</b>	<b>(130.0)</b>	<b>151.1</b>
<b>Net change in cash and cash equivalents</b>	<b>373.4</b>	<b>297.2</b>	<b>(20.4)</b>
Effect of exchange rate change on cash and cash equivalents	(0.0)	(0.4)	2,823.1
<b>Cash and cash equivalents at the beginning of the period</b>	<b>(32.4)</b>	<b>331.7</b>	-
<b>Cash and cash equivalents at the end of the period</b>	<b>341.0</b>	<b>628.5</b>	<b>84.3</b>

### Net cash provided by operating activities

Net cash provided by operating activities decreased slightly by PLN 13.6 million, or 2.4%, from PLN 564.0 million for the three-month period ended December 31, 2016 to PLN 550.4 million for the three-month period ended December 31, 2017.

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 6.6 million for the three-month period ended December 31, 2017. Upon cancelling installment sales in October 2016 the balance of trade receivables remains rather stable (increase of PLN 9.4 million for

the three-month period ended December 31, 2017) whereas the balance of contract assets (referring to the total term of a contract) increases (by PLN 99.4 million for the three-month period ended December 31, 2017) due to constantly growing sales of devices in a subsidy model (providing higher contract assets than installment sale).

#### *Net cash used in investing activities*

Net cash used in investing activities decreased by PLN 15.6 million, or 11.2%, from PLN 138.9 million for the three-month period ended December 31, 2016 to PLN 123.3 million for the three-month period ended December 31, 2017, mainly due to decrease in fixed assets and intangibles purchases by PLN 15.1 million resulting from timing differences of payments for invoices concerning mostly 800 MHz and 2600 MHz deployment as well as nationwide network rollout.

#### *Net cash used in financing activities*

Net cash used in financing activities increased by PLN 78.2 million, or 151.1%, from PLN 51.8 million for the three-month period ended December 31, 2016 to PLN 130.0 million for the three-month period ended December 31, 2017, mainly due to interest paid on SFA signed in March 2017.

### **7.10 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. For future payments payable under leases which are in place at the reporting date, please see Note 2.27.4 to our Financial Statements included elsewhere in this Report.

#### *Frequency licenses*

We have certain investment obligations in relation to our licenses which are discussed in Note 34 to our Financial Statements included elsewhere in this Report.

#### **Contingent liabilities**

We have certain contingent liabilities which are discussed in Note 35 to our Financial Statements included elsewhere in this Report.

#### **Off-Balance Sheet Arrangements**

As of December 31, 2017, we had no off-balance sheet arrangements.

### **7.11 Critical Accounting Policies, Estimates and Judgments**

The preparation of consolidated financial statements in conformity with IFRS as adopted by the European Union 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 2.29 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.

## 7.12 Summary of guidance and Group developments in 2017

### KEY DEVELOPMENTS IN 2017

#### ***Nationwide network rollout***

The year 2017 was a first stage of the investment process planned for three years pursuant to which in 2020 Play will have its own independent network, covering the whole country with its own network. At the moment, our services are available to 99% of the Polish population through a combination of own network and long term national roaming agreements with the other three major Polish MNOs. We are pursuing a nationwide network roll-out in order to cover close to 100% of the population by 2020, in terms of data requirements. As of December 31, 2017, we provided 4G LTE and 4G LTE Ultra coverage, to 93.4% and 80.7% of the Polish population, respectively.

In 2017 we deployed gross 697 site (net 609 sites), so the number of physical sites as of the end of December 2017 was equal to 5,746 supported by national roaming agreements with the three other MNOs. The vast majority of these sites, i.e. 5,650, supported LTE technology. Additionally in 2017 we upgraded 1,604 locations.

Our network is being deployed primarily on the basis of Play's own infrastructure, however, we are also cooperating with other players in this respect. 590 physical sites use the infrastructure of other players and at the same time we make 290 of its sites available to competitors.

At IPO we provided with guidance regarding cash capex level which largely resulted from the nationwide network rollout process. Historically our cash capex was at the level close to 8% of operating revenue. For FY 2017 we guided cash capex to be up to PLN 700m. The guidance was met, we spend PLN 650m of cash capex.

#### ***Roam Like At Home impact***

Roam Like At Home impact on the Group financials was not a part of the guidance. Although, due to the fact this being one of key driver of changes y-o-y, we find it important to describe the actions taken in 2017 in relation to RLAH.

Since June 15, 2017, we have to comply with the 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 a second half of 2017, the negative change of international roaming revenue and international roaming costs amounted to approximately PLN 101m YoY; the third quarter of 2017 – PLN 57m YoY (Q3'17 vs Q3'16) and in the fourth quarter of 2017 – PLN 43m YoY (Q4'17 vs Q4'16) mostly due to the higher traffic generated by our customers. In September 2017, with reference to the Roam Like At Home regulation, we applied for the sustainability. We received a positive decision from the Regulator on January 15, 2018. In January 2018 we modified our new offerings, for details please refer to the chapter 11.2 "Developments in 2018".

#### ***Further development of solid spectrum portfolio***

In the third quarter of 2017, the Group was granted a reservations 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 used in the order to maximize:

- Available volume and utility for MBB using 4G technology – the band can be used for ODU-IDU commercialization in urban areas, as a capacity frequency allowing for higher speeds
- The future spectrum capacity for 5G technology – in the future, the band will also allow to utilize 5G technology, and its acquisition helps to secure PLAY strategic position in spectrum holdings.

Additionally any re-farming for these bands should ensure protection for the existing frequency portfolio.

### ***Refinancing and Recapitalization***

On March 7, 2017, the Group entered into Senior Facilities Agreement with syndication of banks. Additionally, on March 22, 2017 the parent of Play Communications S.A. issued the Senior PIK Toggle Notes. 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 Impera Holdings S.A. and payment of fees and expenses related to the such transactions. For details of transactions please refer to the 7 "*MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF DECEMBER 31, 2017*" and 10 "*DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS*".

### ***Initial Public Offering***

The Company completed an initial public offering and its shares were admitted to trading on the Warsaw Stock Exchange on July 27, 2017. In order to reflect all changes resulting from the IPO, certain amendments were introduced to the Senior Facilities Agreement.

### ***Free Cash Flow to Equity***

The Free Cash Flow to Equity generated in FY 2017 and amounting to PLN 664m fully secures, from cash perspective, capacity to payout the dividend in 2018 (in the amount of PLN 650m).

## GUIDANCE PROVIDED AT IPO

Results for full year 2017 were in line with medium term guidance provided at IPO. Please find below the table with listed metrics:

Area	Target	Execution
<b>Revenue growth</b>	Mid-single digits growth over the medium term	<b>In line with guidance +9.0%</b> Operating Revenue (PLN 6,670m)
<b>Adjusted EBITDA margin</b>	Further improvement vs. 2016 Adjusted EBITDA margin	<b>In line with guidance +1.2pp</b> Adjusted EBITDA margin (34.4%)
<b>Cash capex intensity</b>	<ul style="list-style-type: none"> <li>▪ 2017: Below PLN 700m</li> <li>▪ Around 8% in the medium term, in line with our capital intensity in 2015/2016</li> <li>▪ 2018-2020: An additional PLN 500 MM spend to accelerate own network roll out, spread over the three years and on top of our run-rate capex</li> </ul>	<b>In line with guidance PLN 650m</b>
<b>Leverage</b>	Target – around 2.5x net debt to LTM Adjusted EBITDA	<b>Decreasing leverage to 3.0x</b> net debt to LTM Adjusted EBITDA (including leases)
<b>Shareholder distribution</b>	<p>Intention to distribute Cash dividend for the FYE Dec-17 of PLN 650m in Q2 2018<sup>(1)</sup></p> <p>From 2018 onwards, pay-out ratio of 65-75% of the preceding year Free Cash Flow to Equity post lease payments</p> <p>To be revisited, once we have reached our leverage target of around 2.5x</p>	We confirm the plan of paying out the <b>cash dividend of PLN 650m<sup>(1)</sup></b>

(1) Subject of relevant approvals

## **8. BUSINESS**

### **8.1 History**

In 2005, Netia S.A. (“**Netia**”) and Novator Partners LLP formed a joint venture, Netia Mobile Sp. z o.o., to participate in a tender for UMTS frequency reservation. When Netia Mobile Sp. z o.o. won the tender, the joint venture changed its name to “P4 Sp. z o.o.” On June 8, 2006, we entered into our first national roaming agreement with Plus, in order to capitalize on the benefits of national roaming. Later that year, through the use of the investment vehicle Tollerton, Olympia became our third largest shareholder through an asset-for-equity swap pursuant to which Olympia contributed over 300 retail stores into the Group. During 2007, the “PLAY” brand was launched commercially. Shortly afterwards, Netia divested its stake in Play to Novator Partners LLP and Olympia.

In 2008 we won a technology-neutral 900 MHz frequency tender. In late 2008 and early 2009, Tollerton made a combined capital injection of EUR 140 million, which increased its interest in Play to 50.3%. By 2009, our network coverage exceeded 80% of the Polish population. A national roaming agreement was entered into with Orange in 2010 and, in 2012, a third national roaming agreement was entered into with T-Mobile.

In February 2013, we won a tender for the 1800 MHz frequency, which was utilized to launch our 4G LTE services as the second operator in Poland with this technology. In July 2013, we reached the milestone of having over ten million subscribers. In December 2013 and September 2014, we further amended our national roaming agreement with T-Mobile, which amendments set out the terms of business conditions for the settlements between the parties until 2020 and the operational procedures, respectively. In November 2013, we launched our 4G LTE service, and due to intensive roll-out we have now extended our 4G LTE coverage to 93.4% of population in Poland as of December 31, 2017. In the three months ended December 31, 2015, we acquired frequency reservations in the 800 MHz and 2600 MHz spectrum for the total price of PLN 1,718.4 million which allowed us to expand to 4G LTE Ultra service in the three months ended March 31, 2016. In 2017 we increased our market share of mobile subscriptions in Poland achieving a market share of 28.8% as at December 31, 2017.

In the third quarter of 2017, the Company completed its IPO and its shares were admitted to trading on the Warsaw Stock Exchange under PLY: WSE.

### **8.2 Operations**

We operate a mobile telecommunications network and provide a wide range of mobile telecommunications services, including voice, messaging, video service (Play NOW) and data transmission services as well as VAS and sales of handsets and other devices, to individual and business customers (collectively our “retail” operations) under our umbrella brand, “PLAY.” We also generate revenue from interconnection fees from other telecommunications operators where their voice and messaging traffic terminates on our network.

Our usage revenue, interconnection revenue and sales of goods represented 54.7%, 18.5% and 26.9%, respectively, of our total operating revenue in the full year ended December 31, 2017, and 56.1%, 17.3% and 26.6%, respectively, of our total operating revenue in the year ended December 31, 2016, with the remaining revenues generated primarily from the sale of handsets, USB modems and other devices sold through our distribution network.

Our offering and services are based around a core concept of “value for money,” thus providing our subscribers with more content (minutes, SMS, data and video streaming) than our competitors offer for the same price, while keeping our ARPU comparable to that of our competitors. We believe our offerings are simple to use, flexible and easy to understand, and we deliver our offerings alongside high levels of customer service through our exclusive nationwide distribution network.

We offer a wide range of offerings and service packages designed to appeal to different groups of subscribers under various tariff plans, which are described in further detail below.

### 8.3 Retail operations

We provide offerings and services to individual and business subscribers in our retail operations.

Our individual subscribers include both:

- contract subscribers, including individual postpaid contract subscribers, subscribers to our MIX tariff plans and subscribers to our contract mobile broadband tariff plans; and
- prepaid subscribers, including prepaid voice tariff plan subscribers and prepaid mobile broadband subscribers.

Our business subscribers are all contract (and postpaid) subscribers, and include both:

- Small Office/Home Office, or SoHo, subscribers; and
- Small and Medium Enterprises, or SME, subscribers.

We offer a range of standardized tariff plans to our individual and business subscribers. We sell to our subscribers primarily through our stores but also via our website, telesales and business advisors channel.

Within our retail subscriber base, we provided mobile services to approximately 9.4 million contract subscribers (62.0% of our total reported subscribers), of whom 6.3 million were individual subscribers and approximately 3.1 million were business subscribers, and 5.8 million prepaid subscribers (38% of our total reported subscribers), as of December 31, 2017.

Contract subscribers accounted for 78.1% and 78.9% of usage revenue in the year ended December 31, 2016, and December 31, 2017, respectively.

#### ***Individual subscribers***

We offer a range of contract, prepaid and MIX, as well as mobile broadband tariff plans, to our individual (residential) subscribers.

#### ***Contract offerings***

Our contract offerings for individuals are standardized and include a variety of flat-rate tariff plans. All of our contract tariff plans include unlimited calls to all fixed or mobile networks (“all-net calls”). From some time we increasingly focus on sales of services such as messaging, data transmission and multimedia as permanent add-ons, which have strong appeal to our subscribers and allow us stability of revenues.

Our contract plans are available either with a handset or other device from our broad range, which we subsidize (except in limited circumstances), or without a handset or other device, in which case the subscriber pays for the handset or other device separately. All of our contracts have fixed terms: generally 24 months for contracts with a handset.

#### ***Individual postpaid contract tariff plans***

We offer three types of contract tariffs for individual subscribers, couples and families: SOLO, DUET and RODZINA. All of our tariffs include unlimited calls to every network in Poland, whether to fixed lines or mobile numbers. Additionally the tariff plan includes unlimited SMS to other Play subscribers and access to TV channels (PLAY NOW). Each tariff has three options available for customers, depending on how much “unlimited” is actually needed—Stan Nielimitowany Mini, Stan Nielimitowany or Stan Nielimitowany Dom Wi-Fi. “Stan Nielimitowany Mini” includes the above-mentioned unlimited calls to every mobile and fixed network, SMS to other Play subscribers, data package and an access to entry tier of TV channels (PLAY NOW). “Stan Nielimitowany” adds unlimited SMS to all mobile networks, unlimited data package, unlimited access to music (TIDAL) and 12 months access to videos (ShowMax). “Stan Nielimitowany Dom Wi-Fi” is dedicated to our most

demanding customers. It adds unlimited home internet and access to extra tier of channels in PLAY NOW. All of our tariffs include EU roaming in line with the recently introduced “**Roam Like At Home**” regulation.

In every tariff plan subscribers have an access to PLAY NOW; our online video service which offers access to live channels, catch up content and additional functionalities on smartphones, tablets, laptops and, via Google Chromecast, on TV screen, with no additional charge. Entry tier of channels are included in the subscription fee. Additional tiers are available at an extra fee. PLAY NOW also allows subscribers to watch any TV show they have missed up to one week after broadcast and watch movies from our video-on-demand library once every two weeks. In higher tariffs, subscribers can listen to unlimited music whenever they like due to our partnership with Tidal, and get 12 month access to Showmax - VoD platform with a broad range of movies and TV series.

All subscribers to DUET and RODZINA receive an extra SIM with home internet. In Stan Nielimitowany Dom Wi-Fi extra SIM provide unlimited access to home internet included in monthly fee (100Gb full speed, than throttled down up to 1 Mbps). In Stan Nielimitowany Mini and Stan Nielimitowany subscribers receive elastic internet solution – an extra fee for home internet is paid only if the customer use the data, if not then the customer simply does not pay

### *MIX tariff plans*

Our MIX offers combine the characteristics of a prepaid and contract offer. Our MIX tariffs are contract plans based on a prepaid solution with a subsidized handset, 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 top-up of a minimum monthly value takes place, a monthly package is activated that covers unlimited on-net calls and SMS/MMS messages, off-net calls and a data allowance package. Once the monthly package is used, standard rates apply.

There are two sets of MIX tariff plans: FORMULA MIX and Flexible FORMULA MIX, which differ in how accounts are topped up. FORMULA MIX is based on 24 top-ups at varying prices depending on the option chosen. The minimum monthly top-up value remains the same during the course of a 24 month contract. Flexible FORMULA MIX offers a better smartphone range due to its unique top-up mechanism. The first twelve top-ups required are made depending on the option chosen, while the remaining twelve top-ups are double that price. Our MIX tariff plans have proven popular among our subscribers, particularly with younger subscribers, as a flexible contract allows them to buy a subsidized handset and SIM card with a fixed upfront cost and monthly cost control. In addition, our MIX tariff plans introduce our subscribers to our “unlimited” use concept, which has also proven popular and encourages migration to postpaid contract tariff plans.

### *Prepaid offers*

Our prepaid offerings include four tariff plans, which the subscribers can complement with additional services from a variety of add-on offerings.

Our prepaid offerings allow subscribers to gain access to our network upon the purchase of a starter pack, which includes a SIM card with a fixed amount of credits to be used for mobile services. All starter packs need to be registered with ID before activation in Play POS or any major retailer ( kiosk, gas station, convenience store etc.) There are no monthly subscription fees or obligations to top-up in a prepaid offer. All prepaid tariff plans provide that subscribers can top-up at any time with the use of a prepaid top-up. Top-ups can be done in a number of ways, including using top-up scratch cards, ATMs, other electronic terminals or online. There are no handset subsidies provided and so the subscribers must provide their own handsets which can be bought separately at any of our stores as well as at third-party stores.

We believe that our prepaid offers appeal to a broad range of subscribers, and in particular, young users who may not be able to commit to a monthly subscription fee and senior users who may not use mobile services as

often as contract subscribers. Our prepaid offerings also provide subscribers with the ability to control their costs; enabling them to decide up-front how much they wish to spend.

We design our prepaid tariff plans to ensure that each one attracts a different subscriber profile. Depending on which prepaid tariff plan is chosen, it may provide, for more demanding users, all-in-one tariff profiles (including unlimited on-net calls, unlimited all-net SMS and data packages for a fixed monthly fee), as well as less complex tariff plans such as free on net voice, SMS or internet after top up, unlimited all net SMS, unlimited on net voice or one year account validity. We believe these offerings also incentivize our prepaid subscribers to migrate to our contract tariff plans because these benefits are also found in our contract offers.

We actively monitor how our prepaid subscribers use our prepaid services and we run targeted up-selling campaigns aimed at increasing prepaid subscriber use and spending.

#### *Prepaid tariff plans*

We offer prepaid tariff plans to our customers, each of which is targeted at different types of subscribers. These include

- Play na Kartę (Standard)—including unlimited texts and calls to everyone on the Play network and low rates on calls and texts to other networks.
- Play na Kartę Lubię to!—including large internet packages after top-up targeting young smartphone users.
- FORMUŁA Play na Kartę—including unlimited on-net voice and SMS to appeal to cost-conscious subscribers.
- Play na Kartę odNOWA—featuring unlimited account validity and packages without expiry

Each of our prepaid clients on the above offers can activate additional data on device bundles, both as one time packages and cyclical packages recurring every month.

#### *Mobile broadband*

In order to provide a more competitive offering, in March 2016 we introduced a new set of data tariff plans with bigger data bundles and simpler choice for the customer. The price varies by customer preferences on data amounts and if he or she wants a mobile or home Wi-Fi solution.

There is no dedicated set of business data tariffs. This offer is available for both individual and business customers.

In 2016 we also introduced a new internet solution for our customers, called “Elastyczny Internet”. This offer was dedicated to customers seeking an inexpensive and elastic internet solution. The concept behind the offering is that if the customer does not use the data, the customer simply does not pay. Additionally there is an option of getting a router for an extra charge.

We offer our contract mobile broadband services as either:

- “Mobile Internet” which refers to offers that are aimed at subscribers seeking a mobile solution and which are primarily sold with a mobile Wi-Fi router or USB dongle modem
- “Home/office Wi-Fi” which refers to offers that are aimed at subscribers seeking to connect to broadband internet on one or more devices, in one location, and are sold primarily with home or office Wi-Fi routers
- “Tablet and laptop” which refers to offers that are aimed at subscribers seeking to purchase a subsidized tablet, notebook or laptop, along with a mobile broadband tariff plan
- “SIM only” comes without any subsidized device

- “Elastic Internet” refers to offers to customers who use the internet infrequently and who do not want to sign a long-term contract.

#### *LTE 4G and 4G LTE ULTRA*

In March 2016, we introduced a LTE Advanced network (“**4G LTE ULTRA**”): which allowed us to improve the network’s performance, extend its coverage and increase its maximum data transfer speed. Within one year we managed to extend our LTE coverage from 78.0% to 93.4% and build 4G LTE ULTRA coverage to 80.7% of the population. In June 2016, we acquired an allocation of one block of 800 MHz and four blocks of 2600 MHz which allowed us to further expand our 4G LTE ULTRA offering.

#### *Prepaid mobile broadband plans*

Our prepaid mobile broadband tariff plan is aimed at customers who need an attractive mobile broadband service but do not wish to commit to a fixed contract and has proven particularly popular with users of tablets and other mobile computing devices primarily connecting to Internet at home using fixed broadband access, but wishing to maintain mobility options. We offer a variety of tariffs based on the amount of data customers desire.

## **8.4 Business subscribers**

We offer various business contract solutions to SoHo and SMEs. Our main focus is the SoHo market, which is the largest business segment in Poland and, therefore, provides the largest opportunity to sell our service offerings. We provide standardized solutions rather than customized solutions for each individual business, in line with our strategy to keep our offerings and services simple and clear. The number of our business subscribers has been growing steadily since 2008 when we launched our offerings to business subscribers. As of December 31, 2017, we provided our services to approximately 3.1 million business subscribers.

#### *Business contract tariff plans*

We offer one standardized tariff plan *Formuła Biznes Box*, which we launched in June 16, 2016. This plan provides unlimited voice, fixed, text and data for one monthly fee and it is available in 3 options: namely, single SIM, 2 SIMs and 3+ SIMs. *Formuła Biznes Box* also offers bundling with other business services such as office internet, fixed voice and digital presence pack (private domain, email, website) that can all be purchased at reduced prices only if it is for a new contract or for an existing contract extension. All tariff plans are standard SIM-only tariffs for 24 months and customers can choose a subsidized handset with a 24-month contract duration for each SIM he or she selects.

Additionally, bigger SME segment clients can have tailor made solutions prepared individually by direct business advisors. All business clients can also use the “two numbers on one SIM” solution, enabling the integration of private and business uses of a company phone and the ability to work on the move as all calls to an office fixed line can be diverted to the subscribers’ mobile phone.

#### *“Fixed” telephony offers*

We continue to offer “fixed” telephony for consumer and business subscribers (i.e., mobile offerings with a “fixed” line number) with unlimited calls to Play mobile and Play fixed numbers with attractive discounts for our existing customers. Additionally, we introduced a new full unlimited offer with the best price on the market, targeted mainly to consumers 50 years and older.

## **8.5 Device offerings**

We complement our service offerings with a wide selection of mobile phones, smartphones, tablets, netbooks, laptops and data-access devices (dongles, modems, routers) through our stores, telesales and website. We currently offer more than 100 handsets and other devices, including tablets and netbooks. Our device offerings are subject to change

depending on trends in supply and demand. Our employees are suitably trained to be able to direct subscribers to choose the handsets which are most suited to their needs while at the same time being the most desirable option to us from a business perspective.

The majority of our handsets are in the PLN 200 to PLN 1,200 wholesale price range. We offer primarily handsets of well-known brands, such as Samsung, LG, Sony, Nokia, HTC, Huawei and other similar brands. We buy handsets from several handset providers to ensure that we do not become over-reliant on a single supplier. While certain handsets will be more attractive to certain demographics of subscribers, it is our aim, particularly with smartphones, to make them available and accessible to all of our subscribers.

## **8.6 Value added services**

We provide our subscribers with a variety of basic and optional VAS such as caller-ID, calling line identity restriction, voice mail, call forwarding, call waiting, call barring and conference calling.

In April 2016 we launched a new product, Screen Insurance, that is sold widely in Play points of sale with handset contracts. As phone screen display breakage is relatively common, and its price is low, the product is popular with our postpaid subscribers.

In November 2015, we launched a partnership with Tidal to offer unlimited music consumption on smartphones, tablets and computers. We intend this offering to support our “value-for-money” brand position and increase customer loyalty.

Moreover, depending on the offer and the devices used, our subscribers may take advantage of the broad selection of more sophisticated VAS which include:

- Multimedia and Mobile Content such as music services, e-books and audiobooks, games, maps and navigation services as well as other applications (each of which is provided by third party content providers) (PLAY NOW, Tidal, Showmax)
- “One Invoice” system which allows Google Play application store and from April 2016 also Windows store purchases to be billed via our own billing system
- Insurance services of the leading insurance companies—such as mobile device insurance, life insurance, health insurance and others.

## **8.7 International roaming (roaming out)**

Within our retail business we provide international roaming out services to our subscribers which allow them to use telecommunications services (voice calls, messaging, data transmission) while abroad and logged onto foreign networks.

The majority of international roaming services used by our subscribers are directed through European networks. In most countries we have multiple partners with respect to international roaming.

The maximum retail prices of our international roaming services are determined by EC regulations.

## **8.8 Services to other telecommunications operators**

We provide national and international roaming and other telecommunications services to telecommunications operators, such as services to MVNOs. We have 14 major MVNO partners.

The market for mobile termination of calls on the network of MNOs in Poland is regulated by the UKE President. Under the asymmetric MTRs regulations, which applied to us in our capacity as a new market entrant since the commercial launch of our operations in 2007, we were able to benefit from higher MTRs for calls terminated on our network than for calls

terminated in competitors' networks until the end of 2012. With effect from January 1, 2013, the asymmetry was abolished, and with effect from July 1, 2013, the UKE President reduced the MTRs further for all operators.

MTRs are currently at historically low levels after significant reductions in the periods under review and we believe will remain constant in the medium term. From inception, asymmetric MTRs helped reduce our net mobile termination costs and historically we have had higher mobile termination revenues than mobile termination costs. From January 2013, due to the end of asymmetry in MTRs, our total mobile termination costs were higher than our mobile termination revenues. The reduction of the underlying MTR level in July 2013 allowed us to reduce overall net mobile interconnection costs. However, due to the low level of MTRs, the resulting net difference has been, and we expect will continue to be, immaterial to our business. The financial impact of the symmetry and gradual reduction in MTRs on our business, financial condition and results of operations will continue to depend on a combination of factors, including the volume of calls made by other operators' subscribers that terminate on our mobile network and the volume of calls by our subscribers which terminate on the networks of other operators.

### ***Interconnections***

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. Direct interconnection agreements which we concluded with various domestic and foreign operators allow us to offer high quality services in Poland and abroad to our subscribers.

### ***International roaming (roaming in)***

We provide roaming in services to foreign mobile operators that allow their subscribers to use telecommunications services (voice calls, messaging and data transmission) while logged onto our network and outside their home network. We have developed our international roaming services by engaging in the sale of roaming services on our network to subscribers of foreign operators visiting Poland. We sell the roaming in service on our network based on discount agreements in exchange for obtaining favorable terms from foreign partners for handling the roaming traffic generated by our subscribers travelling abroad. This translates into a substantial reduction of our wholesale costs in relation to international roaming services, consequently enabling us to offer competitive international roaming services in terms of prices and quality to our subscribers.

Our revenues and costs from international roaming services are affected by the regulations of the EC setting the maximum wholesale rates for international roaming services offered in the territory of the European Union and the European Economic Area countries. EU Regulation 2015/2120 adjusted all roaming charges within the EU to like-home conditions as of June 15, 2017. Until such date, EU Regulation 2015/2120 set out maximum retail prices for roaming mobile services. We have taken the steps required to change our rates in order to comply with the new regulation. Wholesale prices for roaming mobile services has been set by Regulation (EU) 2017/920 of the European Parliament and of the Council of May 17, 2017, amending Regulation (EU) No 531/2012 with regard to rules for wholesale roaming markets.

### ***MVNOs***

Mobile Virtual Network Operators ("**MVNOs**")/ Mobile Virtual Network Enablers ("**MVNEs**"), are operators that provide mobile voice and data services but do not own frequency reservations nor necessarily have the technical network infrastructure required to provide telecommunications services. Their operation is typically based on the frequency reservations and the infrastructure of existing MNOs. MVNEs mostly possess the billing platform and act as the aggregators for small MVNOs.

Under our MVNO cooperation agreements with various companies, we provide voice services, messaging, data transmission, Premium Rate Services, VAS, international roaming services, hosting services on our billing platform,

customer service as well as other services depending on the needs of the MVNO and the scope of services they contract with us to provide. In terms of the technical model of cooperation with MVNOs/MVNEs, usually they are hosted on our core network elements using our billing platform, while their scope of responsibilities include customer care, marketing and sales activities.

MVNOs to whom we provide our services can be split into two categories. The first being companies primarily providing mobile services to the end-users in the prepaid model such as Virgin Mobile Polska Sp. z o.o. and Mobile Vikings (VikingCo Poland Sp. z o.o.). The second being major Polish alternative fixed line, satellite TV and cable TV operators such as Netia, ITI, Multimedia Polska and Vectra, which bundle mobile products with their fixed line or TV services portfolio in a post-paid model.

Our broad scope of services allows us to efficiently cooperate with the MVNOs/MVNEs in various technical models, starting from technologically advanced services for partners who possess their own telecommunications infrastructure (i.e., their own core network elements and IT & billing platforms, such as Truphone, Virgin Mobile Polska Sp. z o.o., and NAKA) to the full range of network, IT and billing services for parties that are not capable of maintaining such operations on their own and would like to focus only on marketing and sales activities.

## **8.9 Marketing and branding**

### ***Marketing***

Our marketing strategy is characterized by the following objectives: (i) attracting first time subscribers and subscribers of other operators who want to increase their service usage without paying more; (ii) retention of existing subscribers and the migration of these existing subscribers to higher revenue services; and (iii) protection of existing revenue sources. These objectives are achieved through several principles and include: (a) offering value for money; (b) becoming a leader in the 4G LTE subscriber experience; and (c) always remaining simple in our message and delivering to the subscribers exactly what we have promised.

We market our offerings through a mix of television, out of home, press and radio advertising, with the Internet playing an increasingly important role. Our campaigns are geared toward building a clear, simple and consistent brand image. In order to break through the mass of advertising material to which our potential subscribers are exposed, we strive to present our marketing messages in creative, clear and distinctive formats that distinguish us from the rest of the market. We believe the distinctiveness of our award-winning campaigns makes them highly persuasive to a wide audience and builds positive brand recognition.

### ***Branding***

The essence of our brand is to offer standard solutions for voice and data services with unlimited freedom. This has contributed to us becoming one of the fastest growing brands in Poland.

In a mature market, such as the Polish mobile market, we believe the purchasing decisions of a majority of subscribers are strongly driven by image and brand loyalty. Therefore, we work to provide a consistent image and high quality subscriber experience in the vital spheres of subscribers' interests, including a range of available offerings, quality, usefulness, usability of customer care service and usability of self-information and self-service channels.

We have focused our marketing efforts on customer service in order to position our brand as a provider of the best-in-class customer experience. Our brand image is additionally strengthened through the fact that each of our stores, regardless of whether it is our own store or a dealer-operated store, has the same appearance and design. This is important as brand success is correlated with consistent marketing and branding campaigns. Our brand has the highest brand image score of the four major MNOs in Poland as at December 31, 2017, according a Smartscope research.

## 8.10 Sales and distribution

### *Distribution channels*

We believe we have an effective and efficient distribution network comprising of our own-operated and dealer-operated stores that are in desirable locations which substantially cover the entire territory of Poland. Our distribution network is also supported by our specialized business customer advisors (a dedicated team of business advisors who can meet directly with customers in order to create a more personalized service), our website and telesales. For the year ended December 31, 2017, approximately 76% of our new contract additions were generated by stores, with approximately 24% generated by our specialized business customer team, telesales and our website.

We also provide SIM-recharging services indirectly through approximately 60 k prepaid outlets for our prepaid customers.

### *Stores*

We market our offerings and services primarily through our award-winning nationwide distribution network of over 839 dedicated "PLAY" branded stores as of December 31, 2017, a significant number of which are situated in prime locations across Poland, which we believe is more than all of the branded stores of our other Polish competitors. In April 2015, we launched a project to redesign all of our branded stores to create a best-in-class retail network which was completed by the end of August 2015, with over 800 shops having been remodeled. These stores provide our offerings on an exclusive basis, similar to the model adopted by the other leading Polish mobile operators, and cover substantially the same geographic area as the distribution networks of the other Polish mobile operators. We are present in substantially all towns and cities in Poland with a population in excess of 20,000. We measure the performance of all of our stores continuously, with daily reporting of footfall and sales conversion to ensure that a desirable level of productivity is achieved, and we rigorously monitor our distribution network to ensure that underperforming locations are improved or discontinued or relocated.

Our stores are designed to impress, while remaining cost-efficient. We have relatively low costs of design and construction per store. We have standardized our furniture, IT solutions and interior design in such a way that ensures that our stores all have a consistent look and feel. This consistent look and feel supports the PLAY brand as customers receive the same high levels of service in familiar surroundings in each of our stores. This also allows our sales force to operate in a similar manner across all of our stores. We can also roll-out refurbishments or new product category introductions cost-efficiently across our store network as the in-store concept is modular and materials and processes required are similar in each location, as we did with one of the product categories in 2016.

We recruit our sales employees based on sales competency and a specified set of attributes which we value in our employees. We provide training focused on in-depth knowledge of our offerings and services, development of sales techniques and efficiency which continues throughout our employees' careers. To maximize incentives for our sales staff, employees in our own stores receive a bonus which is correlated to the number of contracts which they generate and employees in dealer-operated stores operate on a commission basis which also depends on the number of signed contracts. The employees in both our own-operated and dealer-operated stores are provided with specialist marketing support and branding materials to deliver a high quality service. We closely monitor the implementation of the standards used for training, network management and sales quality, including through the use of mystery shopper programs.

Our device offerings are adjusted depending on trends in supply and demand. Our employees are suitably trained to be able to direct customers to choose the handsets which are most suited to their needs while at the same time being valuable and/or cost effective to us from a business perspective. We operate on a flexible and reactive inventory management system, which means we can react quickly to opportunities in the supply chain (for example, the sudden availability of a number of handsets at a favorable price), bring them into our stores quickly, and train the staff in our stores to promote those handsets. We are able to re-stock our key handsets within 48 hours at each of our locations.

We exercise significant control over our distribution network through a combination of direct ownership of the most valuable high street and shopping mall locations and a number of control measures for dealer-operated locations, which include prudent lease management, incentive schemes, exclusivity and rights of first refusal. This right of first refusal allows us to retain key locations for our stores in case the dealer decides to end its business activity. At our discretion, we may either acquire an enterprise of a given dealer or give the dealer our consent to enter into such transaction with any other third party.

Of our more than 839 stores, we operate approximately 24%. The remaining stores are dealer-operated stores. We pay commission for each sale by our dealer-operated stores which is related to the value of the sale.

Our stores are conducted under dealer agreements under which the dealer is entitled to enter into further sub-deal agreements. The vast majority of both kinds of agreements are concluded for an unspecified period of time and provide very similar terms as to remuneration and right of first refusal. Each dealer's remuneration is calculated depending on contract value and volume of sales they deliver. Different commission rates are applied depending on the offerings or products sold.

### ***Website and telesales***

The offers and services on our website are available to all customers. While not currently a core sales channel, we believe our website will increase in importance in the future as customers switch from using traditional distribution channels to the internet. As well as being a sales channel, our website further supports our brand and customer experience by continuing our consistent look and messaging, as well as providing a first line of information for our customers.

We also generate sales through our telesales department, located in our call centers, which is frequently used to renew the contracts of existing customers. We cooperate with a majority of important external call centers in Poland.

### ***Distribution to business subscribers***

Our standardized offerings allow SoHo customers to be serviced at any of our stores, our call centers, and via our website. While SME customers and corporates can be serviced at our stores, we also have a dedicated team of more than 800 active personnel dedicated to business subscribers who can meet directly with them in order to provide a more personalized service.

## **8.11 Customer service and retention**

### ***Customer service***

Our customer service policy is focused on providing customers with the best experience and standardized high-quality service aimed at reducing churn. Our customer service covers the entire customer life cycle. We strive to provide our customers with our key customer service competencies: availability, competency, first contact resolution and user-friendly service.

The core of our customer service is a call center system that enables us to efficiently respond to customer calls and written requests. We cooperate with several call center sites located in different regions of Poland, which allows us to split and distribute incoming calls and e-mails among those call centers seamlessly, thereby giving customers the impression that our customer service is delivered from one site using standardized and unified processes.

We provide customer service using a multichannel approach. Customers may contact us not only via our contact center or point of sale, but also may send a written request, query or claim using e-mail, letter or self-care solutions, which allow them to self-manage their accounts. These solutions are: PLAY24 (self-care web pages and mobile application), Interactive Voice Response, SMS, USSD codes (Unstructured Supplementary Service Data), or e-mails through Play's

website. We also provide customer service online on our Facebook page, Twitter profile or through our corporate blog and forum.

Our customers appreciate our efforts and constant development and we have received numerous consumer awards for customer service quality, for example, a Service Quality Star ten times in a row, which gave us the title of Star of the Decade and we also received, as part of a nationwide customer survey, the Golder Laurel of Customer (Laur Klienta) award 6 times in a row.

### ***Retention policy***

The key assumptions and objectives of our retention policy are minimizing churn, building value through retention and strengthening our brand image.

To retain customers we emphasize the importance of high quality customer experience through training for both our own employees and those within our dealer-operated stores. Our efforts are not limited to assisting customers who contact our stores or call centers. We strive to provide high quality customer care through the entire "life cycle" of a customer relationship, starting from activating the customer on our network through to resolving their complaints, collecting payments, handling fraud prevention processes and various other customer retention activities.

In order to further reduce churn, we have established dedicated teams within our call centers who focus on customers with a high propensity to churn. We also cooperate with three external partners mainly in the area of active customer retention process.

We believe that our life cycle management approach ultimately leads to increased ARPU through increased customer responsiveness to up-selling and encouragement of customers towards migrating to contract solutions or higher rate plans.

## **8.12 Credit management and billing**

### ***Crediting and billing for contract subscribers***

Billing of contract subscribers is done directly on a monthly basis. All post-billing related activities (printing, packaging and posting) are outsourced to external vendors. The standard credit period amounts to 14 days from the date of issuing of the invoice.

Monitoring of payments and debt collection processes are executed in-house and begin after we send a monthly paper or electronic invoice to subscribers, starting from the moment the contract is activated. We also perform credit evaluations on contract subscribers. The main variables for our credit scoring system include the subscriber's payment history, information from credit and economic information bureaus, as well as data available from the credit applications.

The credit control process is a daily process, supported by IT solutions that utilize data related to the most recent payments and usage as well as our online billing system which prevents subscribers from usage that exceeds their credit limit.

We undertake a wide range of bad debt management activities to control our bad debt levels, including direct collections, collections executed in cooperation with third-party specialized collection agencies, sales of overdue receivables and finally by pursuing legal remedies. We maintain a provision for estimated credit losses based on formalized procedures which take into account various factors that determine the probability of a subscriber's ability to pay overdue receivables.

### ***Credit management in distribution network***

We cooperate with a network of agents (dealers and distributors), who sell our services (contract, prepaid, data and others) to business clients and individual customers. We bill the dealers and distributors shortly after delivery of the offering which creates credit risk exposure relating to potential defaults. In order to reduce this risk, we collect collateral in the form of banks' guarantees, guarantees (poręczenie) or cash deposits from our dealers. In addition, we have implemented internal policies and procedures, such as a scoring model, that define the system of credit management for dealers which are classified into four groups of different credit risk categories based on regular tests applied through our credit risk assessment procedure. These procedures include both a liquidity analysis based on the recent financial statements and payment history. The classes of risk applied to the dealers define their eligibility for the credit limit and the level of required collateral.

We maintain a provision for estimated credit losses in our distribution network based on a formalized procedure, which takes into account the outcomes of regular credit risk assessment tests, but also payment.

## **8.13 Network and infrastructure**

### ***Overview and network management***

We have a modern, fully upgraded and technology-neutral infrastructure through which we offer our mobile voice, messaging, video streaming and data services. Since June 2012, our entire network has been based on an all-IP architecture. We consider our infrastructure to be state-of-the-art with no legacy technology. In recent years, we have made substantial investments, which have resulted in the build-out of our 3G and 4G LTE mobile networks. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures.*"

We manage our network build-out with in-house resources. The team focuses on entrepreneurial execution and maximizing efficiency. Our in-house network build-out department is responsible for radio and transmission planning, project management of contractors performing detailed design, building, as well as installing, our entire radio network with deployment being organized in four regions, namely Warszawa, Katowice, Poznań and Gdańsk.

Network equipment supply has been primarily provided under a framework agreement with Huawei, which was originally established in 2006. Play considers this framework agreement, and the terms offered thereunder, which are renegotiated from time to time, to provide attractive contract terms with competitive economics. For systems supplied by Huawei, spare parts are included in support services.

We believe our network roll-out and upkeep systems are very advantageous. Central to our roll-out strategy is the use of modular, standardized and centrally-sourced elements to help reduce overall costs, ensure quality and safety standards, and increase scalability (as the sites can be easily enlarged or equipment from disconnected sites may be used elsewhere). The network deployment process is performed through a combination of our own and subcontracted staff and allows for full control of the process, with no reliance on an expensive turn-key service provider. The design and building of sites is outsourced to a number of small- and medium-sized local subcontractors who are able to rapidly execute at reasonable costs, while our core team manages the sourcing of materials, to keep this cost control centralized. Subcontractors install the standardized elements and as they are not responsible for sourcing the materials, we achieve savings on the cost of materials and allows the subcontractors to focus exclusively on installation. The limited working capital needs for subcontractors in this framework allows us to use a larger number of small- to medium-sized contractors, further reducing costs.

### ***Coverage and capacity***

We have followed a "smart follower" strategy of rapidly adopting technologies which prove to be effective and cost efficient in the areas in which we operate.

We believe that our own network provides our subscribers with extensive coverage, relatively large download capacity, high speeds and stable connections. As of December 31, 2016, based on our own estimates, our 2G network covered 86.3% of the Polish population while we estimate that our 3G network covered 90.5% of the Polish population, and as of December 31, 2017 our 3G network increased to cover 94.7% of the population. We are quickly increasing our 4G LTE coverage with the addition of 4G LTE equipment to existing physical sites and our estimated population coverage as of December 31, 2017, is approximately 93.4% (4G LTE Ultra population coverage of 80.7%).

Population Network Coverage Estimations Through Own Network by Technology as of December 31, 2017:

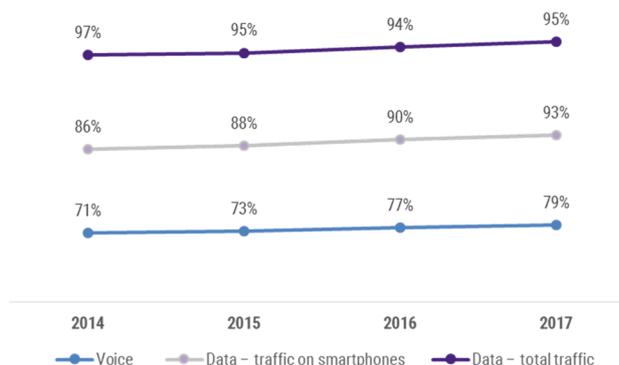
Coverage/Technology (%)	3G	4G LTE	4G LTE Ultra
Population.....	94.7	93.4	80.7

In 2017 PLAY deployed 697 (gross; and 609 net) base stations.

Moreover, we intend to go live with over 1,000 base stations in 2018. Ultimately, Play is to provide coverage to 99.5% of the population of Poland and in over 98% of Poland’s territory.

We service the vast majority of traffic generated by our subscribers on our own network, and particularly so for data traffic. As of December 31, 2017, we served 95% of the total data traffic (including smartphones and mobile broadband) from our subscribers on our own network.

**Share of traffic on own network**



As of December 31, 2017, based on our own estimates, traffic on our own network represented 79%, 93% and 95% of the traffic for voice, data traffic on smartphones and data total traffic respectively.

**Historical network roll-out and national roaming agreements**

Our core network is based on “all IP connections” and is located at multiple separate locations which provide backup in case of malfunction at one location.

Our network roll-out strategy has allowed us to steadily increase our own network coverage with competitive roll-out costs that are driven by our intelligent approach to network deployment. Our use of national roaming agreements, as discussed below, has also provided additional insights on traffic and usage patterns which further informs our strategy.

The above strategy has allowed us to maintain low levels of total cash capital expenditures, comprising 7.9%, 7.9% and 9.7% of total operating revenues in the years ended December 31, 2015, 2016 and 2017, respectively.

In addition to our own network, we have national roaming agreements with each of the other three major MNOs in Poland: Plus, Orange and T-Mobile. These agreements provide us with financial and strategic flexibility. They provide our subscribers with network access in primarily rural areas where the deployment of new network sites by us has not been financially viable and our competitors have structurally underutilized networks. Under these agreements, our subscribers have access to the 2G and 3G networks of each host operator, while 4G LTE access is available under our agreements with T-Mobile and Orange. Combined with the extensive coverage of our own network, these agreements give our subscribers the most extensive overall network coverage in Poland, covering over 99% of the Polish population. These agreements have allowed us to optimize network costs, while our national roaming partners received income in areas which may traditionally not have led to high expected usage or income. See “–Material Contracts–National roaming agreements.” Given the advantages offered by national roaming agreements, they are beneficial for our national roaming partners in terms of additional returns on their network investments, while also being relatively low cost for us, with national roaming costs comprising 2.9% of total operating revenues in the years ended December 31, 2015, 2016 and 2017.

### **Current nationwide network roll-out**

We are currently executing a strategy of a further nationwide roll-out of our own network, which aims mainly to extend our network to areas currently covered by our national roaming agreements and also to increase the density of our network. 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. This decision has been taken due to the growing demand for data services and anticipated timing of future data needs. Thus, we believe that there are now potential attractive returns in a nationwide network build out. In implementing this build-out, we believe we can leverage off (i) our track record of return-focused site selection, (ii) our cost-efficient all-IP backbone, (iii) experienced local project management teams allowing us to work directly with subcontractors and (iv) use of standardized and reliable passive and active infrastructure. We expect that this will allow us to decrease our reliance on national roaming, so that by the end of 2020, we capture all data traffic on our own network, with only 2G traffic still utilizing national roaming.

Our roll-out plan envisages the following timeline:

- 2016–kick off of network roll-out completion phase
- 2017–agree framework agreements and accelerate roll-out
- 2018–by the year end, based on our current market estimates, we believe that this will be the peak usage by Play of national roaming
- 2019–finalize Play coverage in rural areas
- 2020–>99% capture rate of all data traffic estimated, or 100% if we no longer use national roaming.

### **Spectrum**

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

- 800 MHz for 2 × 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 × 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 × 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 × 14.8 MHz and 1 × 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 × 20 MHz (decisions issued on January 25, 2016) that expires on January 25, 2031, which cost the Group PLN 222 million
- 3700 MHz for 28 MHz of TDD (time division duplex) continuous spectrum (decisions issued on August 16, 2017) that expire on December 29, 2019, which cost the Group PLN 81 million.

We expect no spectrum auctions before 2020. We may apply for the renewal of any of these frequency reservations six to twelve months before the expiry of the present reservation. All of our frequency reservations are technology neutral, i.e., their use with respect to new technologies (so called “**refarming**”) will not require the payment of any additional reservation fees. Spectrum allocated by these reservations is contiguous, which makes this spectrum suitable for refarming.

We are committed to maintaining flexibility in relation to spectrum refarming with the aim of optimizing data traffic and offering the best performance and experience to our customers. We are focused on refarming the 900 MHz from GSM to UMTS, which will allow us to increase the footprint of our own network, and the 1800/2100 MHz refarming to LTE, to provide additional capacity for future data demand.

The acquisition of the 1800 MHz spectrum gave us an opportunity to move 2G traffic from the 900 MHz layer to part (5MHz) of the 1800 MHz layer and shift 900 MHz main usage to UMTS 900 using 4.2 MHz, while still keeping GSM 900 (0.8 MHz) in rural areas, and enlarge the coverage of our 3G network. This is the reason we cover more of the population with 3G services than 2G services. The acquisition of the 800 MHz and 2600 MHz spectrums has allowed us to expand our 4G LTE and 4G LTE Ultra coverage. We are continuously reviewing various market opportunities for further spectrum acquisitions which would enhance our frequency range.

### ***Network maintenance***

We continuously upgrade and modernize our network in order to provide technologically advanced services to our customers and to optimize both the technical parameters and the efficiency of the network. Modifications include increases in the capacity of existing network elements, replacement of and/or additions to equipment and continuous optimization achieved through the reconfiguration of network parameters. As our core network has a pool architecture, we can largely ensure the availability of services because each element can act independently.

The services and network are permanently monitored by our central network operations center, as well as by several remote maintenance centers. Traffic distribution, as well as various network and service parameters, are constantly measured and analyzed. This provides input to an optimization process that covers all components of the network, including the access network, transport network, VAS platforms, the core network and all interconnection points.

We operate internal monitoring platforms for alarms, performance measurements and end-to-end active testing. We continuously develop our monitoring platform to provide the most relevant and efficient solutions for proactive and automatic monitoring of the availability and performance of our services.

For systems supplied by Huawei, spare parts are included in support services. For all other network platforms we operate our own spare parts stock which, in combination with well-established maintenance processes and procedures, we believe contributes to high network accessibility and reliability. Network element software is kept up to date to provide bug-free operation and recently available functionality. Upgrades and patching are conducted through framework agreements with suppliers. Strict upgrade procedures, software testing and backup policies help to ensure uninterrupted network operation.

## **8.14 Information technology**

### ***Infrastructure***

IT systems are critical to our operations. We have a simple robust architecture with state-of-the-art components and reduced numbers of legacy systems, combining best-in-class industry platforms and in-house customized solutions. Our centralized IT infrastructure combines in-house capabilities with carefully selected vendors.

Our IT systems are highly integrated into every aspect of our business, providing capabilities for a variety of purposes in relation to customer front-ends, middleware and back-ends and cover, among other things, the following fundamental business areas: billing and customer relationship management (“CRM”); business support systems area; product lifecycle management; point-of sales support, commissioning, sales force automation; supply chain support and management; subscriber online services for sales and customer care; call center support; data warehousing and business analysis; controlling, finance; accounting and revenue assurance; and human resources.

### ***In-house resources, third party vendors and cost efficiency***

Our IT services are delivered predominantly by in-house resources in close cooperation with selected outsourcing partners, especially during the development and testing phase. This IT and sourcing strategy allows us to react in a flexible and efficient way to changing market demands by delivering regular roll-outs of new product developments.

From an in-house perspective, we have a proprietary CRM system that is customized for our internal needs. Due to well-designed architecture, we can quickly customize our systems further enabling us to address and apply unique company processes and specific capabilities. The standardization and integration of our billing and CRM systems helps us keep costs low and these systems fully support our simple and clear offerings and services. In addition, we have developed our own self-care systems and applications to support our services.

Our IT systems are focused on cost efficiency. Cost efficiency is achievable due to the combination of in-house customized solutions and prudent vendor selection to reduce costs, as described below.

In terms of third party vendors, we have chosen leading vendors for certain mission-critical aspects such as billing (Amdocs), intelligence and analytical platforms (Pivotal, SAS), infrastructure (IBM, EMC, Symantec and Cisco), Enterprise Resource Planning (SAP) and databases (Oracle). We have tended to use multiple small/mid-size local Polish vendors with high levels of expertise and reliability given Poland is a dynamically growing IT market, with a highly-skilled IT workforce and relatively low labor costs.

### ***Upgrades and ongoing initiatives***

Since 2014 we have completed a number of IT initiatives, continuously upgrading and modernizing our systems to maintain market leading position and support traffic growth on our network. We have completed projects relating to capacity expansion, disaster recovery, expansion of CRM to business customers and various implementations of systems and process platforms. We have a track record of successful execution of transformational projects across IT platforms with efficient and competitive economics. We have ensured these are in line with upgrade cycles of all critical platforms to support new services and traffic growth.

As of the date of this Report, we have projects relating to a major hardware upgrade for the billing component of our systems, paperless / digital points of sale and an expansion of our business intelligence disaster recovery systems.

### ***Business intelligence platform***

Our IT based business intelligence platform is the backbone of Play’s management system and decision making. Our integrated business intelligence platform gathers data from all major IT systems and network components which generates a broad spectrum of detailed statistics and analysis, including usage patterns, profit margins, top up patterns

and churn, user experience, location behavior, invoices and payments and call center usage/complaint management. Management receives automated reports setting out various key performance indicators based on the business intelligence systems, which are used as the basis for weekly management board meetings to monitor business progress. This in turn allows other areas of the business to improve performance and target more successful services, offerings and functions that Play offers.

The foregoing has ensured that Play is fast and efficient in launching new offers and responding to regulatory changes. For instance, we attribute our ability to be the first to market “family” offers in Poland to our business intelligence systems, which allowed us to launch our offering a year in advance of our competitors equivalent offers. In addition, our compliance with the ATO Act was supported by our IT systems and lent to the success of registering 89% of our active prepaid base as of February 1, 2017, when the new legislation came into force.

We have invested continuously in our IT infrastructure in the recent years to further improve IT effectiveness and efficiency through increased standardization, centralization, consolidation and virtualization of IT systems. We use carefully selected software systems that increase our efficiency, including internally developed software, open-source software, and third-party commercial software. We only engage with well-established suppliers for hardware and software in order to prevent cost intensive product and design changes.

In the case of natural disaster or an emergency situation, we operate a back-up disaster recovery center to fulfill business continuity requirements. The main IT systems are hosted in the four data centers located in the Warsaw area, separated geographically and operating in active-active or active-standby mode.

## **8.15 Material contracts**

### ***National roaming agreements***

We entered into a national roaming agreement with each of Plus, Orange and T-Mobile on June 8, 2006, July 14, 2010, and September 20, 2012, respectively. These agreements allow us access to the GSM 900 (2G), GSM 1800 (2G), HSPA+ 900 (3G), HSPA+ 2100 (3G), LTE 800 (4G) when launched by the host operator, LTE 1800 (4G) when launched by the host operator, and LTE 2600 (4G) when launched by the host operator; however not all technologies or frequencies are available from each host operator. Our access to the networks of Plus, Orange and T-Mobile is based on a “non-discrimination” principle, meaning that each of these operators are obliged to offer our customers the same connection quality as their own subscribers.

Our contracts require us to purchase a minimum amount of roaming services from each operator. Our contracts with each operator are for indefinite terms (subject to the parties’ rights to terminate pursuant to the terms of the applicable contract).

Our contract with T-Mobile cannot be terminated until December 31, 2020, except for circumstances in which we fall behind on our payments or in case of occurrence of selected events specified as a basis of contractual penalties (for example T-Mobile fails to provide services to us pursuant to the agreement); thereafter, such contract may be terminated with 24 months’ notice (or twelve months’ notice, if we are not obliged to provide T-Mobile with certain traffic forecasts). A change of control at Play (triggered by a sale to a competitor) would also result in a shortened required notice period for termination under our contracts with T-Mobile and Plus.

On July 27, 2017, P4 Sp. z o.o. and Orange Polska have signed an annex to the national roaming agreement. The annex introduces changes to the current agreement, primarily by changing the agreement from a PAY-AS-YOU-GO agreement to a firmer cooperation with financial commitment against certain volumes of the traffic. The annex covers the period from July 2017 until June 2021 and the financial commitment from P4 Sp. z o.o. to Orange Polska is PLN 321m spread over a four year period.

### ***International roaming agreements***

As of December 2017, we have entered into approximately 550 roaming agreements with international mobile network operators pursuant to which we offer voice, text and data services in approximately 200 countries and dependent territories. These roaming agreements regulate, among other things, billing and accounting, settlement procedures, subscriber care, technical aspects of the roaming agreements, testing, security, information on signal interconnection and connectivity. Generally, each roaming agreement provides that the operator hosting the roaming call bills the local operator for the roaming services used by the local operator's subscribers on the host's network. Additionally, in order to prevent fraudulent activity, the roaming agreements provide for the exchange of information on roaming services on a close to real-time basis. The visiting operator pays the host operator directly on a monthly basis and then bills the amount for the provision of roaming services to subscribers. Our roaming agreements generally remain in force unless one of the parties terminates the agreement upon six months' notice or earlier, in the event of a material breach or an insolvency event. The particular terms of each agreement vary by country.

Based on these roaming agreements, these foreign network operators provide roaming services to our subscribers as well as to subscribers of other mobile operators logging onto our network.

Pursuant to the amendments to the roaming rules on June 15, 2017, the "**Roam Like At Home**" legislation allows EU travelers to pay a roaming fee equal to the domestic price with specific limitations defined in the roaming regulation (EU 531/2012, and its amendments). Nevertheless, the abovementioned actions do not affect international roaming agreements we have entered into with international mobile network operators.

### ***Interconnection agreements***

We have entered into a number of interconnection agreements with Polish telecommunications operators including, among others, Plus, Orange, T-Mobile, Exatel, as well as four agreements with some of the largest foreign telecommunications operators, in order to connect our subscribers with the subscribers of these other operators. With regard to interconnection agreements with Polish operators, each party charges the other party for terminating calls according to MTRs, which are set by the UKE President. Our interconnection agreements generally have terms that continue for the duration of the parties' reservations to pursue telecommunications activities and may be terminated in the event of a material breach or the commencement of liquidation or insolvency proceedings, upon six months' or 30 days' notice, respectively.

### ***Network supply and maintenance agreements***

We have entered into a number of agreements for the supply, integration and maintenance of network equipment and reservation software, as well as its further development, with, among others, Huawei, Wavenet, Altaris Solutions and Amdocs Development Limited. These contracts cover our operational requirements which we do not service using our in-house teams. The agreements are usually framework agreements and specify the terms of delivery for particular supplies (usually on the basis of our orders). In addition, these agreements generally regulate the provision of support services for software and hardware and warranty terms. The agreements are entered into for a definite or indefinite term and have varying termination provisions depending on the supplier.

### ***Financing agreements***

Please refer to the chapter 10 *Description of certain financial arrangements*.

## **8.16 Research and development**

The Group does not have any design department dealing with R&D, however such activities are scattered throughout the organization. We consider research and development activities an important tool for competing effectively and we commit

certain resources to such activities. In order to ensure the quality of our network and to offer the latest and mobile telephony technology as well as innovative services and products to subscribers, we test new equipment, systems and products regularly, install new equipment and systems that we consider useful or cost-effective, undertake modifications to existing equipment and systems and test the network quality on a regular basis. We established dedicated team (“**UX**”) that focuses on approaching products/services design from the perspective of customers’ usability and efficiency. UX is responsible inter alia for research and enhancement of customers’ satisfaction from the innovative products/services by improving the usability, accessibility.

### **8.17 Legal proceedings**

We are subject to various legal proceedings arising in the ordinary course of business, including various proceedings initiated among others by the UKE or the UOKiK.

As of the date of this Report, we recognized provisions for known and quantifiable risks related to various proceedings in our financial statements, which represent our best estimate of the amounts that are probable 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.

In addition, we are subject, from time to time, to audits and investigations, some of which may result in proceedings being instituted against us in the future. For a description of pending court and administrative proceedings which we deem to be material because these are out of the ordinary course of business and could materially affect the business of the Group, please refer to the Financial Statement “*Contingencies and legal proceedings*”.

### **8.18 Environmental matters**

We are subject to a broad range of environmental laws and regulations. These laws and regulations impose stringent environmental obligations regarding, among other things, procedures concerning packaging waste, procedures concerning waste electrical and electronic equipment, waste batteries and the protection against electromagnetic fields. We could, therefore, be exposed to certain costs and liabilities.

We are required by law to obtain certain environmental authorizations or to provide prior notifications to the appropriate authorities.

### **8.19 Employees**

As of the December 31, 2017 the Group employed over 2,600 employees on both fixed term and indefinite contracts, of which approximately 63% were employed in a commercial/sales function and approximately 37% at our headquarters as well as persons who provide services on a permanent and regular basis based on contracts for the provision of services concluded for an indefinite period. As at the date of the Report no material changes have occurred in the Group’s employment structure.

### **8.20 Real property and leases**

Our real estate interests are held on a leasehold basis. We have a lease agreement for our headquarters in Warsaw and in Luxembourg and our base stations and stores which are located all over Poland.

We lease our headquarters in Warsaw, which is located at Taśmowa 7, Marynarska Business Park, with a surface area, including office premises and ancillary space (warehouse, telecommunications purposes and other).

As of December 31, 2017, we also lease approximately 5,800 properties or parts of properties (e.g., roof spaces) for base stations and the development of other telecommunications infrastructure (e.g., telecommunications towers and cabinets). The duration of such lease agreements is typically ten years, and often has an option of automatic extension for five years. The rent of these leases vary according to each location, however in most cases it is payable in zloty and

indexed annually, in line with the CSO index of consumer prices. Typically, each party has the right of early termination of such a lease.

As of December 31, 2017, we lease approximately 350 premises for stores, which are located throughout the country. These lease agreements are typically entered into for a two to five-year period, often with an extension option.

Other than minor disputes in the ordinary course of business, there are no current, pending or threatened material claims, disputes or liabilities in relation to our real estate.

Our leasehold interests are not subject to any encumbrances granted in favor of third parties, other than customary rights in favor of the property owner.

## **8.21 Intellectual property**

We use a number of trademarks in our corporate and marketing activities on which we are dependent and which we use in our day-to-day activities. As of December 31, 2017, we held trademark protection for over 260 trademarks relating to corporate identity and our offerings, including rights to our material corporate identity logos and the "PLAY" trade name and we have applied for registration of 45 additional trademarks. We also hold protection over two industrial designs registered with the European Union Intellectual Property Office.

Since May 26, 2014 Play 3GNS has been responsible for the management of all trademarks, designs and copyrights owned by the Group. On May 27, 2014, Play entered into a full and non-exclusive license agreement with Play 3GNS, in order to be able to use the trademarks, industrial designs and other trademarks and graphic elements owned by Play 3GNS.

Our registered trademarks are also licensed to third parties, mainly authorized vendors and agents, however, solely for performing rights and obligations under particular contracts entered into therewith. We have also entered into agreements regarding the use of registered trademarks of third parties.

Additionally, as of December 31, 2017, we use approximately 430 registered internet domains, of which the most important for our business operations is the "play.pl" domain name under which our website is located. The domain names have been active since April 5, 2002, and have been paid up until April 4, 2018, except for the play.pl domain, which is valid until April 4, 2019.

## **8.22 Insurance**

We maintain insurance coverage that we believe is in line with the standards adopted by telecommunications companies in Poland, which includes: insurance protection against material damage to our business assets and against loss of profits due to business interruption, insurance protection against acts of terror (excluding cyber-attacks), insurance protection against civil liability for personal damage and/or damage to property arising in connection with the conducted business or property, vehicle insurance, civil liability insurance for the members of Play's Management Board and the Company's Board and group life and accident insurance for employees.

## **9. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS**

We are not aware of any other related party transactions than those described in Note 36 "*Related party transactions*" to the Financial Statements included elsewhere in this Report.

## 10. DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

### 10.1 The Senior Facilities Agreement

On March 7, 2017, the Company and Play entered into senior facilities agreement (the “**Senior Facilities Agreement**”) for a committed amount of PLN 7,000 million between, among others, Alior Bank Spółka Akcyjna, Bank Zachodni WBK S.A., BNP Paribas S.A., DNB Bank ASA, DNB Bank Polska S.A., PKO Bank Polski SA, TFI PZU SA (on behalf of PZU FIZ AN BIS 2 and PZU SFIO Universum) and Raiffeisen Bank International AG as mandated lead arrangers and Bank Zachodni WBK S.A. as agent and security agent.

The Senior Facilities Agreement was amended and restated on June 14, 2017, as described below under “–*Amendments to the Senior Facilities Agreement.*”

In this description “**Group**” refers to the Company, Play and their subsidiaries from time to time and a “**Change of Control**” would occur if (i) the Company ceases to hold, directly or indirectly, the share capital of Play, (ii) the relevant holders ceases to own, directly or indirectly, more than 30% of the voting share capital of the Company, or (iii) any person or group of persons acting in concert (other than the relevant holders) gains control of more than 30% of the voting share capital of the Company. The definitions, terms and methods of calculations used in the Senior Facilities Agreement may differ from the definitions, terms and methods of calculations used in this Report.

#### Facilities

The facilities under the Senior Facilities Agreement comprise PLN 2,500 million term loan facility A (the “**Facility A**”), PLN 2,800 million term loan facility B (the “**Facility B**”), PLN 1,300 million term loan facility C (the “**Facility C**”, and together the “**Senior Term Facilities**”) and PLN 400 million revolving credit facility (the “**Revolving Facility**”). With respect to the Senior Term Facilities, the Group drew PLN 6,443.0 million and the remaining amounts were canceled. Each of the foregoing values are the nominal value, rather than the amount reflected on the balance sheet when drawn.

The purpose of the Senior Term Facilities was for the Company and Play, inter alia, to refinance the Old Notes and cover related fees, costs and expenses.

The purpose of the Revolving Facility was to provide for a multicurrency revolving credit facility which can be utilized by way of loans, letters of credit or other ancillary facilities. The Revolving Facility may be utilized by Play or any future borrower in Polish zloty, euro, U.S. dollars or other currencies agreed by all of the lenders under Revolving Facility and freely convertible into Polish zloty. The Revolving Facility will be used to finance the working capital and general corporate needs of the Group (including towards capital expenditure and permitted acquisitions and related fees, costs and expenses)).

In addition to the Senior Term Facilities and the Revolving Facility, the Senior Facilities Agreement enables both Play and/or the Company to add one or more additional facilities under the Senior Facilities Agreement at any time provided that certain conditions specified in the Senior Facilities Agreement are complied with, including that the senior secured leverage pro forma for the relevant additional facility and tested as at the most recent financial quarter date for which financial statements have been delivered does not exceed 3.75:1.

#### Borrowers and Guarantors

The Company and Play are the original borrowers and guarantors under the Senior Facilities Agreement.

The Senior Facilities Agreement further requires all material companies within the Group to become guarantors under the Senior Facilities Agreement and for a guarantor coverage test to be satisfied on the date falling 21 days after the date of first utilization of the Senior Term Facilities and thereafter within 60 days of any date on which the Group needs to deliver its annual financial statements under the Senior Facilities Agreement and 60 days after any relevant permitted acquisition,

permitted disposal or permitted reorganization (as applicable). The aggregate earnings before interest, tax, depreciation and amortization (calculated on the same basis as consolidated EBITDA but taking each entity on an unconsolidated basis and excluding all intra-group items and investments in subsidiaries) of the guarantors must be equal to or exceed 85% of the Consolidated EBITDA of the Group and the aggregate total assets (excluding goodwill) of the guarantors must exceed 85% of the consolidated total assets (excluding goodwill) of the Group. As of the date of this Report the material companies under the Senior Facilities Agreement are Play, the Company and Play 3GNS.

The Company and/or Play may further request that any of their wholly-owned subsidiaries be added as borrowers and/or guarantors, subject to certain conditions.

Repayments and prepayments

Facility A is to be repaid in installments pursuant to the following repayment schedule:

<b>Facility A Repayment Date</b>	<b>Facility A Repayment Installment</b>
March 31, 2018 .....	8%
September 30, 2018.....	8%
March 31, 2019 .....	12%
September 30, 2019.....	12%
March 31, 2020 .....	12%
September 30, 2020.....	12%
March 31, 2021 .....	12%
September 30, 2021.....	12%
March 20 and 21, 2022 .....	12%

Facility B and Facility C are not amortizing and are both repayable on the date falling five years and six months after the first utilization under the Senior Facilities Agreement (in case of Facility B) and the date falling six years after the first utilization under the Senior Facilities Agreement (in case of Facility C).

The Revolving Facility will mature on the date falling six years after the first utilization under the Senior Facilities Agreement.

Subject to certain conditions, the borrowers may voluntarily prepay the utilizations and/or permanently cancel all or part of the available commitments under the facilities (in each case in a minimum amount of PLN 25 million).

Any prepayment in respect of Facility B from a new loan made within the first six months after the first utilization under the Senior Facilities Agreement and any prepayment in respect of Facility C from a new loan made within the first twenty four months after the first utilization under the Senior Facilities Agreement are subject to payment of a soft call fee being (i) in respect of Facility B, 1.00% flat on the aggregate principal amount prepaid and (ii) in respect of Facility C:

- (a) up to the date falling six months after the first utilization under the Senior Facilities Agreement, 2.00% flat on the aggregate principal amount prepaid
- (b) from the date falling six months after the first utilization under the Senior Facilities Agreement to the date falling twelve months after the first utilization under the Senior Facilities Agreement, 1.50% flat on the aggregate principal amount prepaid
- (c) from the date falling twelve months after the first utilization under the Senior Facilities Agreement to the date falling eighteen months after the first utilization under the Senior Facilities Agreement, 1.00% flat on the aggregate principal amount prepaid
- (d) from the date falling eighteen months after the first utilization under the Senior Facilities Agreement to the date falling twenty four months after the first utilization under the Senior Facilities Agreement 0.50% on the aggregate principal amount prepaid.

In addition to voluntary prepayments, the Senior Facilities Agreement requires mandatory prepayment in certain circumstances, including prepayment upon the occurrence of a sale of all or substantially all of the assets of the Group and prepayment from disposal, report proceeds and insurance proceeds (with certain exceptions).

Subject to the terms set out in the Senior Facilities Agreement:

- (a) upon a Change of Control, a Sale or a Listing (each as defined therein) (a) which results in a Change of Control occurs or if a change is approved by the Majority Lenders (as defined therein) as contemplated in the definition of Relevant Holders but a lender certifies that it cannot achieve the necessary internal approval as regards KYC, concentration limits or other policies of general application, Play shall promptly notify the Agent of such an event and, if a lender so requires and notifies the Agent within 15 business days, the Agent on no less than five business days' notice to Play will cancel all commitments of that lender and declare the participation of that lender in any outstanding loans, together with accrued interest, and all other amounts accrued under the Finance Documents (as defined in the Senior Facilities Agreement) to be immediately due and payable, whereupon the commitments of that lender will be canceled and all such outstanding amounts will become immediately due and payable; and
- (b) upon a Listing which does not result into a Change of Control (both as defined therein) Play shall promptly notify the Agent of such an event and if, on a pro forma basis (taking into account prepayments to be made in respect of proceeds of such Listing but otherwise ignoring the pro forma effect of such proceeds on cash), the ratio of consolidated total net leverage on the quarter date prior to such Listing for which financial statements are available to consolidated EBITDA for the testing period ending on such date is greater than 3.00:1, 50% of the proceeds of such Listing shall be applied in prepayment of the facilities to the extent required to reduce the pro forma ratio of consolidated total net leverage to consolidated EBITDA to 3.00:1.

A waiver of the mandatory prepayment with the proceeds of the Offering of the Shares was obtained as described below under “—Amendments to the Senior Facilities Agreement.”

Interest

The facilities initially bore 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
- (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 as follows:

<b>Total Leverage Ratio</b>	<b>Facility A</b>	<b>Facility B</b>	<b>Facility C</b>	<b>Revolving Facility</b>
Greater than 4.00:1 .....	2.75%	3.25%	4.25%	2.75%
Equal to or less than 4.00:1 but greater than 3.50:1 .....	2.50%	3.00%	3.75%	2.50%
Equal to or less than 3.50:1 but greater than 2.50:1 .....	2.25%	2.75%	3.25%	2.25%
Equal to or less than 2.50:1 but greater than 1.50:1 .....	2.00%	2.25%	2.50%	2.00%
Equal to or less than 1.50:1 .....	1.50%	1.50%	2.25%	2.00%

In accordance to the relevant clause in Senior Facilities Agreement, for the coming interest period (lasting from December 29, 2017 till March 28, 2018) the interest margin for all Facilities will drop to the following level:

- (a) in relation to any Facility A, 2.25% per annum
- (b) in relation to any Facility B, 2.75% per annum
- (c) in relation to Facility C, 3.25% per annum

Default interest on overdue amounts is set at 1% higher than that which would have applied otherwise.

The borrowers are also required to pay a commitment fee, quarterly in arrears, on the last day of the availability period of the Revolving Facility and on the date on which the Revolving Facility is canceled in full or on the date on which a lender cancels its commitment. Arrangement, agency and letter of credit fees are also payable.

### *Security*

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) pledge over the shares in each borrower and guarantor, assignments of intra group receivables, pledges over bank accounts, pledges over assets (including material intellectual property and insurance), and submission to enforcement.

On the date of first utilization of the Senior Term Facilities, such security included a share pledge over the shares in the Company, a share pledge over the shares in Play, a financial pledge over bank accounts by Play and the Company, a registered pledge over all assets (including material intellectual property and insurance) by Play and, submission to enforcement by Play and the Company. The share pledge over the shares in the Company has been released as described below under “–Amendments to the Senior Facilities Agreement.”

### Representations and Warranties

The Senior Facilities Agreement contains customary representations and warranties for a facilities agreement of this type including status, binding obligations, non-conflict with other obligations, power and authority, validity and admissibility in evidence, governing law and enforcement, no filing or stamp taxes, no default, no misleading information and base case model, financial statements, no litigation, consents, filings and laws applicable to operations, taxation, no security/financial indebtedness, *pari passu* ranking, legal and beneficial ownership, shares, intellectual property, group structure, holding companies, pension schemes, center of main interests and establishments, anti-corruption, anti-money laundering laws and sanctions, insolvency, accounting reference date, subject to certain exceptions and qualifications and with certain representations and warranties being repeated at customary times.

### Covenants

The Senior Facilities Agreement also contains affirmative and negative covenants customary for a facilities agreement of this type, and three financial covenants (set out in further detail below). Certain covenants under the Senior Facilities Agreement are subject to carve-outs including in respect of breaches which would not impair the ability of an obligor to perform its obligations or are not reasonably likely to have a material adverse effect.

### Affirmative Covenants

The affirmative covenants include, among others: (i) providing certain financial information, including annual and quarterly financial statements, an annual budget and compliance certificates (ii) compliance with laws and regulations including sanctions, (iii) maintaining in full force and effect certain authorizations, (iv) the maintenance of *pari passu* ranking, (v) the maintenance of assets necessary in the conduct of business, (vi) due payment of taxes, (vii) various reporting and information obligations (including details of material litigation and notification of defaults), (viii) preservation of material intellectual property, (ix) funding of defined benefit pension schemes and (x) further assurance provisions.

### Negative Covenants

The negative covenants include restrictions, with respect to (and subject to certain exceptions), among others: (i) changing the general nature of the business, (ii) creating security interests over its assets, (iii) disposing of assets, (iv) the incurrence of financial indebtedness, (v) effecting any merger, demerger, amalgamation, partial contribution of

assets or corporate reconstruction, (vi) making certain acquisitions or investments, (vii) granting of loans or other credit or the granting of guarantees, (viii) entering into treasury transactions and (ix) in certain circumstances, the declaration and payment of dividends and the share redemptions.

The restriction on the incurrence of financial indebtedness, in addition to customary exceptions and limits, permits Play to incur additional debt at any time *provided that* certain conditions specified in the Senior Facilities Agreement are complied with, including that (a) if the additional debt constitutes Senior Liabilities (as defined in the Intercreditor Agreement), the senior secured leverage *pro forma* for the relevant additional debt and tested as at the most recent financial quarter date for which financial statements have been delivered does not exceed 3.75:1 and (b) if the additional debt does not constitute Senior Liabilities (as defined in the Intercreditor Agreement), the total net leverage ratio *pro forma* for the relevant additional debt and tested as at the most recent quarter date for which financial statements have been delivered does not exceed 4.25:1. There is also a general basket of the greater of PLN 400,000,000 and 10% of Consolidated EBITDA.

The restriction on the declaration and payment of dividends permits the Group to pay dividends in certain circumstances including when total net leverage *pro forma* for the relevant payment and tested as at the most recent quarter date for which Financial Statements have been delivered does not exceed 3.50:1 provided no event of default is continuing or would result from such payment. The Company believes that these restrictions should still permit the Company to pay out dividends in line with the intentions set forth under “*Dividend and Dividend Policy.*”

If a Listing occurs which does not constitute a Change of Control and the total net leverage ratio for the period ending on the most recent quarter date for financial statements has been delivered is equal to or less than 3.00:1 and the long-term corporate credit rating of the Group is equal to or better than Baa3/BBB- according to Moody’s, Standard & Poor’s or Fitch (as applicable), certain of the provisions of the Senior Facilities Agreement shall be amended or shall be suspended and cease to apply including (i) the requirement to make certain mandatory prepayments, (ii) the requirement to deliver an annual budget, (iii) any information requirement which would not comply with applicable law, regulation or stock exchange requirements or which requires the provision of forward looking information, (iv) the restrictions on joint ventures, acquisitions, change of business and the declaration and payment of dividends and the share redemptions and, in addition, certain of the limitations on indebtedness, guarantees and loans which are set by reference to monetary thresholds shall be increased.

A waiver of the mandatory prepayment with the proceeds of the offering of the Shares was obtained as described below under “–*Amendments to the Senior Facilities Agreement.*”

Financial Covenants

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 set out below, the relevant thresholds being:

<u>Quarter Date</u>	<u>Senior Secured Leverage Ratio</u>
March 31, 2017 .....	4.25:1
June 30, 2017 .....	4.25:1
September 30, 2017 .....	4.25:1
December 31, 2017 .....	4.05:1
March 31, 2018 .....	3.80:1
June 30, 2018 and each Quarter Date thereafter until December 31, 2023 .....	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 set out below, the relevant thresholds being:

Quarter Date	Total Leverage Ratio
March 31, 2017.....	5.25:1
June 30, 2017.....	5.25:1
September 30, 2017.....	5.25:1
December 31, 2017.....	5.15:1
March 31, 2018.....	5.00:1
June 30, 2018.....	4.80:1
September 30, 2018.....	4.60:1
December 31, 2018.....	4.50:1
March 31, 2019.....	4.35:1
June 30, 2019.....	4.25:1
September 30, 2019.....	4.25:1
December 31, 2019.....	4.25:1
March 31, 2020.....	4.25:1
June 30, 2020.....	4.25:1
September 30, 2020.....	4.25:1
December 31, 2020.....	4.25:1
March 31, 2021.....	4.25:1
June 30, 2021.....	4.25:1
September 30, 2021.....	4.25:1
December 31, 2021.....	4.00:1
March 31, 2022.....	4.00:1
June 30 2022 and each Quarter Date thereafter until December 31, 2023.....	3.75:1

(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 on and from June 30, 2017.

Should any such financial covenant not be satisfied, the Senior Facilities Agreement enables Play to remedy such breach by using its equity cure rights. The new shareholder injection reduces debt in the case of the Senior Secured Leverage Ratio and Total Leverage Ratio financial covenants and increases Consolidated Cashflow in the case of the Cashflow Cover financial covenant. Equity cures may not be made on more than 4 occasions and not in consecutive quarter periods. If a financial covenant has been breached but complied with in the next testing period, then the prior breach of financial covenant or event of default arising therefrom shall no longer be outstanding or continuing unless the Agent has taken steps to accelerate the Facilities.

Certain amendments as described below under “–Amendments to the Senior Facilities Agreement” were also made to include an interest cover ratio and amend the testing of the cashflow cover.

The definitions used in Senior Facilities Agreement may differ from those used in this Report.

Events of default

The Senior Facilities Agreement contains various customary events of default, subject to customary materiality qualifications and grace periods, including but not limited to (i) non-payment, (ii) breach of financial covenants, (iii) failure to comply with other obligations under the finance documents, (iv) misrepresentation, (v) invalidity and unlawfulness, (vi) repudiation and rescission of a finance document, (vii) a cross default in relation to any financial indebtedness of a member of the Group (and therefore not the Company) in an aggregate amount of PLN 100 million or more (and subject to certain exceptions), (viii) insolvency, (ix) insolvency proceedings, (x) attachment or process, (xi) cessation of business, (xii) compulsory acquisition, (xiii) litigation, (xiv) audit qualification, (xv) breach of intercreditor agreement, (xvi) material

adverse change and (xvii) change of ownership. At any time after the occurrence of an event of default the Agent may declare that any outstanding amounts to be immediately repaid.

#### Governing law

The Senior Facilities Agreement and any non-contractual obligations arising out of or in connection with it, are governed by, construed in accordance with and will be enforced in accordance with English law.

#### 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 Company and consequential amendments to reflect that this had occurred throughout the Senior Facilities Agreement;
- 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 non-recurring deal fee to be paid to certain shareholders in connection with the arrangement and/or implementation of the initial public offering; and
- Waivers and amendments to permit the Conversion and actions related thereto (including a release of security over the shares in the Company (to facilitate the listing))
- an amendment to the "Change of Control" clause. As of now Change of Control would occur if (i) the Company ceases to hold, directly or indirectly, the share capital of Play, (ii) the relevant holders ceases to own, directly or indirectly, more than 30% of the voting share capital of the Company, or (iii) any person or group of persons acting in concert (other than the relevant holders) gains control of more than 30% of the voting share capital of the Company. The definitions, terms and methods of calculations used in the Senior Facilities Agreement may differ from the definitions, terms and methods of calculations used in this Report.

A consent fee was 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.

## **10.2 Millennium Revolving Credit Facility**

#### Drawings, purpose, term and interest

Play has a revolving credit line agreement with Bank Millennium S.A. for the amount of PLN 50 million made available under the overdraft facility agreement dated November 13, 2013, amended on November 12, 2014, November 20, 2015,

November 22, 2016 and May 15, 2017, governed by Polish laws (the “**Millennium Revolving Credit Facility**”). Drawings on this revolving credit line can be used to finance operating activities. All drawings must be repaid by November 12, 2017. Interest is calculated based on the one-month WIBOR rate plus a margin.

#### Security and Guarantees

The loan is not secured. A submission to enforcement was provided by Play in favor of Bank Millennium in an amount up to PLN 80 million in connection with the revolving credit facility.

#### Covenants

The Millennium Revolving Credit Facility agreement contains a *pari passu* clause, under which Play must ensure the equal treatment of the loan with any other obligations of Play arising from unsecured revolving credit line agreements with a repayment term of up to 24 months. For example, Bank Millennium S.A.’s claims cannot be subordinated to any other unsecured financing arrangements. In addition, the margin over one-month WIBOR will increase by one percentage point if Play’s monthly collection turnovers, which are held in a bank account with Bank Millennium S.A., fall below PLN 30 million.

#### Events of default

An event of default occurs under the Bank Millennium S.A. revolving credit facility agreement if, among other things: (i) Play uses the facility for a purpose other than that permitted by the agreement, (ii) claims against Play arising under other facility agreements, to which Play is a party, have been declared due and payable as a result of the Play’s default, unless such claims do not exceed PLN 7 million, or (iii) in the event of certain bankruptcy events. Following the occurrence of any event of default, Bank Millennium S.A. is entitled to terminate the agreement on the terms set out in Polish Banking Law and is entitled to accelerate any loans outstanding thereunder.

### **10.3 Bank Zachodni WBK S.A. Overdraft Facility Agreement**

#### Drawings, Purpose, Term and Interest

In March 2015, Play and Bank Zachodni WBK S.A. (the “**Bank**”) entered into an overdraft facility agreement, as further amended on November 10, 2015, June 1, 2016, and June 2, 2017, governed by Polish law (the “**Bank Zachodni WBK Overdraft Facility Agreement**”), pursuant to which the Bank made available to Play an overdraft facility (the “**Bank Zachodni WBK Overdraft Facility**”) with the purpose of providing working capital to Play. Currently, the maximum amount available under the Bank Zachodni WBK Overdraft Facility is PLN 100 million. On February 8, 2018 the agreement was amended: the available amount was reduced from PLN 150 million to PLN 100 million in order to optimize the cost of available financing. The repayment date of the Bank Zachodni WBK Overdraft Facility is May 31, 2018.

The applicable interest rate is the one-month WIBOR rate plus a margin.

#### Security and guarantees

The Bank Zachodni WBK Overdraft Facility Agreement is not secured. A Polish law governed submission to enforcement was executed by Play in favor of the Bank.

#### Covenants

Play undertook under the Bank Zachodni WBK Overdraft Facility Agreement, *inter alia*, to: (i) comply with certain information obligations (such as delivery of financial statements etc.); (ii) use the overdraft facility in accordance with its purpose; (iii) ensure to maintain the necessary permits and authorizations; (iv) treat its obligations under the Bank Zachodni WBK Overdraft Facility Agreement as at least *pari passu* with all its other unsecured and unprivileged financial obligations arising under other loan agreements with a maturity date up to 24 months, except obligations preferred by

mandatory provisions of law; (v) inform the Bank about corporate and organizational changes to its activity, in particular, amendments to its articles of association, to the extent they would be contradictory to the Bank Zachodni WBK Overdraft Facility Agreement or would affect the performance of Play's obligations under the Bank Zachodni WBK Overdraft Facility Agreement; (vi) inform the Bank about changes in the core business activity of Play; and (vii) duly pay and discharge all due taxes and social security contributions.

#### Events of default

An event of default occurs under the Bank Zachodni WBK Overdraft Facility Agreement if, *inter alia*: (i) the representations and warranties of Play, which were material to the Bank in deciding to make the overdraft facility available to Play, are determined to be untrue; (ii) Play violates any obligations under any other finance documents entered into with the Bank; (iii) the financial condition of Play deteriorates as a result of the loss, disposal or encumbrance of Play's material assets; and this event is likely to result in Play's non-performance of the Bank Zachodni WBK Overdraft Facility Agreement; (iv) Play has lost its ability to perform its due pecuniary obligations under the Bank Zachodni WBK Overdraft Facility Agreement within the meaning of Polish Bankruptcy Law; (v) enforcement proceedings against Play are commenced and the value of the claim being enforced exceeds PLN 500,000 or 0.25% of Play's annual revenue, whichever amount is lower; or (vi) Play proposes to a creditor to conclude a settlement on restructuring or to suspend payments or has suspended payments, unless this does not have any impact on the performance of the Bank Zachodni WBK Overdraft Facility Agreement.

Following the occurrence of an event of default, the Bank is, *inter alia*, entitled to terminate the agreement on the terms set out in Polish Banking Law and is entitled to ask for repayment of any amounts outstanding under the Bank Zachodni WBK Overdraft Facility.

## 11. OUTLOOK OF PLAY'S DEVELOPMENTS IN 2018

### 11.1 Play Strategy 2018-2020

#### **PLAY: a successful European wireless challenger**

Since our commercial launch in 2007, PLAY has grown from a niche operator to the market leader. We have increased our market share by 2.7 p.p. annually on average over 2007-2017, reaching 28.8% market share in terms of subscribers at the end of Q4 2017<sup>3</sup>. That makes Play #1 wireless operator in Poland in terms of the number of subscribers today.

#### **Key to success: consistency of our strategy and execution**

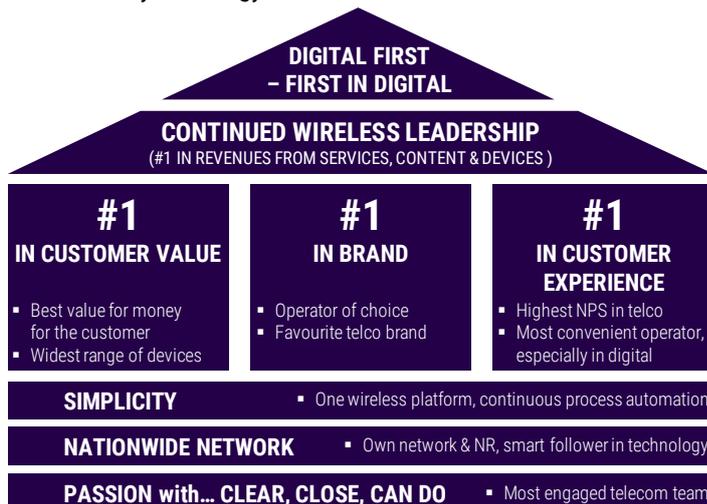
The cornerstones of our strategy, defined in 2007, have remained intact since then. We have maintained clear focus on mobile services and devices, and therefore have been able to deliver excellent customer value and flawless experience.

We strongly believe that our mobile-centric strategy is aligned with evolving needs of our customers. We target our offer primarily to B2C and SOHO/SME segments, leveraging our best in class sales network, simple and compelling tariffs and devices, as well as effective marketing communication.

#### **Play 2018-2020 strategy further builds on the wireless platform**

We are aware that our customers have higher demands towards telecommunication service providers than ever before. Their expectations are inspired by experience from other sectors, especially e-commerce, banking, and social media platforms. As PLAY, we are committed to lead by example in digitizing customer experience in telecoms.

Picture 1. Play's Strategy house



Source: Company

Our mission is to be DIGITAL FIRST – FIRST IN DIGITAL i.e. become the first telecommunications company in Poland to deliver world class digital experience with human touch. The human touch is our vantage point over technology companies, and a means to build long-lasting relationships with our customers, both in online and offline environment.

Our mission to digitize also covers internal operations, improving cost efficiency through process simplification and automation across network operations, customer service, finance and other back-office functions.

<sup>3</sup> Based on number of SIMs as per Central Statistical Office of Poland

Our vision of continued wireless leadership means that we strive to generate the highest revenue on the Polish market from mobile services, paid digital content and mobile devices sales.

Therefore, we are committed to excel in three areas which we believe are critical to customer satisfaction:

- #1 in customer value – we always want to deliver best value for our customers at given price level, and supplement it the widest range of mobile devices.
- #1 telecom brand – we want to be both the operator of choice and the favorite telecom brand.
- #1 in customer experience – we want to consistently provide the most convenient and digitized customer experience across all touchpoints.

The foundations of our strategy are rooted in the lean and flexible operating model:

- Simplicity – we use one marketing and technology platform and continuously work to optimize its efficiency through process simplification and automation. So far we have e.g. deployed automated Configuration Management Systems in Network Operations Center, robots in Finance Back-Office, or real-time marketing capabilities. Our approach to technology allows us to choose the optimal timing for deployment which maximizes the cost-to-benefits ratio.
- Further network expansion – we benefit from a combination of growing own network of 5 746 physical locations (as of Q4 2017) and flexible national roaming access to all other networks in Poland. By 2020 we intend to operate a fully independent nationwide network to maximize cost efficiency and improve reach to each customer segment.
- Passion with CLEAR, CLOSE, CAN DO – these values have led to formation of the engaged telecommunication team which turned greenfield company into the market leader.

### ***Wireless focus is effective in countries like Poland***

Structural characteristics of the Polish market support execution of mobile-centric strategies.

Following geo-demographic factors favor deployment of wireless technologies in Poland, e.g.:

- low average population density (76 inhabitants/km<sup>2</sup> in Poland vs 232 inhabitants/km<sup>2</sup> in Germany and 271 inhabitants/km<sup>2</sup> in UK<sup>4</sup>)
- low standard deviation of density per NUT2 region (123 inhabitants/km<sup>2</sup> in Poland vs 1 167 inhabitants/km<sup>2</sup> in Germany and 1 492 inhabitants/km<sup>2</sup> in the UK<sup>5</sup>)
- as a result, population in Poland is significantly dispersed, esp. compared to EU countries

The development of fixed and mobile infrastructure is a consequence of geo-demographic & competitive factors:

- Poland has the lowest fixed broadband penetration in the European Union (18.6% vs. EU average 33%)<sup>6</sup>
- Poland is one of the European leaders in mobile penetration (114,6% vs. EU average 84%)<sup>7</sup>
- Fixed broadband market is highly fragmented, without strong, nationwide alternative operators;

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<sup>4</sup> Based on national statistical bureaus, 2016 data

<sup>5</sup> Based on national statistical bureaus, 2016 data

<sup>6</sup> Digital Agenda Scorecard – June 2016 after UKE, "Raport o stanie rynku telekomunikacyjnego w 2016 roku", June 2017

<sup>7</sup> Digital Agenda Scorecard – June 2016 after UKE, "Raport o stanie rynku telekomunikacyjnego w 2016 roku", June 2017

- Fixed and mobile ARPU levels are low, which may inhibit potential for cross-product bundling

### **Successful track record and benefits of mobile bundling**

In 2014, we leveraged our mobile platform to launch mobile bundles (Family and Comfort tariffs). These products have been very well received by the market, and by Q4'2017 we have grown our mobile bundle base to 4.1 m contract subscribers.

Chart 1. Number of SIMs in multi-SIM contracts (e.g. Rodzina / Komfort) [millions]



1 - Comprises net adds as well as contracts' consolidation into multi-SIM bundles

Source: Play

Our mobile bundling strategy has allowed us to maintain high growth dynamics (+7.5 p.p. increase in market share since 2014), at the same time increasing ARPA<sup>8</sup> by 18%<sup>9</sup> and stabilizing churn level in contract base.

### **Further growth of our wireless platform in 2018-2020**

According to our estimates the market potential for further growth of multiSIM bundles is c. 1.7<sup>10</sup> million SIM cards. This number accounts for households and companies where Play has active relationship through existing contracts. Moreover, we estimate additional market potential of c. 2<sup>11</sup> million SIM cards in the segments which we believe are underrepresented in our customer base, especially in rural regions and among senior population.

Secondly, we will continue leveraging our numerous MVNO partnerships to further penetrate niches of lifestyle offers and cable TV bundles. Currently Play enables MVNO services to virtual operators like Virgin Mobile, NC+, UPC, Vectra, Netia, Folx and others.

Thirdly, we expect to remain the leading retailer of smartphones and mobile devices in Poland.

Finally, our further expansion of the network will allow us to evolve our high capacity 4G LTE network towards 4.5G and eventually 5G standards to continuously provide the highest capacity wireless connectivity solutions. Today, we offer this capacity to individuals, households and businesses. Already in 2018 we plan to offer them two new products:

- Wireless-to-the-home solutions – in January 2018 we launched Net Box home internet solution that aims to increase coverage & speed in rural and suburban areas. We plan to commercialize this product in line with our network expansion strategy

<sup>8</sup> ARPA – average return per account

<sup>9</sup> Total operating revenues from contracts on monthly, cash basis per unique account (PESEL or REGON)

<sup>10</sup> Play's analysis of up-sell market potential

<sup>11</sup> Internal estimate based on achieving fair market share in these demographics

- PLAY Now TV – we plan to further expand our OTT TV platform to cater for complete household needs. We plan to enhance it with advanced digital interface features.

In the future, thanks to our modern network and leadership in wireless wholesale business, we have the best platform to develop the 5G eco-system for emerging vertically integrated business lines.

**Digitization boosts cost efficiency and customer experience**

We continue our efforts in front office digitalization that has proven effects of declining number of monthly calls to the call center and rapidly increasing numbers of self-service application (i.e. Play24)

Chart 2. Continued front-office digitization



Source: Play

We maintain lean and automated back office, in line with our like-for-like flat OPEX principle. We proactively pursue simplification of our operating model and constantly streamline legacy processes & products. We also increase automation of marketing & sales activities.

Our aim for 2018-2020 is to further increase cost efficiency and at the same time elevate customer experience.

**Continuation of nationwide network expansion until 2020**

With the continued expansion of our network we want to both lower our dependency on national roaming services and address underserved segments of the market, esp. rural population and seniors.

We continue to pursue our ambitious targets for network rollout that in 2017 amounted to:

- 697 new physical locations (gross)
- 1,604 locations upgrades
- 5.4 systems per new site

For 2018 we have even more ambitious plans i.e. 1,000+ new sites and 5 sites per day planned in Q4 2018.

**11.2 Developments in 2018 and guidance for 2018 and mid-term**

**DEVELOPMENTS IN 2018**

***Nationwide network rollout***

In 2018 we intend to deploy 1,000 of base stations which is in line with our cash capex guidance (8% of operating revenue plus PLN 500m spread over 3 years 2018 – 2020).

### ***Roam Like At Home impact***

Play received the decision from the President of the Office of Electronic Communications (UKE) on January 15, 2018. Based on this decision, PLAY modified the functioning of Roam Like At Home offers for new post-paid, pre-paid and retained customers. Current customers of PLAY post-paid offers will use roaming on the existing RLAH terms.

As part of new offers, post-paid customers will receive a free 1 GB monthly package for use in EU roaming. In addition, they will be able to use calls and text messages as domestically. During weekend trips, winter or summer holidays, customers will not feel the difference compared to the current terms and conditions. The surcharges apply only after a period of 30 days during which the use of roaming services exceeds domestic use. If you do not use roaming within the next 30 days, the balance is reset and no additional charges are levied during the next trip. The changes are effective since January 26, 2018.

As a result of consultations with UKE, the surcharges have been set at following levels:

- 6 grosze<sup>12</sup> per minute of outgoing call
- 3 grosze per minute of incoming call
- 1 grosz for an SMS or MMS sent
- 1.2327 grosze per MB of data transmission

The surcharges also apply to customers of pre-paid users and will be introduced as of March 1. The customers of the Formuła Unlimited na Kartę offer will receive a free roaming package every month, containing 100 minutes for calls, 50 SMS and 500 MB of data. After using the package, the above-mentioned surcharges will apply.

Remaining pre-paid customers will use roaming with the above surcharges. In pre-paid, we have a large group of customers using the EU roaming intensively, the introduction of small surcharges will allow maintaining the national offer at the current price level.

This changes will partially offset the impact of Roam Like At Home in 2018. The above changes, based on the UKE decision, shall be in force until January 14, 2019.

### ***New tax regulation - key changes in Corporate Income Tax***

The new tax rules developments are effective as of January 1, 2018. The key changes which impact Play are:

- Limited deductibility of intangible services' costs and intangible assets: The new law restricts deductions for payments made to related parties and entities located in countries that are considered to engage in harmful tax practices (i.e. tax haven countries) for certain intangible services and for the use of, or the right to use, certain intangible assets. The annual deduction for such costs is limited to PLN 3 million, plus 5% of tax EBITDA (as specifically defined for purposes of the limitation), and applies to costs incurred for the following: (i) advisory services, market research, marketing and advertising, management and control, data processing, insurance, guarantees and sureties and similar services; (ii) the use of, or the right to use, copyrights, licenses and know-how; and (iii) the transfer of the risk of insolvency of a borrower with respect to receivables from loans other than those provided by banks and saving and credit unions. Deductions that are disallowed under this rule may be carried forward for five years (subject to the same annual limitation). The above limit does not apply to: (i) services, fees and other charges directly related to the production of goods or the provision of services by the

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<sup>12</sup> 1 grosz = PLN 0.01

taxpayer; (ii) services rendered in the taxpayer's name but for the benefit of a third party; (iii) insurance, guarantee and surety services provided by certain financial enterprises; and (iv) costs that are covered under an advance pricing agreement.

- Limited deductibility of debt finance costs: The legislation replaces Poland's thin capitalization rules that applied to the deduction of interest expense with a new limitation on deductions of debt financing costs (interest and other costs related to debt financing) paid to related and unrelated parties. Under the new rules, deductions of debt financing costs that exceed interest or "interest-type" income are limited to 30% of "tax EBITDA" (as defined in the legislation) and/or PLN 3 million in a fiscal year (the exact method of calculation currently is unclear). Disallowed deductions may be carried forward for five years (except in the case of certain restructuring transactions), subject to the same annual limitation calculation. Interest deductions on amounts loaned before 1 January 2018 will continue to be calculated under pre-2017 rules until the end of 2018 (i.e. the new limitation will apply to debt financing costs for these loans starting from 1 January 2019). The new rules do not apply to debt financing costs of financial enterprises, such as domestic banks, credit institutions, saving and credit unions, investment firms and selected investment funds. Additionally, deductions are disallowed for debt financing used to acquire shares in a company where the debt and associated interest expense is "pushed down" to the acquired company. Additionally, where the cost of debt financing exceeds the amount of financing that the taxpayer will be entitled to receive, if such financing was provided to the taxpayer by the non-related entity (the market creditworthiness of the taxpayer), the tax authority will be able to determine the taxpayer's income in the amount greater or a loss in the amount smaller than the taxpayer declared.
- Introduction of new baskets of income: The tax reform creates a new basket of income for corporate taxpayers (previously, all income fell into a single basket). Income now will be classified as: (i) capital gains, including income from participations in the profits of legal persons, certain royalties, property rights, in-kind contributions and the disposal of shares (a list of income considered to be capital gains is included in the law); or (ii) "other" income, which includes all income not classified as capital gains (including core business revenues). Under the new rules, net income from each source is calculated separately, and the use of tax losses derived from one source to reduce income derived from the other source is not permitted. Costs not directly related to one source of income are allocated proportionally to each source based on revenues. The new rules do not apply to insurers, banks, saving and credit unions, and financial institutions. For these taxpayers, capital gains (with some limited exceptions) continue to be classified as income other than capital gains.
- Costs of using of intangible assets: The new rules limit the amount of tax deductible costs in the case of a past disposal of an intangible asset, where the asset is subsequently licensed or re-purchased by the seller for its use. In this situation, amortization of the intangible and/or license fee payments will be tax deductible only up to the amount of taxable revenue earned from the original disposal of the asset. Under transition rules, this limit is further decreased by costs deducted before 1 January 2018.
- Mergers and demergers of the companies: Amendments of the regulations referring to mergers and demergers of the companies, i.e. the taxable revenues / tax deductible costs arising as a result of merger (demerger) will be determined on the basis of FMV of shares (and not on the basis of their nominal value). The changes also concern the principles of allocation of tax deductible cost related to shares as a result of the spin-off – the said allocation shall reflect FMV of the assets, and not the nominal value of shares in the company being demerged.
- Contribution of an enterprise or organized part of an enterprise (OPE): Extension of specific anti-abusive rule (SAAR) to the transactions regarding in-kind contribution. Due to said changes the tax authorities are entitled to challenge the tax neutrality of contribution of enterprise / organized part thereof in the case the contribution is not justified from the business perspective. The said SAAR regulation are separated (independent) from the GAAR regulations provided by Polish Tax Ordinance Act.
- Controlled Foreign Companies: The new criteria were introduced in order to assess whether the particular entity constitutes a CFC, in particular tax effective rate will be taken into consideration (currently the tax nominal rate is applied). Additionally, the share in the capital / voting rights in the company being CFC has been increased

(to 50%) and the ratio regarding so-called passive revenues in the entire revenues generated by CFC has been decreased (to 33%). The catalogue of revenues that will be deemed as passive for the purposes of CFC regulations were extended, i.e. incomes generated from insurance, banking and other financial operations or incomes generated on the transactions conducted with related entities when the company does not create any added value on these transactions (in the economic sense) or the said value is insignificant. In general, the said changes may lead to extension of the group of entities that constitute CFCs. The exemption from the application of the regime for CFCs whose annual revenue is below EUR 250,000 is abolished, and the exemption for CFCs that are taxed on their worldwide income in an EU or European Economic Area country now will be available only if the CFC carries out "significant" genuine business activities (determined based on the ratio of revenue from the genuine business activities to total revenue).

- Tax capital groups (TCG): The rules governing the set up and operation of TCGs are substantially revised (TCGs, which may be formed by Polish groups, are treated as a single taxpayer for corporate tax purposes provided certain requirements are met). If the statutory requirements for recognizing a TCG as a single taxpayer are not complied with, the TCG will be dissolved with retroactive effect, and the members of the TCG will be required to settle corporate income tax separately for the last three years in which they were part of the TCG. This provision does not apply to periods before 1 January 2018, for TCGs established prior to that date. The legislation also introduces arm's length requirements for transactions between TCG members, and donations between TCG members no longer are tax deductible.
- No obligation to prepare documentation for transactions covered by the advanced pricing arrangements: Abolition of the obligation to prepare transfer pricing documentation for transaction covered by advance pricing arrangements (APA) during the period covered by this decision.
- Tax on high-value fixed assets: A new tax is introduced on "high-value fixed assets" situated in Poland (i.e. certain commercial real estate, including shopping malls; department stores; independent stores and boutiques; and other commercial buildings and office buildings, but not office buildings that are used exclusively or mainly for the taxpayer's own purposes). The tax is imposed at a rate of 0.035% per month on the initial tax value of the asset that exceeds PLN 10 million. The tax is deductible in calculating corporate income tax.
- Participation exemption: The participation exemption is limited to "distributions of profits" (i.e. dividends, profits transferred to share capital, undistributed profits on transformations into partnerships, etc.). The exemption no longer applies to income/gains from other transactions, e.g. redemptions of shares, liquidations or transactions relating to a participant/shareholder's "exit from a company."
- Low value fixed / intangible assets: Under the new law the value up to which an expense for an asset may be tax-deducted on a current basis (instead of amortization / depreciation write-offs) is being increased, i.e. from the previous level of 3.5k PLN to 10k PLN.
- Publication of individual tax data of CIT taxpayers: Under the new law the Ministry of Finance will publish the tax data of the biggest CIT taxpayers (with annual revenues exceeding EUR 50 million) and all Tax Capital Groups. This data will include: name of the taxpayer, its tax number and the amounts of revenues, costs, income / loss, tax base and tax due. First publication will take place with respect to 2017 tax returns.

The new rules substantially change many aspects of the Polish corporate tax system. Some of the changes are likely to result in increased tax liabilities and effective tax rates for taxpayers.

## **GUIDANCE FOR 2018**

Taking into account our strategy described above and market trends in Poland, we are confident to maintain our mid-term guidance provided at IPO. The Company believes such guidance is helpful for investors and we would like to provide guidance for 2018 in terms of certain key metrics. Please find below the table with key metrics.

<b>Metric</b>	<b>2018 Guidance</b>	<b>Term Guidance going forward</b>
<b>Revenue growth</b>	<b>No change on guidance</b> (mid-single digits growth)	
<b>Adjusted EBITDA margin</b>	Target to keep Adjusted EBITDA margin stable	<b>No change on guidance:</b> Improvement vs 2018 Adjusted EBITDA margin as we will benefit from our network roll-out (decreasing national roaming costs) and changes of international roaming (decreasing RLAH impact)
<b>Cash capex intensity</b>	Below PLN 800 m	<b>No change on guidance:</b> Around 8% of Revenue in the medium term, in line with our capital intensity in 2015/2016  2018-2020: An additional PLN 500 MM spend to accelerate own network roll out, spread over the three years and on top of our run-rate capex
<b>Leverage</b>		<b>No change on guidance:</b> Mid-term target – around 2.5x net debt (incl. leases <sup>13</sup> ) to LTM Adj. EBITDA
<b>Shareholder distribution</b>	The intention is to keep the cash dividend at a similar level to the dividend paid out in 2018 <sup>14</sup>	<b>No change on guidance:</b> From 2019 onwards, pay-out ratio of 65-75% of the preceding year Free Cash Flow to Equity post lease payments

<sup>13</sup> As of December 31, 2017 the ratio of leases to LTM Adjusted EBITDA amounted to 0.4x. The leases are included in total debt but are not a subject of secured debt

<sup>14</sup> Subject of relevant approvals

## 11.3 Capital market and Investor Relations role

### *Play-Shares Information*

Since July 27, 2017, Play Communications S.A. is a listed company on the primary market of the Warsaw Stock Exchange (WSE) within the continuous listing system. The Company's share capital currently amounts to EUR 30,445.03 and is comprised of 253,708,444 bearer shares with a nominal value of EUR 0.00012 each. All shares are publicly traded and included in the:

- WIG30
- WIG broad-market index
- WIG-telecommunication industry index; and

<b>PLAY – Shares</b>	<b>Unit</b>	<b>2017</b>
<b>Closing Price on 31/12/2017</b>	<i>PLN</i>	33,81
<b>Year high</b>	<i>PLN</i>	37.99
<b>Year low</b>	<i>PLN</i>	33.50
<b>Number of shares outstanding as of 31/12/2017</b>	<i>#</i>	253,708,444
<b>Market capitalization on the last trading day</b>	<i>billions of PLN</i>	8.6
<b>Earnings per share – basic</b>	<i>PLN</i>	1.43
<b>Earnings per share – diluted</b>	<i>PLN</i>	1.43

### *Play Investor Relations – Dialogue With Capital Markets*

July 27, 2017 was first day of PLAY's shares trading. In the past Play's Group notes were traded on Luxembourg Stock Exchange. Following the IPO, PLAY continued its intensive dialog with institutional investors, retail investors, and coverage analysts.

The objectives of PLAY's Investor Relations activities are to develop a long-term relationship of trust with stakeholders by fulfilling its responsibilities not only to shareholders, who have financially invested in the company, but also to all other stakeholders including potential investors and coverage analysts, through the faithful and fair disclosure of information, and bilateral communication. In order to pursue these objectives at all times, PLAY continuously discloses necessary information about its market positioning, business model, strategy, financial performance, etc..

Investor Relations' activities are focused on individual as well as group discussions with institutional investors during roadshows and participation in conferences in the international financial venues. The key aspect of Investor Relations is to regularly meet/follow up with investors and analysts. PLAY holds financial and other briefings, providing P4's Management the opportunity to engage in direct dialog with capital market participants. PLAY's Investor Relations strategy largely focuses its activity on ensuring transparent and proactive communication with capital markets. The key principles of Investor Relations include being, inter alia:

- Accurate – all information should be accurate, to keep the credibility and trust of stakeholders
- Simple – strive for clear and quick understanding

- Consistent – present key metrics in the same manner. Fully explain rationale for any potential change
- Seamless – give stakeholders the same messages and keep the consistency across all channels
- Concise – to provide information in consistent way which is transparent and clear
- Full and Fair – information provided should be full and fair

In order to keep the best practice, PLAY established Investor Relations website designed for all stakeholder <http://playcommunications.com/>. We believe that by creating this space, investors can understand the qualitative and quantitative aspects of PLAY’s equity story. Additionally, Investor Relation website is a practical source of information about the Group. Furthermore, by sharing newsletter with our stakeholders which includes information on current events in the Group and reminders of the most important events, we keep them up to date.

Additionally, we highlight the importance of discussing the annual and quarterly figures with stakeholders during the conference calls which are accessible by the public. Moreover, we keep a recording of these calls available for the public on our Investor Relations website.

With regard to the implementation of Directive 2014/57/UE of 16 April 2014 - the Market Abuse Directive (MAD), as well as European Parliament’s and Council’s Regulation (EU) no. 596/2014 of 16 April 2014 - the Market Abuse Regulation (“MAR”), we ensure proper fulfillment of the information obligations imposed by the relevant regulations and directives. PLAY Group have implemented detailed internal procedure which includes inter alia the principles of analysis and identification of events occurring within our Group, the procedures to be followed upon obtaining any information which is subject to reporting as well as the deadlines for fulfillment of information obligations.

In 2017, PLAY Group was covered by the following financial institutions:

Based in Poland	Based outside the Poland
Dom Maklerski BOŚ S.A.	Bank of America
Dom Maklerski BZ WBK S.A.	ERSTE Group Research
Dom Maklerski PKO BP S.A.	Haitong Bank S.A.
Trigon Dom Maklerski S.A.	J.P. Morgan
IPOPEMA Securities S.A.	UBS Investment Bank
Pekao Investment Banking S.A.	VTB Capital
	Wood&Company

# PART III

# NON-FINANCIAL

# REPORT



## 12. ORGANISATION AND CORPORATE GOVERNANCE

### 12.1 Principal shareholders

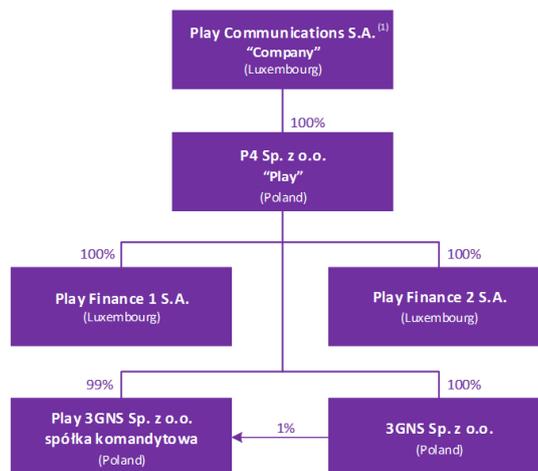
The table below presents the ownership structure of the Company as of the date of this Report as well as of December 31, 2017. As of February 27, 2018, 54.98% of the outstanding shares are controlled by former shareholders Tollerton Investments Limited and Telco Holdings S.à r.l., 27.65% and 27.32% of votes, respectively. 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.

Shareholder	Shares type	Number of shares	% of shares in share capital	Number of votes	% of votes
<b>Tollerton Investment Limited</b>	Bearer shares	70,158,156	27.65	70,158,156	27.65
<b>Telco Holdings S.à r.l.</b>	Bearer shares	69,321,279	27.32	69,321,279	27.32
<b>Free Float<sup>(1)</sup></b>	Bearer shares	114,229,009	45.02	114,229,009	45.02
<b>Total</b>	<b>Bearer shares</b>	<b>253,708,444</b>	<b>100.00</b>	<b>253,708,444</b>	<b>100.00</b>

(1) The Company has received transaction notifications from certain members of the Management Board of P4 Sp. z o.o. relating to certain transactions in shares of the Company. As of the IPO, the Management Board of P4 Sp. z o.o. and certain key managers and employees had certain rights in shares of the Company. As of the date of this Report, the Company is aware of issuances of 3,708,444 shares to the Management Board of P4 Sp. z o.o. and certain key managers and employees equating to approximately 1.25% of the total number of votes at the general meeting. See Note 19 of the Financial Statements included elsewhere in this Report.

### 12.2 Group structure

The chart below presents the structure of the Group as of the date of this Report as well as of December 31, 2017. 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”) which is the sole owner of Play Finance 1 S.A. and Play Finance 2 S.A. As of the day of Report, Play Finance 2 S.A. is in the liquidation.



(1) Formerly known as Play Holdings 2 S.à r.l.

## 12.3 Corporate bodies

The registered office of the Company is 4/6, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg.

The Group has a two-tier corporate governance structure across two legal entities: Play Communications S.A. and P4 Sp. z o.o.. The supervisory function sits at the Company level and no day-to-day management functions of Play as the operating company exist at the Company level. The Company's management functions is limited primarily to typical holding company functions. The management functions of Play as the operating company (i.e., the employment of all of the senior managers) is carried out entirely at the level of Play. The Articles of Association of each of the Company and of Play have been amended as needed to reflect this structure, which in effect creates a customary two-tier corporate governance structure. The Group provides directors and officers with customary insurance cover. The Articles of Associations are available on the Company's web site: <http://www.playcommunications.com/corporate-governance/> We are in full compliance with the principles of Corporate Governance of Luxembourg.

### Board of Directors of Play Communications S.A.

The table below sets out the name, age, position, year of appointment and the year in which the current term expires for each of the directors of the Company.

<u>Name</u>	<u>Age</u>	<u>Year appointed for the current term at Company's level</u>	<u>Year term expires</u>	<u>Representing</u>
Andrzej Klesyk.....	53	2017	2020	Independent
Andrzej Olechowski .....	70	2017	2020	Independent
Graham Bruce McInroy.....	57	2017	2020	Novator Partners LLP
Serdar Çetin .....	40	2017	2020	Novator Partners LLP
Patrick Tillieux.....	60	2017	2020	Novator Partners LLP
Ioannis Karagiannis .....	57	2017	2020	Tollerton
Vassilios Billis .....	49	2017	2020	Tollerton
Georgios Xirouchakis.....	45	2017	2020	Tollerton

#### *Andrzej Klesyk*

Andrzej Klesyk has been appointed a member of the Company's Board on June 21, 2017. He was formerly a member of the supervisory board of Play. He is currently CEO of KIPF, a supervisory board member of Best S.A. and a non-executive director of Billon. He has also served as CEO of Powszechny Zakład Ubezpieczeń SA in 2007-2015. He is a former partner of Boston Consulting Group, Warsaw, CEO of Bank Inteligo, Warsaw and a partner of McKinsey & Co, London. Between 1989 and 1990 he worked in the Ministry of Economic Reform. In 1991, he left for the U.S. and worked for Kidder, Peabody, Coopers & Lybrand in New York. He received an MBA from Harvard Business School and a master's degree in Economics from Katolicki Uniwersytet Lubelski, Poland. He is a member of the Harvard Business School European Advisory Board, a member of the Geneva Association, on the Board of Trustees of the National Museum, Warsaw and on the Program Board of the Institute of Public Affairs

#### *Andrzej Olechowski*

Andrzej Olechowski has been appointed a member of the Company's Board on June 21, 2017. He was formerly a member of the supervisory board of Play. Dr. Olechowski is also Chairman of the supervisory board of Bank Handlowy and has been a Director of Euronet since 2002. He also sits on the International Advisory Boards of Macquarie European

Infrastructure Funds. Since November 29, 2016, he has served as a Member of the Board of Trustees of the ECFR (European Council on Foreign Relations). He is a former Minister of Foreign Affairs from 1993 to 1995 and Minister of Finance in 1992 and was a candidate in the 2000 and 2010 Presidential elections in Poland. Dr. Olechowski studied at the Central School of Planning and Statistics where he received a Ph.D in economics and he has been a professor at Vistula University since 2011 and has authored of a number of publications on international trade and foreign policy.

#### *Bruce McInroy*

Bruce McInroy has been appointed a member of the Company's Board on June 21, 2017. He also serves as Vice Chairman of the Board of Directors of the Company. He was formerly a member of the supervisory board of Play. He has been with the Group since its inception in 2005, serving on the Play supervisory board as Deputy Chairman, and acting as Chairman of the Audit Committee. In the past he also served as a member of the supervisory board of 3GNS sp. z o.o.. He is a partner of Novator Partners LLP, a London based investment advisory firm, which he joined in 2004. His primary role is sourcing and deal execution, both entries and exits, as well as active involvement in portfolio companies. He has significant investment experience, including Novator Partners LLP's investment in Tradus (formerly QXL), which owned Allegro, the leading internet auction business in Poland, acting as board member, member of the Audit Committee, and Chairman in 2006/07. He is a director of WOM Chile (formerly Nextel Chile), the fast growing mobile operator in Chile, and a supervisory board member of AASA Polska, a consumer lending business based on big data analysis, and a board member of various Aasa group companies. Previously, he has been a board director of Netia (Poland), Bulgarian Telecoms Company (now Vivacom), Forthnet (Greece), Turknet (formerly NetOne, Turkey), and Be\* Unlimited (UK). Prior to joining Novator Partners LLP, he gained wide ranging telecommunications experience: in industry with BT, in equities research with ABN Hoare Govett and latterly in investment banking with Deutsche Bank and with Merrill Lynch. Bruce received an MA degree in Computer Sciences from Trinity College, Cambridge.

#### *Serdar Çetin*

Serdar Çetin has been appointed a member of the Company's Board on June 21, 2017. He was formerly a member of the supervisory board of Play. He has been with the Group since its inception initially serving on the Management Board of Play between July 2005 and October 2006 and on the Supervisory Board of Play since July 2007 and 3GNS sp. z o.o. since October 2008 till 2017. In addition, he is a member of Play's audit committee since its inception. He is a Partner at Novator Partners LLP and is responsible for sourcing, managing and exiting investments at Novator Partners LLP. He is a director of WOM Chile (formerly Nextel Chile), the fast-growing mobile operator in Chile, and a supervisory board member of AASA Polska, a consumer lending business based on big data analysis, and a board member of various Aasa group companies. He has advised on telecommunications investments in a number of countries including Greece, Turkey, Poland and the United Kingdom. He was a board member at Turk.net, a Turkish altnet from February 2007 until April 2013. Prior to joining Novator Partners LLP in 2004 Mr. Çetin worked at Merrill Lynch investment banking and BNP Paribas. Mr. Çetin holds an Msc in Management (*Grande Ecole*) from HEC School of Management in Paris and BSc in civil engineering from Middle East Technical University in Ankara. He is fluent in English, Turkish and French.

#### *Patrick Tillieux*

Patrick Tillieux has been appointed a member of the Company's Board on June 21, 2017. He was formerly a member of the supervisory board of Play. He is the managing partner of his own asset management company Pambridge Ltd, London. He has worked in the television industry for more than 25 years. He is the former CEO and board member of broadcast technology company Red Bee Media in London. He also served as COO of ProSiebenSat.1 Media AG in Munich from 2007 to 2009 and CEO of SBS Broadcasting Europe in Amsterdam, which he joined in 2001. Before that he served as Managing Director of Canal+ in the Netherlands and CFO of RTL Netherlands. He started his career at Bouygues SA in Paris in 1981 and held senior positions in its broadcast operation TF1 and Eurosport, which he helped set up. Mr. Tillieux is also member of the supervisory boards of České Radiokomunikace in Czech Republic, Towercom in Slovakia and Brussels Airport in Belgium. He holds a MSc of Civil Engineering and a MSc of Industrial Administration both from Catholic University of Louvain, Belgium.

### *Ioannis Karagiannis*

Ioannis Karagiannis has been appointed a member of the Company's Board on June 21, 2017. He also serves as Chairman of the Board of Directors of the Company. He was formerly a member of the supervisory board of Play. He has been working for companies in the Tollerton group since 1994, and has served as a manager there since January 2010. In the past he also served as a member of the supervisory board of 3GNS Sp. z o.o. which is part of the Group. He also serves as Chairman of the Board for Retail World S.A. and Olympia Group S.A. Prior to that, he served as CEO of the Germanos Group from December 2001 to December 2010. He received a degree in Chemical Engineering from the National Technical University of Athens and an MBA from the University of Bradford.

### *Vasileios Billis*

Vasileios Billis has been appointed a member of the Company's Board on June 21, 2017. He was formerly a member of the supervisory board of Play. In the past he also served as a member of the supervisory board of 3GNS Sp. z o.o. which is part of the Group. Since April 2013, Mr. Billis has served as the Chief Executive Officer at Systems Sunlight S.A., a company in the Olympia group. Prior to holding that position, he served as a director and board member for Olympia. He received an MBA from INSEAD (France) and a Master's Degree in Electrical Engineering from the University of Southampton.

### *George Xirouchakis*

Georgios (George) Xirouchakis has been appointed a member of the Company's Board on June 21, 2017. He was formerly a member of the supervisory board of Play. In the past he also served as a member of the supervisory board of 3GNS Sp. z o.o. which is part of the Group. He has served as an in-house lawyer for the Panos Germanos Group of Companies since 2002 and has acted as General Counsel—Head of Group Legal Department for this group since 2008. Additionally, Mr. Xirouchakis has substantial professional experience in commercial law. He received a Bachelor's Degree in Economics from the University of Crete (School of Social Sciences, Dept. of Economics), a Bachelor's Degree in Law Studies from the National University of Athens (Law School) and a Master's Degree in Business Administration from the University of Leicester (Management Center).

### **Management Board of Play**

Set forth below are the management board members of Play (the "**Management Board**") who are responsible for the day-to-day management of the Group. Currently, there are six members of the Management Board. The office address for all of them is: Taśmowa 7, Warsaw, Poland.

The table below sets out the name, age, position, year of appointment and the year in which the current term expires for each of the executive directors of Play:

<u>Name<sup>(1)</sup></u>	<u>Age</u>	<u>Year appointed for the current term at Play's level</u>	<u>Year term expires</u>	<u>Position</u>
Jørgen Bang-Jensen .....	61	2015	2020	Chief Executive Officer
Holger Püchert .....	52	2017	2020	Chief Financial Officer
Michał Wawrzynowicz .....	46	2015	2020	Chief Commercial Officer
Bartosz Dobrzyński.....	47	2015	2020	Chief Marketing Officer
Jacek Niewęglowski.....	48	2015	2020	Chief Strategy Officer
Hans Cronberg .....	55	2015	2020	Chief Technology Officer

Source: The Company

(1) The Company has received transaction notifications from certain members of the Management Board of P4 Sp. z o.o. relating to certain transactions in shares of the Company. As of the IPO, the Management Board of P4 Sp. z o.o. and certain key managers and employees had certain rights in shares of the Company. As of the date of this Report, the Company is aware of issuances of 3,708,444 shares to the Management Board of P4 Sp. z o.o. and certain key managers and employees equating to approximately 1.25% of the total number of votes at the general meeting. See Note 19 of the Financial Statements included elsewhere in this Report.

#### *Jørgen Bang-Jensen*

Jørgen Bang-Jensen has been a member of the Management Board of Play since May 2009. He also performs the function of Chief Executive Officer and the president of the Management Board. He is also a member of the Management Board of 3GNS Sp. z o.o., which is part of the Group. In the past, he has served as CEO and Chairman of the Management Board of ONE GmbH, Austria, as CEO of TDC Mobile A/S, Denmark, and as CEO of AD&D edb-konsulenter A/S. He has also held supervisory board positions in Telenor Mobil, Belgacom Mobile, Fullrate A/S from May 2008 to April 2009 and Butlernetworks A/S (Denmark) from March 2008 to April 2009. Mr. Bang-Jensen holds a MBA degree from Ashridge Business School (UK).

#### *Holger Püchert*

Holger Püchert has been a member of the Management Board of Play since March 2017. He is Play's Chief Financial Officer. He is also a member of the Management Board of 3GNS Sp. z o.o., which is a part of the Group. Mr. Püchert is an experienced chief financial officer in the telecommunications sector in Europe. Before joining the Group, Mr. Püchert was the Chief Financial Officer of Versatel, Berlin / Düsseldorf for nearly three years, and served as CFO of Kabel BW GmbH, CFO of Orange Austria Telecommunications GmbH (formerly ONE GmbH) and as Vice President for M&A Projects at E.ON AG. Mr. Püchert is a graduate of the University of Karlsruhe where he studied Business Engineering (Diplom-Wirtschaftsingenieur), following his apprenticeship at Deutsche Bank in Düsseldorf. He also earned a doctorate in Economics from the University of Karlsruhe (KIT), where he worked as a research assistant.

On March 9, 2017, Mr. Püchert joined Play as its new CFO and worked closely with Play's former CFO, Robert Bowker, who remained with the Group in an advisory capacity until the end of March, 2017.

#### *Michał Wawrzynowicz*

Michał Wawrzynowicz has been a member of the Management Board since June 2007. He is the Chief Commercial Officer. He is also a member of the Management Board of 3GNS Sp. z o.o., which is part of the Group. Prior to joining the management, Mr. Wawrzynowicz worked as General Manager of the Germanos Group in Poland. He was also General Manager of GTI Sp. z o.o., the biggest Orange dealer in Poland and the Commercial Director of Germanos Polska Sp. z o.o., formerly known as "Era," the largest T-Mobile dealer. Prior to becoming their Commercial Director, he had held the position of Sales Director and that of Marketing Director. Mr. Wawrzynowicz received an MBA from Koźminski University and a Master of Science degree from Warsaw Technical University.

#### *Bartosz Dobrzyński*

Bartosz Dobrzyński has been a member of the Management Board of Play since 2009. He is Play's Chief Marketing Officer. Since 2009, he has also served as a member of the Management Board of 3GNS Sp. z o.o., which is part of the Group. Mr. Dobrzyński is an experienced marketing manager in the telecommunications sector in Poland. He started his professional career in the telecommunications industry in 1998 as a loyalty and retention manager at Plus. For the next seven years he worked as a manager of mobile offers for individual subscribers at Orange. Mr. Dobrzyński received an MA in International Relations and an MBA from Warsaw University MBA program.

#### *Jacek Niewęglowski*

Jacek Niewęglowski has been a member of the Management Board of Play since December 2005. He is also Play's Chief Strategy Officer. Since 2006, he has also served as a member of the Management Board of 3GNS Sp. z o.o. which was

part of the Group and as a member of the Management Board of Glenmore Investments, a former subsidiary of the Company. In addition, he is a member of the Board of the European Competitive Telecommunications Association.

Prior to joining Play, Mr. Niewęłowski served as a member of the supervisory board of PTC, now known as T-Mobile Polska, a member of the Management Board of Aster City Cable, a leading Polish CaTV operator, Chairman of the Supervisory Board of Comtica Sp. z o.o., a member of the Management Board of Elektrim Telekomunikacja, the Polish subsidiary of Vivendi Universal, and has previously held the position of CEO of numerous telecommunications companies. He is currently a member of the boards of Fundacja, *Dorastaj z. Nami* and Krajowa Izba Gospodarcza Elektroniki i Telekomunikacji and is a 5% shareholder of Pomerania Brokers Sp. z o.o. Additionally, Mr. Niewęłowski has over 23 years of managerial experience and a professional track record within the mobile industry. Jacek Niewęłowski received an Executive MBA degree from London Business School, a PhD and M.Sc degree from Tampere University of Technology in Finland.

#### *Hans Cronberg*

Hans Cronberg has been a member of the Management Board of Play since September 2005. He is Play's Chief Technology Officer. He is also a member of the Management Board of 3GNS Sp. z o.o., which is part of the Group. Prior to joining the Group, Mr. Cronberg worked for the Deutsche Telekom Group where he was the Director of Procurement & Logistics at T-Mobile Croatia and the Director of 3G Technologies and Value Added Platforms at Polska Telefonia Cyfrowa sp z o.o. (now known as T-Mobile). Between 1990 and 2001, Mr. Cronberg worked at the Ericsson Group in Sweden, Poland and Israel, where he held positions in Product Management, Product Marketing and Sales & Key Account Management. Mr. Cronberg received a degree in Physics from Freie Universitaet Berlin, Germany.

#### **Special committees**

The Group has the following committees: (i) an audit committee (the "**Audit Committee**"), (ii) an operational and investment committee (the "**Operational and Investment Committee**"), and (iii) a remuneration and nomination committee (the "**Remuneration and Nomination Committee**").

#### *Audit Committee*

The tasks of the Audit Committee have been aligned with the EU and Luxembourg regulations and include financial controls (supervision of internal and external auditing, monitoring of financial reporting) as well as supervision of persons entrusted with the management of the Group (internal control system). In particular, its duties and responsibilities include: (i) the determination of the audit plan for a period of several years as well as the scope of the internal and external audits, (ii) discussion of the audit reports with the internal and external auditors as well as with the management, and the monitoring of their implementation; (iii) the assessment of the performance of the internal and external auditors as well as their cooperation with one another and support of the Company's Board in the nomination of the external auditors to be proposed to the shareholders' meeting for election, (iv) checking the independence of the internal audit department from the Group and the units to be audited as well as the approval of the guidelines for the work of the internal audit department, (v) the assessment of the consolidated financial statements, the statutory financial statements and the management report of the Company as well as the decision whether they can be recommended to the Company's Board for submission to the shareholders' meeting, and (vi) the assessment and further development of the internal control system. In accordance with regulations, the duties of the Audit Committee also include the approval of audit and non-audit services rendered by the external auditors as well as the monitoring of their independence.

The Audit Committee consist of Bruce McInroy, Serdar Çetin, Ioannis Karagiannis, Vasileios Billis and Andrzej Klesyk (who will serve as chairman of the Audit Committee). All Audit Committee Members are independent from the Company, while 4 of them are not independent from significant shareholders (Novator partners LLP and Tollerton).

#### *Operational and Investment Committee*

The tasks of the Operational and Investment Committee consist of: (i) preparation of detailed financial analysis of the operations of the Company, (ii) supervision over the preparation and performance of the budget of the Company, (iii) supervision over strategic and investment projects of the Company, including in particular capital structure changes, and (iv) review of the Company's long term business plan.

The Operational and Investment Committee consist of Bruce McNroy, Serdar Çetin, Ioannis Karagiannis and Vasileios Billis.

#### *Remuneration and Nomination Committee*

The tasks of the Remuneration and Nomination Committee consist of (a) the preparation and periodical review of the Group's compensation policy and principles and the performance criteria related to compensation and the periodical review of their implementation as well as the submission of proposals and recommendations to the Company's Board, and (b) the preparation of all relevant decisions of the Company's Board in relation to the nomination of the members of the Company's Board and of the Management Board as well as submission of proposals and recommendations to the Company's Board. The Company's Board may delegate further powers and duties to the Remuneration and Nomination Committee. The chief executive officer and/or the chief financial officer of Play may be invited as an observer from time to time.

The Remuneration and Nomination Committee consists of Bruce McNroy, Serdar Çetin, Ioannis Karagiannis, Vasileios Billis and Andrzej Olechowski.

## **12.4 Information on compliance with the Corporate Governance Code**

### **Application of the Warsaw Stock Exchange Best Practices**

Our shares are only admitted to trading on the WSE, therefore, in addition to Luxembourg Law, we observe the principles of corporate governance set out in the WSE Best Practices. The WSE Best Practices is a set of recommendations and rules of procedure for governing bodies of publicly-listed companies and their shareholders. The WSE Rules and resolutions of the WSE management board and its council set forth the manner in which publicly-listed companies disclose information on their compliance with corporate governance rules and the scope of information to be provided. If a certain rule is not complied with by a publicly-listed company on a permanent basis or has been breached incidentally, such publicly-listed company is required to disclose this fact in the form of a current report.

As our shares are only admitted to trading on the WSE, we have not opted to comply with the Ten Principles of Corporate Governance of the Luxembourg Stock Exchange.

### **Corporate governance rules for companies listed on the Warsaw Stock Exchange**

The purpose of the said WSE Best Practices is to improve transparency of WSE-listed companies, to improve communication between companies and investors, and to protect the rights of shareholders, including the rights not regulated by law, without imposing unnecessary burden on the WSE-listed companies to an extent when such burden would exceed the benefits resulting from market requirements.

The WSE Best Practices are available in English and Polish language version at the Warsaw Stock Exchange website at <https://www.gpw.pl/best-practice>.

### **A statement on the Company's compliance with the corporate governance recommendations and principles contained in WSE Best Practices.**

The Company's compliance with WSE Best Practices is mainly limited by the differences between the Luxembourg and Polish legal systems, procedures and accepted practices.

According to the current status of compliance with the WSE Best Practices, the Company does not apply the following three recommendations: I.R.2., II.R.2., IV.R.2:

**Recommendation I.R.2. Where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report.**

The principle is not applied.

We do not intend to introduce the sponsorship policy at present as the sponsorship activity is negligible for the Group's operations. However, it is not excluded that if the sponsorship activity will become material for the our group, we will introduce and publish such policy in the future.

**Recommendation II.R.2. Decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience.**

The principle is not applied.

We support the above recommendation, but also exercise a policy of employing within the Company persons who are competent, creative and have the professional experience and education necessary to perform their duties. As at the date of the Company's admission to trading on the Warsaw Stock Exchange, we do not ensure the balanced participation of men and women on our Board and P4's Management Board, however we will consider introducing a balanced participation of women and men in the future.

**Recommendation IV.R.2. If justified by the structure of shareholders or expectations of shareholders notified to the company, and if the company is in a position to provide the technical infrastructure necessary for a general meeting to proceed efficiently using electronic communication means, the company should enable its shareholders to participate in a general meeting using such means, in particular through: 1) real-life broadcast of the general meeting; 2) real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting; 3) exercise of the right to vote during a general meeting either in person or through a plenipotentiary.**

The principle is not applied.

We note that providing the necessary technical infrastructure would involve costs and other resources of the Company disproportionate to the potential interest of shareholder in pursuing such an option. Therefore, we do not plan to conduct General Meetings using means of electronic communication.

According to the current status of compliance with the WSE Best Practices, the Company does not apply five detailed principles: I.Z.1.15., I.Z.1.20., II.Z.7., II.Z.10.4., IV.Z.2:

**Detailed principle I.Z.1.15. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation including: information about the company's diversity policy applicable to the company's governing bodies and key managers; the description should cover the following elements of the diversity policy: gender, education, age, professional experience, and specify the goals of the diversity policy and its implementation in the reporting period; where the company has not drafted and implemented a diversity policy, it should publish the explanation of its decision on its website.**

The principle is not applied.

We do not determine the composition of our Board and P4's Management Board in terms of gender diversity but focus on the quality of management. Company has a neutral employment policy and works in line with best practices of gender equality. Nevertheless, the Company is considering introducing a balanced proportion of women and men in the future, taking into consideration the size of our Board and the P4's Management Board.

**Detailed principle I.Z.1.20. A company should operate a corporate website and publish on it, in a legible form and in a separate section, in addition to information required under the legislation an audio or video recording of a general meeting.**

The principle is not applied.

We do not plan to publish audio or video recordings of the General Meeting since the Company does not comply with detailed principle IV.Z.2. If the shareholders (i) indicate an interest in audio or video recordings of the General Meeting; and (ii) notify the Company of such interest, we will take into account the expectations of the shareholders in this respect.

**Detailed principle II.Z.7. Annex I to the Commission Recommendation referred to in principle II.Z.4 applies to the tasks and the operation of the committees of the Supervisory Board. Where the functions of the audit committee are performed by the supervisory board, the foregoing should apply accordingly.**

The principle is not applied.

We cannot guarantee that this principle will be introduced but in each case will analyze the composition of the committee and verify whether such requirement can be satisfied.

**Detailed principle II.Z.10.4. In addition to its responsibilities laid down in the legislation, the supervisory board should prepare and present to the ordinary general meeting once per year the following: an assessment of the rationality of the company's policy referred to in recommendation I.R.2 or information about the absence of such policy.**

The principle is not applied.

We do not intend to introduce the sponsorship policy at present as the sponsorship activity is negligible for the Group's operations. However, it is not excluded that if the sponsorship activity will become material for the Company's group, we will introduce and publish such policy in the future.

**Detailed principle IV.Z.2 If justified by the structure of shareholders, companies should ensure publicly available real-time broadcasts of general meetings.**

The principle is not applied.

We do not plan to conduct real-time broadcasts of General Meetings because of the additional costs and organizational resources that would need to be incurred in relation thereto. Nevertheless, the Company will consider real-time broadcasts of the General Meetings if the shareholders require such broadcasts in the future.

A detailed explanation on compliance with WSE Best Practices is provided in the below link:

[http://www.playcommunications.com/wp-content/uploads/2017/08/GPW\\_dobre\\_praktyki\\_PLAY.ENG\\_.pdf](http://www.playcommunications.com/wp-content/uploads/2017/08/GPW_dobre_praktyki_PLAY.ENG_.pdf)

**Additionally, please find below disclosures pursuant to article 11 of the Law on Takeovers of May 19, 2006**

- For information regarding the structure of capital, reference is made to section 1 Principal Shareholders
- The shares are freely transferable in accordance with the legal requirements for dematerialised shares which transfer shall occur by book entry transfer. The only limitation refer to the lock-up period regarding award shares granted as PIP and VDP4 program
- With regard to the shareholding structure, please refer to section 1 Principal Shareholders
- The Company has not issued any securities granting special control rights to their holders and has currently no employee share schemes in place
- All employees programs are managed by Play/ Play Group
- The Articles of Association of the Company do not contain any restrictions on voting rights (the relevant link to the Article is provided in the Report, in this section)
- As of December 31, 2017, there are no agreements among the shareholders which are known to the Company that could result in restrictions on the transfer of shares or voting rights within the meaning of Directive 2004/109/EG (Transparency Directive)
- Rules governing the appointment and replacement of Management Board members and the amendment of the Articles of Association (the relevant link to the Article is provided in the Report, in this section)

- The powers of board members – please refer to the corporate governance on our website (the relevant link to the Article is provided in the Report, in this section)
- The certain significant agreements to which the Company is a party which take effect, alter or terminate upon change of Control in the Company were described in following sections **Błąd! Nie można odnaleźć źródła odwołania. Błąd! Nie można odnaleźć źródła odwołania.** and **Błąd! Nie można odnaleźć źródła odwołania. Błąd! Nie można odnaleźć źródła odwołania.**
- We are not aware of any agreements between the Company and Play's Group board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid, except of arrangements which are part of PIP, VDP4 and VDP3 Programs. Programs are described in Prospectus.

## 13. RISK FACTORS

### 12.1 Risk Management

Play has introduced participatory model of risk and security management. All participants of the business processes are obliged to evaluate risk factors which could influence the execution of the efficient business processes. Management regularly reviews these risks. These activities are supported by the Risk and Security Management Committee, Internal Audit Director and Compliance Officer. In 2017 a Risk Map has been created which allows more systematic approach in the risk management within the Company.

The Audit Committee also supervises the risk management process set up by the Group on a regular basis.

Proper functioning of internal control processes is essential for Play. All business processes are constructed in a way that provides adequate Segregation of Duties. All internal policies, procedures and instructions are regularly reviewed by Internal Audit and all incompliances with these rules are reported and amended

### 12.2 Risk Identification

The next section included the most important risks that we have identified and that we are mitigating and monitoring on an ongoing basis. The risks described below are not exhaustive. We urge you to read the section of this Report entitled "Business" 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 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.

#### Risks Related to Our Business

***The macroeconomic conditions of Poland and the European Union as well as a continuation or worsening of the global financial downturn could have a material adverse effect on our business, financial condition, results of operations and prospects.***

We offer mobile voice, messaging, data, video services (including TV distribution) and data transmission, as well as VAS and sales of handsets and other devices, to individual and business customers exclusively in Poland, where substantially all of our reported subscribers are located. For this reason, macroeconomic conditions in Poland, as well as global economic, financial or geopolitical conditions may have a material impact on our business, financial condition and results of operations and prospects.

The Polish economy may be adversely affected in a number of ways by weakening economic conditions and turmoil in the global financial markets and more locally, in Poland or in the European Union, including the effects of regulatory change. Such adverse economic developments have affected and may in the future adversely affect the financial condition of our subscribers, which, in turn, could cause our subscribers to reduce their spending on our offerings and services. In particular, subscribers may decide that they can no longer afford mobile services or data services that are instrumental

in maintaining or increasing our ARPU, and, in turn, maintaining or increasing our revenues. In 2013, 2014, 2015 and 2016 Poland's real GDP increased by approximately 1.4%, 3.3%, 3.8% and 2.7% respectively. With a forecast for Poland announced by Eurostat in Autumn 2017 of real GDP growth 4.2% in 2017 and 3.8% in 2018, Poland is expected to continue to grow at a faster rate than the estimated EU average real GDP growth rates of 2.2% in 2017 and 2.0% in 2018. However, global markets and the European economy continue to be volatile and forecasted growth may fail to materialize. While we operate in the telecommunications sector, for which underlying consumer demand has proven to be less cyclical than other aspects of consumer spending, 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, limit or cancel their services. Uncertainty in the macroeconomic environment may therefore have an impact on consumer spending on telecommunications offerings and services.

During the recent global financial downturn, companies were impacted adversely by reduced liquidity, increased volatility, general widening of credit spreads and, in some cases, lack of transparency in the credit markets. The current macroeconomic environment is volatile, and continuing instability in global markets, including the ongoing turmoil in Europe related to sovereign debt issues and the stability of the euro, as well as volatility surrounding the United Kingdom decision to leave the European Union (and the consequences of that decision) may contribute to a global economic downturn. In addition, recent differences in opinion between the European Union and the Polish government may lead to further instability, particularly if relations between the European Union and the Polish government deteriorate or potentially threaten Poland's membership in the European Union. Future developments are dependent upon a number of political and economic factors, including the effectiveness of measures by the EC to address debt burdens of certain countries in Europe and the overall stability of the Eurozone. As a result, we cannot predict how long these challenging conditions will exist or the extent to which the markets in Poland may be affected. If the sovereign debt crisis mentioned above leads to the euro being abandoned by one or more countries in the European Union, this may further exacerbate these issues. If conditions such as those experienced during the recent economic downturn continue or worsen, we may not be able to raise sufficient funding in the debt capital markets and/or access secured lending markets on financial terms acceptable to us or at all and may have a material impact on our business, financial condition and results of operations.

**The Polish mobile industry is highly competitive, and changes in the business model of other operators and/or increased use of alternative technology could have a material negative impact on our business.**

We face strong competition for subscribers from established competitors, including, in particular, the other mobile operators, Plus, Orange and T-Mobile, which along with the Group, as of December 31, 2017, based on the CSO's most recent analysis regarding SIM cards in the Polish market, together held over 99% of reported subscriber market share in the Polish market. Based on the CSO's announcements regarding the number of subscribers as of December 31, 2017, we had a market share of approximately 28.8%. Market shares of other MNOs may differ slightly from their reported market share due to changes in their subscriber base as at the three months ended December 31, 2017. Our competitors may improve their ability to attract new subscribers, or provide their offerings or services at lower prices to increase their respective market shares, which would make it more difficult for us to retain our current subscribers or expand our subscriber base without us lowering our prices. In order to compete, we may have to lower prices, which may cause our revenues to decline and/or increase our marketing and promotional expenses, each of which may cause our margins and/or operating profit to decline significantly.

Moreover, a change in the business model of mobile network operators in Poland or consolidation or mergers of media operators resulting in joint ventures, new corporate groups or strategic alliances between competing telecommunications providers or the introduction of new types of services, offerings and technologies as a result of such cooperation or strategic alliances could have a material adverse effect on us. For instance, Plus was taken over on May 7, 2014 by Cyfrowy Polsat (which is ultimately controlled and majority owned by the same individual as the Plus brand), to create an integrated multimedia group offering television, broadband Internet and mobile telephone services in Poland. Orange has also built out a fiber network in Poland with a goal of reaching 3.5 million households by 2018 and has offered "quadruple play" offerings of television, fiber internet, fixed-line and mobile telephone and internet services. Cyfrowy Polsat and

Orange, as well as a few cable TV companies, are able to offer combined services (television, broadband Internet and mobile telephone and internet services in the case of Cyfrowy Polsat, and the quadruple play offerings mentioned above in the case of Orange) in bundled packages which may prove attractive to subscribers, and we are not able to provide these bundled services, as we focus on the Polish mobile market. In 2011, Orange and T-Mobile also established a joint venture company, called "NetWorks!", that is responsible for building, managing and maintaining the shared radio access networks to achieve the levels of profitability and efficiency of network investments of both companies that neither operator may be able to achieve independently. This joint venture may lead to more efficient and cost-effective networks for Orange and T-Mobile, allowing them to spend more on other parts of their operations.

In addition, competition may increase as a result of the provision of mobile Internet services by entities other than mobile network operators. For example, certain mobile virtual network operators offer mobile broadband services based on LTE/HSPA+ technologies as part of their offerings and certain Polish cable companies such as Multimedia Polska S.A. ("**Multimedia Polska**"), Vectra S.A. ("**Vectra**") and Inea S.A. ("**Inea**") or fixed line operators such as Netia S.A. ("**Netia**"), have launched their own Mobile Virtual Network Operators ("**MVNOs**") and offer mobile broadband services which compete with us. These cable operators are also able to offer bundled packages which as mentioned above, may prove attractive to consumers and which we do not currently offer. Additionally, Virgin Mobile Polska Sp. z o.o. ("**Virgin**") has started offering mobile phone contracts.

If we were to lose subscribers due to consumers taking up the bundled offers of MVNO's with whom we are not partners mentioned above, our revenues would decline and consequently our churn would increase.

Further, if non-traditional voice services utilizing Voice over Internet Protocol, or alternative technologies to mobile voice and messaging (SMS/MMS) become increasingly popular, this may have a material adverse effect on our business. These services, such as Skype, Facebook, WhatsApp and iPhone/iPad Messenger (also known as over-the-top ("**OTT**") applications) are capable of providing data users with voice and messaging services, typically at a substantially lower cost than traditional voice and messaging services and without a mobile phone contract. These OTT applications are often offered free of charge, are accessible via smartphones and tablets, and allow their users to have access to potentially unlimited messaging and voice services over the internet, thus bypassing more expensive traditional voice and messaging provided by MNOs, who are only able to charge for the internet data required to use such services. Such services benefit from a number of advantages, such as the ability to leverage existing infrastructures to avoid the need for the capital-intensive business models associated with traditional MNOs. With the growing share of smartphones and tablets in the mobile subscriber base in Poland, an increasing number of subscribers are using OTT services. OTT service providers have over the past few years become more sophisticated players and technological developments have led to a significant improvement in the quality of service, in particular speech quality. In addition, companies with strong brand capability and financial strengths, such as Apple, Google and Microsoft, have turned their attention to the provision of OTT services. Should such services continue to increase in popularity, they could cause a decrease in our ARPU and a reduction of our subscriber base across all of our services and/or prevent us from realizing expected benefits associated with our voice and mobile broadband growth strategy described elsewhere in this Report, among other material adverse effects. In addition, we expect to face competition in the future from providers of services supported by communications technologies that are currently under development or that will be developed in the future. Our existing competitors or new market entrants may introduce these and/or other new or technologically superior telecommunications services before we do or at more competitive prices.

Finally, our ability to compete effectively in our existing or new markets could be adversely affected if Polish regulators increase our regulatory obligations or enact further legislation aimed at promoting access to network or other forms of support to other operators on the market, as well as to local authorities and communities. The entry of new mobile operators may have a material adverse effect on our results of operations and prospects, if they were to be granted asymmetrical MTRs, as the Group was when it first entered the market.

If any of the conditions described above were to materialize, we could suffer a decrease in revenues, increased churn, reduced ARPU, reduced margins and/or loss of market share, all of which could negatively impact our business, financial condition and results of operations.

**The success of our mobile operations depends on our ability to attract market share away from our competitors and retain mobile subscribers. If we are unable to successfully manage our subscriber turnover or we otherwise lose mobile subscribers, we may face increased subscriber acquisition and retention costs, reduced revenues and/or lower cash flows.**

In Poland, there were approximately 52.9 million reported SIM cards, which resulted in a total penetration rate of 137.5% as at December 31, 2017 (compared to 142.4% as of December 31, 2016 and 146.3% as of December 31, 2015), according to the CSO. The high rate of mobile voice penetration in the Polish mobile market may result in pricing pressure and/or hinder our ability to compete effectively to retain our market share and capture market share from our competitors.

We believe that further growth of our business in this maturing market will be primarily driven by our ability to increase existing subscriber usage and/or new services, continue to convince subscribers to switch from competing operators to our services and to limit rates of subscriber churn. Although we have recently experienced growth at a lower rate than in previous years, one of the components of our strategy going forward is to maintain or decrease our current level of subscriber churn. This can be achieved by retaining existing subscribers; however, this may depend upon the introduction of new or enhanced offerings and services, flexible pricing models, high quality customer service, and improved network capabilities in response to evolving subscriber expectations, or the offerings of our competitors. If we are unable to successfully manage our churn, we may need to rapidly reduce our costs in order to preserve our profit margins or take alternative measures that would increase our subscriber acquisition costs and subscriber retention costs which could, in turn, result in a decrease in our cash flows. We cannot assure you that the various measures we are undertaking to increase subscriber loyalty will reduce the rate of churn or allow us to maintain our current churn rate.

The ATO Act came into force in Poland in July 2016 and amended the Polish Telecommunications Act to require the de-anonymization of prepaid phone cards. Our prepaid subscribers that were subject to the legislation and (i) who had not before July 25, 2016 registered and provided the required data, or (ii) whose data was not subsequently verified, were serviced by us until February 1, 2017. Following this date the subscribers' SIM-cards were blocked and those customers are required to be registered in order to be serviced going forward.

In addition, the mobile telecommunications industry is characterized by frequent developments in offerings, as well as advances in network and handset technology. Further, smartphones have increased in popularity and decreased in price. At the same time, we are observing more customers switching to high-end handsets. If we fail to maintain and upgrade our network and provide our subscribers with an attractive portfolio of offerings and services that adequately address their needs and expectations, we may not be able to retain subscribers or the subscribers' retention and acquisition costs may increase, which could decrease our profitability and decrease future cash flows. We may also face increased churn if the competitive landscape is affected by the increased availability of bundled offers from our competitors which we are not able to provide as discussed above.

Likewise, if we fail to effectively communicate the quality, reliability or other benefits of our network through marketing and advertising efforts, or to successfully market our brand as having a reputation for network quality and reliability, we may not be able to attract new subscribers or reduce churn, and our marketing and advertising efforts may cost more than the incremental revenue attributable to such efforts, which in turn, may decrease our profit margins. This would have an adverse effect on our operations, particularly as tariffs are already relatively low in comparison with the rest of Europe. If we were forced to lower our prices or the cost of retaining and acquiring new subscribers were to increase, this could have a material adverse effect on our business, financial condition and results of operations.

**We rely on national roaming to offer mobile telecommunications services to a certain part of our subscribers.**

We have entered into national roaming agreements with Plus, Orange and T-Mobile.

Under these agreements we are provided with network services, allowing us to offer mobile telecommunications services to our subscribers in areas where we do not have our own radio network coverage, which is of great importance from a costs and infrastructure perspective given the geographical spread of Poland. See *"Business-Material Contracts"* for details of these contracts.

All of these agreements are for indefinite periods and may be terminated on the terms and conditions set out in such

agreements. It is also possible that the relevant operators may become insolvent or go into liquidation. In addition, there can be no assurance that we will be able to continue to renew one or more of our national roaming agreements on terms favorable to us, or at all. In this case, we may not be able to benefit from the terms of the applicable agreement or we may incur higher national roaming costs made in order to renew or replace such agreements. In addition, an increase in the number and volume of calls by our subscribers served on the networks of the other MNOs could require future negotiations for lower national roaming prices in order to maintain or decrease the cost of national roaming, which may not be achievable. If any of the events described above were to occur, our national roaming or interconnection costs could increase. In the event that this disrupts our network access or coverage in a manner which we cannot resolve through our other agreements, we may have to substantially increase our capital expenditures in order to extend our radio network or enter into agreements with other network access providers on terms that may not be as favorable as the terms of the terminated agreement. In addition, we may have disagreements with our national roaming contract counterparties either over the terms or the quality of the services provided, which may affect the use of network services, or affect our decisions with respect to how we direct our network traffic. For example, with respect to our national roaming contract with T-Mobile, we have been discussing with T-Mobile the amount of our traffic which the T-Mobile network is capable of handling. The outcome of these discussions, if not resolved in a satisfactory way, or depending on the other actions of T-Mobile, may lead to the degradation of the quality of services related to approximately 4% of our total data traffic and a higher proportion of our customers being affected during any period where T-Mobile reduces our allowable traffic on its network. If any of these events were to occur, or if we face an increase in costs incurred under one of our national roaming agreements, it would have an adverse impact on our financial condition and results of operations, or, if we are not able to fund capital expenditure to extend our radio network, such failure would affect the level of services which we can offer which could mean that we would lose subscribers or fail to attract new subscribers, which could, in turn, have a material adverse effect on our business, financial condition and results of operations.

In addition, while we have these national roaming agreements in place, we do not have direct control over the quality of the networks of other operators and the national roaming services they provide. Any difficulties, delays or the failure of any operator to provide reliable services to us on a consistent basis could result in a reduction of subscribers or a decrease in traffic, which would reduce our revenues and could have a material adverse effect on our business, financial condition and results of operations.

**We depend on third-party telecommunications providers over which we have no direct control for the provision of our international roaming services.**

Our ability to provide high-quality telecommunications services depends on our ability to interconnect with the telecommunications networks and services of other telecommunications operators, particularly those of our competitors. Any price increase on services provided to us could negatively impact our financial position. We also rely on third-party operators for the provision of international roaming services for our mobile subscriptions. While we have interconnection and roaming agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnections and roaming services they provide. Additionally, our competitors may decide to charge additional fees for our use of their networks, such as termination fees for SMS or data services. Even if we attempt to offset such fees by implementing similar fees ourselves, we may not be able to offset all of the additional costs. Any difficulties or delays in interconnecting with other networks and services, or the failure of any operator to provide reliable interconnections or roaming services to us on a consistent basis, could result in our loss of customers or a decrease in traffic, which would reduce our revenues and adversely affect our business, financial condition and results of operations.

**The mobile telecommunications industry is subject to rapid changes in technology and our success depends on our ability to effectively deploy new or enhanced technologies, offerings and services.**

The mobile telecommunications industry is characterized by rapidly changing technology and related changes in subscriber demand for new offerings and services at competitive prices and we cannot assure you that we will be able to sufficiently and efficiently adapt the services we provide to keep up with rapid developments in the industry.

In particular, we expect certain communications technologies that have recently been developed or are currently under

development to become increasingly important in our market. This includes 4G LTE (for which we commenced a roll-out in 13 major Polish cities in November 2013 and which has grown substantially to now cover 93.4% of the population as of December 31, 2017) and 4G LTE Ultra (which we launched in March 2016 and covers 80.7% of the population as of December 31, 2017).

In October 2015, we won an auction for additional LTE spectrum for one block in the 800 MHz frequency band and four blocks in the 2600 MHz frequency bands.

If we fail to receive an allocation of mobile spectrum in any other subsequently announced auctions and our competitors receive such mobile spectrum, we could lose subscribers or fail to attract new subscribers, which would impact subscriber churn, or incur costs and investments in order to maintain our subscriber base or service the growing traffic, all of which could have a material adverse effect on our business, financial condition and results of operations.

Further, technological changes and the emergence of alternative technologies for the provision of telecommunications services that are technologically superior, cheaper or otherwise more attractive than those that we provide may render our existing services less profitable, less viable or obsolete. Technological developments may also shorten product life cycles and facilitate the convergence of various areas of the telecommunications industry. In addition, we cannot currently predict how emerging and future technological changes will affect our operations, nor can we predict that new technologies required to support our planned services will be available when expected, if at all. We may be required to deploy new technologies rapidly if, for example, subscribers begin demanding features of a new technology such as increased bandwidth, or if one of our competitors decides to emphasize a newer technology in its marketing campaigns. Due to the rapid evolution of technology, we cannot guarantee that we will correctly predict and therefore devote appropriate amounts of capital and resources to develop the necessary technologies that satisfy existing subscribers and attract new subscribers. As a result, new or enhanced technologies, services or offerings we introduce may fail to achieve sufficient market acceptance or experience technical difficulties. In addition, we may not recover the investments we have made or may make to deploy these technologies, offerings and services and we may not assure you that we will be able to do so in a cost efficient manner, which would also reduce our profitability. Further, we may not be able to obtain funding on reasonable terms or at all in order to finance the necessary capital expenditures to keep pace with technological developments. We also may not be able to obtain access to capital or other resources necessary to develop new or enhanced technologies, offerings and services when needed or at all.

Connected to the above, even if we have sufficient resources to provide new technologies which emerge, we may not receive sufficient frequency reservations necessary to provide services based on these new technologies in the markets in which we operate or we may be negatively impacted by unfavorable regulation regarding the usage of these technologies.

**The operations of mobile network operators are capital intensive and we cannot assure you that we will have sufficient liquidity to fund our capital expenditure programs or ongoing operations in the future.**

Although in recent years we have made extensive capital investments and capital expenditures in order to build and further improve our network, our business remains capital intensive and we expect will always require significant amounts of capital investment.

Due to winning the LTE auction in October 2015, in January 2016 we were granted 2600 MHz and the 800 MHz frequency reservations (in June 2016, the blocks were reallocated). As a result of these awards, we are required to comply with certain frequency reservation obligations such as, inter alia, making investments in so-called "white spot" areas (meaning areas where there is currently no or very limited mobile network coverage, or where it is not otherwise economically practicable to deploy, such as areas of low population density) and the telecommunications networks of certain designated communities in Poland. We expect that compliance with the frequency reservation requirements will materially increase our capital expenditures. See *"Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Certain other contractual commitments."*

In addition, we are currently in the expansion phase of our 4G LTE Ultra network in relation to which we still have material investment needs that are required in order for us to realize our growth strategy. If our network expansion is not completed quickly enough or subscribers use more data in the future than we currently anticipate or if network usage were to develop

faster than we currently anticipate, we may require greater capital investments in shorter time frames than we anticipate and we may not have the resources to make such investments.

While we believe we have met the coverage obligations imposed in the frequency reservation decisions relating to the 2100 MHz and 900 MHz spectrum and while we are not aware of any potential claims for further coverage with respect to these reservations, any potential claims by the regulator or our competitors, if they were to materialize, could be costly. Under our 800 MHz frequency we have certain obligations to build base stations prior to the end of the three months period ended June 30, 2018. However, certain factors beyond our control, such as zoning restrictions and planning laws (and similar building restrictions) or any protests against the proposed sites for our base station by any parties concerned about alleged health risks relating thereto, may mean we are not able to fulfill our obligations. Although we will seek to address any such failure in advance with the regulator, there can be no assurances that we will reach a compromise with them and we may face a claim from the regulator in relation to this. Further, while our management believes we have already met all the coverage obligations under the terms of our 1800 MHz frequency reservation, including utilization of the 1800 MHz frequency on 3,200 base stations by June 17, 2015, of which 50% must be in communes of less than 100,000 inhabitants, there can be no assurances that there will not be any claim from the regulator in this respect. Any claims from the regulator with respect to the above may result in fines, which could be substantial, and/or revocation of our reservation. Any such claims relating to the above may have a material adverse effect on our business, financial condition, results of operations and prospects.

The amount and timing of our future capital requirements to purchase additional frequencies or to meet such regulatory requirements as detailed above and to keep up with subscriber demand may differ materially from our current estimates due to various factors, many of which are beyond our control. If we were to be awarded an additional frequency reservation in the future, we would expect to finance the costs associated with such frequency reservation and investment requirements from operating cash flows or through debt and equity financing, which could be substantial. The type, timing and terms of any future financing will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we would be able to accomplish any of these measures on a timely basis or on commercially reasonable terms, if at all. It cannot be assured that we will generate sufficient cash flows in the future to meet our capital expenditure needs, sustain our operations or meet our other capital requirements, which may have a material adverse effect on our business, financial condition and results of operations.

In addition to investing in our network, we must also continuously maintain and upgrade our existing networks and IT systems in order to allow our ongoing operations to function properly and to expand such subscriber function as our subscriber base grows. We cannot assure you that the implementation and migration of data to the appropriate systems or any expansions in our IT systems will be made as planned or as budgeted or will meet all our business, functional and regulatory requirements. In addition, the needs of our business as well as regulatory obligations, among other things, could require us to upgrade the functionality of our networks, increase our customer service efforts, update our network management and administrative system and upgrade older systems and networks to adapt them to new technologies. Many of these tasks are not entirely under our control and may be affected by, among other things, applicable regulations. If we fail to successfully maintain, expand or upgrade our networks and IT systems, our offerings and services may become less attractive to new subscribers and we may lose existing subscribers to our competitors, or we may become subject to additional financial strain due to unbudgeted investments. In addition, our future and ongoing network and IT systems upgrades may fail to generate a positive return on investment, which may have an adverse effect on our business, financial condition and results of operations. Finally, if our capital expenditure exceeds our projections or our operating cash flow is lower than expected, we may be required to seek additional financing for future maintenance and upgrades, which in turn could have a material adverse effect on our business, financial condition and results of operations.

**We could experience cyber-attacks, subscriber database piracy, other attacks of terrorism or vandalism or database security breaches, which may materially adversely affect our reputation, lead to subscriber lawsuits, loss of subscribers or hinder our ability to gain new subscribers and thereby materially adversely affect our business.**

We may be exposed to database piracy, unauthorized access or other database security breaches which could result in the leakage and unauthorized dissemination of information about our subscribers, including their names, addresses, home phone numbers, passport details and individual tax numbers. In addition, the breach of security of our database and illegal

sale or other unauthorized release of its subscribers' personal information could materially adversely impact our reputation, prompt lawsuits against us by individual and corporate subscribers, lead to violations of data protection laws and adverse actions by the telecommunications regulators and other authorities, lead to a loss in subscribers and hinder our ability to attract new subscribers. If severe customer data security breaches are detected and the regulatory authority impose penalties for violating certain terms of our frequency reservations. In addition, our network and IT infrastructure may be exposed to cyber-attacks (which our current insurance policy does not cover), computer virus attacks or acts of terrorism or vandalism. These risks above are particularly applicable to our base stations because they are spread across a wide variety of locations. This leads to risk of theft or vandalism at these sites, including by protestors who are concerned about alleged health risks relating to base stations. Any such attack could result in equipment failures or disruptions in our operations. Any inability to operate our network as a result of such events may result in significant expense or loss of market shares. These factors, individually or in the aggregate, could have a material adverse effect on our business, financial condition and results of operations.

**Our network infrastructure, including our information and telecommunications technology systems, may be vulnerable to circumstances beyond our control that may disrupt our services and could affect our operations.**

The mobile telecommunications business depends on providing our subscribers with reliable service, network capacity and security. The services we provide may encounter disruptions from many sources, including power outages, acts of terrorism, vandalism and human error, as well as fire, flood, or other natural disasters. In addition, we could experience interruptions of our services due to, among other things, hardware failure, software bugs, computer virus attacks, unauthorized access or corruption of data. Any interruptions in our ability to provide our services could seriously harm our reputation and reduce subscriber confidence, which could materially impair our ability to acquire and retain subscribers. In addition, such interruptions could result in an obligation to pay contractual penalties or cause our subscribers to terminate their agreements with us, the imposition of regulatory penalties due to violations of the terms of certain of our frequency reservations or a need to incur significant capital expenditures to restore the functionality of our networks and provide our subscribers with reliable service, network capacity and security.

In particular, our base station sites, where our radio equipment is located, are particularly important to our business. The risks above are particularly applicable to our base stations because they are spread across a wide variety of locations. This leads to risks of theft or vandalism at these sites, including by protestors who are concerned about alleged health risks relating to base stations. With respect to base stations installed on certain structures, we also require building permits when we construct and install our base stations, which typically take approximately 18 months to obtain. If we were not able to obtain these, our building or construction of base stations in locations we deem desirable could be delayed or halted. In addition, our permits may be revoked, even after commissioning of our base stations. In addition, in certain areas, local authorities or courts may decide to limit the amount of base stations which can be located in an area, which would exacerbate these issues. Further, there is also a potential risk of slowdown of the Group's network development in the near future as a result of judgments of administrative courts, including the Supreme Administrative Court ("NSA") and construction supervisors. These judgments include statements unfavorable for telecommunications operators, suggesting that obtaining building permits is necessary in the case of building the base stations also on structures where currently no building permit is required. These verdicts could be used by the lower administrative courts and administration offices in similar cases relating to our network development. While these verdicts do not set judicial precedent, they could be used as a guideline in lower-level administrative courts and architectural or construction administrative bodies. If such decisions were used as a guideline, it cannot be excluded that such courts and offices will not apply such decisions with retrospective effect.

Further, part of our network infrastructure is located on the premises of third parties. This would mean that if this infrastructure were to encounter any disruptions, it may take longer to resolve the problem, which would impair our ability to obtain and retain subscribers. In addition, disputes between these third parties and us or legal proceedings involving third parties or our property may cause part of our network infrastructure to be inaccessible, which could have a material adverse effect on our ability to efficiently operate, maintain and upgrade our network. Finally, we are dependent on securing leases in locations we seek to deploy base stations and are at risk of not being able to renew leases when they expire.

Any of these effects could have a material adverse effect on our business, financial condition and results of operations.

**Our operations depend on the effectiveness of our distribution network.**

We rely to an extent on independent third parties such as our dealers to offer, sell and distribute our offerings and services. As of December 31, 2017, we had 839 dedicated “PLAY” branded stores, approximately 76% of which were operated by independent third-party dealers.

Although we have a diverse dealer distribution network for which we aim to secure distribution agreements that include provisions relating to exclusivity, non-competition, rights of first refusal, and the pre-emptive right to buy a dealer’s shares if the dealer decides to sell its enterprise or the organized part of its enterprise (if dealer operates as a limited liability or joint stock company), our business may be adversely affected if we were to lose a number of major dealers due to resulting financial difficulties or if they decide not to continue their co-operation with us. This would increase our costs of operations, and if we cannot secure a similar agreement with a different dealer in the same location to replace expected future revenues, our revenues may decrease.

Further, due to increased competition with other mobile providers, we may be forced to increase the commissions we pay to our dealers, to expand our distribution network and to alter the distribution channels that we currently rely on to distribute our services. Any increase in the commissions that we pay to dealers in our distribution network would increase our operating costs and likely decrease our profitability. Any failure to maintain our distribution network could significantly hinder our ability to retain and attract subscribers for our services, which would have a material adverse effect on our business, financial condition and results of operations. In addition, if we determine that we need to significantly reorganize or rebuild our existing distribution network, we may be forced to make significant incremental investments in our distribution network, resulting in increased operational costs.

We lease a significant number of our retail outlets. Such leases typically have a limited duration. We cannot guarantee that these lease agreements will be extended or renegotiated on reasonable terms upon expiration of their respective terms, or that they will be extended at all. An inability to cost-effectively renew such leases after they expire, or to cost effectively obtain sufficient alternative facilities, would have an adverse effect on our business, financial condition and results of operations.

**We depend on third-party providers to provide services to our subscribers.**

Our success and ability to grow our subscriber base depends on our ability to provide high-quality, reliable services, for which we rely, in part, on third-party providers of network, licenses, services, equipment and content over whom we have no direct operational or financial control. If any of these third party providers fail to deliver or to maintain their products, solutions, services or offerings properly or fail to respond and adapt quickly to our requirements, our subscribers may experience service interruptions, which could adversely affect the perceived reliability of our services and, therefore, adversely impact our brand, reputation and growth.

In particular, we rely on continued maintenance and supply services rendered by manufacturers of telecommunications equipment including, in the most extensive scope, Huawei, which has provided a significant portion of our telecommunications network equipment. Continued cooperation with Huawei or other equipment suppliers, is important for us to maintain our operations without disruption. As Huawei has provided a significant portion of equipment for our network, we may suffer additional disruption if we cannot obtain spare parts from Huawei to maintain our network assets, and any failure to obtain telecommunications network equipment from Huawei may affect our network and have the effects described above.

We also rely on agreements with suppliers of handsets and devices (including Samsung, Apple, LG, Huawei, ZTE) as well as with local distributors of electronic goods (including Amdocs, ALSO, KOMSA, Tech-Data, and Ingram Micro) and providers of IT services (including AMDOCs, Microsoft, SAP Polska, and SAS Institute). We do not have any direct operational or financial control over our key suppliers and have limited influence with respect to the manner in which these key suppliers conduct their businesses. Our reliance on these suppliers exposes us to risks related to delays in the delivery of their products and services. If any of the third parties that we rely on become unable to or refuse to provide to us the licenses, services, facilities and equipment that we depend on in a timely and commercially reasonable manner or at all,

we may experience temporary service interruptions or service quality problems. We cannot guarantee that these or other risks to the reputation of, and value associated with, our brands will not materialize. Any such damage or erosion in the reputation of, or value associated with, our brands could have a material adverse effect on our business, financial condition, results of operations and prospects. We cannot assure that our suppliers will continue to provide us with products, licenses and services at attractive prices or that we will be able to obtain such products, licenses and services in the future from these or other providers on the scale and within the time frames we require, if at all. If our key suppliers are unable to provide us with adequate supplies of products, licenses and services, or provide them in a timely manner, our ability to attract subscribers or provide attractive offerings could be negatively affected, which in turn could have a material adverse effect on our business, financial condition and results of operations.

**The mobile telecommunications industry is characterized by a limited radio frequency spectrum available for allocation, with certain prior allocation processes subject to dispute.**

Our future success partially depends upon our ability to secure new radio frequency spectrum, which might be necessary for the launch of new or enhanced technologies or, as our business grows, to carry the traffic of our own subscribers. The amount of radio frequency spectrum available in Poland for allocation is limited and the process for obtaining it is highly competitive. Play is continuously reviewing various market opportunities for further spectrum acquisitions. Our inability to obtain a frequency spectrum necessary to launch any new or enhanced technologies or the success of any of our competitors in obtaining such spectrum, could materially affect our growth strategy and, accordingly, may have a material adverse effect on our business, financial condition, results of operations and prospects. We also cannot assure you that we will be able to obtain any necessary or desirable frequency spectrum at acceptable costs, which could have a material adverse effect on our revenue, margins and cash flows. Finally, we cannot guarantee that we will have sufficient funds available or be able to secure sufficient financing in order to acquire such frequency reservations.

In addition, the tender process and the auction by which we were granted our 1800 MHz frequency and our recently awarded 800 MHz and 2600 MHz frequency reservations have been challenged in administrative proceedings. If these challenges were successful, it could result in the loss of this frequency reservations, and there may not be radio frequency spectrum available for sale to enable us to fulfill our operating requirements which would have a material adverse effect on our business, financial condition and results of operations. See “—Risks Related to Regulatory Matters—Our frequency reservations to provide mobile services have definitive terms and may be revoked or may not be renewed upon expiration on acceptable terms, if at all” and “Business—Legal Proceedings—Proceedings before the UKE President related to the tender for the 1800 MHz frequency,” and “Business—Legal Proceedings—Proceedings before the UKE President related to the auction for the 800 MHz and 2600 MHz frequencies.”

**We are continually involved in disputes and legal proceedings that, if determined unfavorably to us, could have a material adverse effect on our business, financial condition, results of operations and prospects.**

We are continually involved in disputes and legal proceedings, including disputes and legal proceedings initiated by regulatory and tax authorities as well as proceedings with competitors and other parties. For a description of the proceedings that we believe are material for our business, including proceedings before the UKE President, and the respective courts, with respect to the annulment of the tender process and the reservation decision with respect to the 1800 MHz frequency and the annulment of the auction and the reservation decisions with respect to 800 MHz and 2600 MHz frequencies, see Financial Statement, chapter “Legal and regulatory proceedings” Certain of these disputes may relate to key operational matters, such as our frequency reservations, and if determined adversely, may have a material adverse effect on our business, financial condition and results of operations,” see “—Risks Related to Regulatory Matters—Our frequency reservations to provide mobile services have definitive terms and may be revoked or may not be renewed upon expiration on acceptable terms, if at all.”

Any such disputes or legal proceedings, whether with or without merit, could be expensive and time consuming, could divert the attention of our management and, if resolved adversely to us, could harm our reputation and increase our costs, all of which could result in a material adverse effect on our business, financial condition, results of operations and prospects.

**Failure to maintain the reputation of our brand or impairment of our key intellectual property rights would have a material adverse effect on our business, financial condition and results of operations.**

Our intellectual property rights, including our key trademarks and domain names, which are well known in the telecommunications markets in which we operate, are important to our business. The brand name "PLAY" and currently used figurative trademarks for "PLAY" are highly important assets.

If we are unable to maintain the reputation of and value associated with our "PLAY" brand name, we may not be able to successfully retain and attract subscribers. Our reputation may be harmed if any of the risks set forth in this "Risk Factors" section materializes. Any damage to our reputation or to the value associated with our "PLAY" brand name could have a material adverse effect on our business, financial condition, results of operations and prospects.

Further, a significant part of our revenue is derived from offerings and services marketed under our "PLAY" brand name. We rely upon a combination of trademark and copyright laws, database protections and contractual arrangements, where appropriate, to establish and protect our intellectual property rights. We may be required to bring claims against third parties in order to protect our intellectual property rights, and we may not succeed in protecting such rights. As a result, we may not be able to use intellectual property that is material to the operation of our business.

In addition, as the number of offerings and overlapping offering functions increase, the possibility of intellectual property infringement claims against us may correspondingly increase. We cannot guarantee that we have not unwittingly breached or that we will not in the future unintentionally breach the intellectual property rights of third parties. Any alleged breach could expose us to liability claims from third parties. In addition, we might be required to obtain a frequency reservation or acquire new solutions that allow us to conduct our business in a manner that does not breach such third party rights and we may be forced to expend significant time, resources and money in order to defend ourselves against such allegations. The diversion of our management's time and resources, along with potentially significant expenses that could be involved, could have a material adverse effect on our business, financial condition, results of operations and prospects. In addition, any lawsuits concerning intellectual property, regardless of their outcome, could have a material adverse effect on our business, financial condition and results of operations.

**Currency exchange rate fluctuations could have a material adverse effect on our financial condition and the results of our operations.**

Our business is exposed to fluctuations in currency exchange rates. Nearly all of our revenues are denominated in zloty, while certain of our significant expenditures, such as the purchase of handsets, purchases of network equipment, IT system costs, international roaming costs and payments in relation to certain leases of office space and sites are denominated in foreign currencies, particularly the euro, and to a lesser extent, XDR, U.S. dollars and pounds sterling. A depreciation of the zloty against the euro, XDR, the U.S. dollar or the pound sterling, which have been subject to fluctuations in the past, would increase these costs. See "*Qualitative and Quantitative Information on Market Risks*".

**We rely on the experience and talent of our managers and skilled employees, and the loss of any of these individuals could harm our business.**

The successful operation of our businesses as well as the successful implementation of our strategy is dependent on the experience of our managers and key personnel. Our future success depends in part on our ability to retain managers who have had a significant impact on our development, as well as on our ability to attract and retain skilled employees able to effectively operate our business. There is intense competition for skilled personnel in the Polish and the global telecommunications industry. We cannot guarantee that we will be able to attract and retain such managers or skilled employees in the future. The loss of some or all of our key managers, or the inability to attract and appropriately train, motivate and retain qualified professionals, or any delay in doing so, could have a material adverse effect on our business, financial results, results of operations and prospects.

**Labor disruptions or increased labor costs could have a material adverse effect on our business, financial condition and results of operations.**

If we experience a material labor disruption, strike or material dispute with our employees, or significantly increased labor costs in our business operations due to work stoppages or other such events that may affect our ability to conduct business, we may not be able to timely or cost effectively meet subscriber demands and provide our standard level of customer care, which could reduce our profitability. We have been in the past and we are currently a party to labor disputes with some of our employees on an individual basis. We cannot assure you that these claims or future claims by employees will not have an adverse effect on our business, financial conditions or results of operations. Additionally, labor issues that affect third parties that we rely on for services and technology could also have a material adverse effect on us if those issues interfere with our ability to obtain necessary services and technology on a timely basis.

**Alleged health risks of wireless communications devices could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations.**

We are aware of various reports alleging that there may be health risks associated with the effects of electromagnetic signals from antenna sites and from handsets and other mobile telecommunications devices. We cannot assure you that further medical research and studies will not establish a link between electromagnetic signals or radio frequency emissions and these health concerns. The actual or perceived risk of mobile telecommunications devices, press reports about risks or consumer litigation relating to such risks could adversely affect the size or growth rate of our subscriber base and result in decreased mobile usage, reduction in the number of subscribers, increased difficulty in obtaining sites for transmitters and exposure to potential litigation or other liabilities or increased costs resulting from potential new regulations in this respect. If any of the above risks were to materialize, it may have a material adverse effect on our business, financial condition, results of operations or prospects. In addition, these health concerns may cause the European Union and Polish authorities to impose stricter regulations on the construction of the components of our network, such as Base Transceiver Stations or other telecommunications network infrastructure, which may hinder the completion or increase the cost of network deployment and the commercial availability of new services.

**We need to maintain our efficient and effective operational policies to avoid increases in our operating costs.**

Our success will depend on, among other things, our ability to realize our strategy to maximize our operational and cost efficiencies.

As part of our focus on operational efficiency, we plan to improve our earnings and cash flows by maintaining and potentially lowering operating costs from current levels through a number of measures, such as ensuring the continuation of our national roaming agreements on the same terms or on terms more favorable to us. Even if we are successful in these and other initiatives, such as subsidy and sales commission control, maintaining tight controls over stocking levels, and improving payment terms with our suppliers, we may face other risks associated with our plans, including declines in employee morale, the level of customer service we provide, the efficiency of our operations and the effectiveness of our internal controls. Failure to continue to successfully implement such policies, unforeseen additional expenses or the inability to fully realize their anticipated benefits could impair the successful execution of our growth strategy or otherwise have a material adverse effect on our business, financial condition and results of operations.

**We collect and process subscriber data as part of our routine business operations and the leakage of such data may violate laws and regulations which could result in fines, loss of reputation and subscriber churn and have a material adverse effect on our business, financial condition or results of operations.**

We collect, store and use data in the ordinary course of our operations that is protected by data protection laws. Although

we take precautions to protect subscriber data in accordance with the privacy requirements provided for under applicable laws, we may fail to do so and certain subscriber data may be leaked as a result of human error, willful misconduct or technological failure or otherwise be used inappropriately. We work with independent and third-party suppliers, partners, dealers, service providers and call centers, and we cannot eliminate the risk that such third parties could also experience system failures involving the storing or the transmission of proprietary information. Violation of data protection laws or regulations by us or one of our partners or suppliers may result in fines, reputational harm and subscriber churn and could have a material adverse effect on our business, results of operations or financial condition.

**We may make acquisitions or enter into transactions that could result in operating difficulties, dilution and other adverse consequences.**

We have evaluated, and may continue to evaluate, potential strategic or other acquisitions and transactions which may enhance our business operations. Any of these transactions could be material to our financial condition or results of operations. The process of integrating an acquired company, network, business or technology or IT system could create unforeseen operating difficulties and expenditures, and we may not realize any or all of the benefits we anticipated at the time of the acquisition. Further, our management could be required to invest significant time into such acquisitions and the resulting integration activities, and our management may change as a result of future corporate transactions. Future acquisitions or divestitures could result in potentially dilutive issuances of equity securities, debt incurrence, contingent liabilities or amortization expenses, write-offs of goodwill or integration expenses, any of which could have a material adverse effect on our business, financial condition and results of operations.

**Our accounting policies may differ from other telecommunications operators, which may affect the comparability of our results.**

Our accounting policies may differ from the accounting policies of other operators in the mobile telecommunications industry with respect to, e.g., valuation methods, presentation, critical assumptions, estimates and judgments. In addition, we have early adopted IFRS 15 “Revenue from Contracts with Customers” which are obligatory for all entities reporting under IFRS for annual periods beginning on or after January 1, 2018, and IFRS 16 “Leases” which will be obligatory for all entities reporting under IFRS for annual periods beginning on or after January 1, 2019.

With respect to EBITDA, 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, whereas overhead costs increase due to the greater impairment recognition required against the significant contract assets 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 or retaining a contract). These costs are amortized on a straight-line basis over the life-time of the contract in the operating expenses in the “contract costs, net” line.

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 is presented as interest within finance costs. 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 the 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 leases whether previously classified as finance or operating leases, are recognized as liabilities on the balance sheet.

For further information, please see “Presentation of Financial Information—Early Adopted Accounting Standards.” Our results may therefore not be directly comparable to those of other companies in our industry.

**Frequent changes in Polish tax regulations may have an adverse effect on our results of operations and financial condition.**

The Polish tax system is characterized by instability and tax regulations are frequently amended.

Recently, a number of new tax regulations have come into force which were prepared in a relatively short time and implemented with short grace periods, such as changes to Act on Corporate Income Tax, changes to Act on Personal Income Act, the Standard Audit File for Tax reporting obligation, reverse charge on computers and smartphones, tax on financial institutions, FATCA reporting, split billing regulation, which will allow the purchaser to pay VAT indicated on the invoice to separate, dedicated bank account and the seller will be entitled to use these means only for VAT settlements with the tax authorities. Other tax reporting or compliance obligations or new tax regulations may be introduced, which could also affect Play's operations. Please note that some of these regulations have had, such as the changes to Corporate Income Tax or the reverse-charge in VAT settlements, and may have, such as split-billing, an impact on Play's business and financial condition, including cash flows. Moreover, in July 2016 the General Anti-Avoidance Rule ("GAAR") entered into force, which, to a certain extent, may be applied retroactively (as described below). Therefore, from July 2016 any reference to the Polish tax regulations, including for the purpose of this Report, includes the GAAR. We cannot exclude the possibility that further legal amendments will be introduced in Poland, e.g., with respect to real estate tax, or that new tax burdens will be imposed on telecommunication activities. Tax laws in Poland may also need to be amended in order to implement new EU legislation.

The instability of the Polish tax system stems not only from changes in the law, but also from the reliance by tax regulators on court interpretations, which are also subject to potential changes and reversals. The lack of well-established regulations results in unclear and inconsistent interpretations, which lead to uncertainties and conflicts in application.

As a result, the Group faces the risk that its activity in selected areas could be unsuited to the changing regulations and the changing practice in their application. There is also a risk that the tax interpretations already obtained and applied by the Group in Poland will be changed or deprived of their protective power, which could lead to tax exposure for the Group. Due to the foregoing, potential disputes with the Polish tax authorities cannot be ruled out, and, consequently, the tax authorities could challenge the tax settlements of companies in the Group regarding non-time-barred tax liabilities (including the due performance of the tax remitter's obligations by companies in the Group) and the determination of tax arrears for these entities, which may have a material adverse effect on the business, financial standing, growth prospects or results of the Group.

Please note that tax settlements, together with other areas of legal compliance (e.g., customs or foreign exchange law) may be subject to review and investigation at any time by the tax authorities and additional tax assessments with penalty interest and penalties may be imposed within five years from the end of the year in which a tax is due.

In view of these frequent changes, which may have a retroactive effect, and the existing uncertainty, the lack of a uniform interpretation of tax law and the relatively long statute of limitations for tax liabilities, the risk of challenging the application of tax regulations in Poland may be higher than in the legal systems of more developed markets. Additionally, these changes in tax regulations have had and may in the future have negative effects on our business, financial condition, results of operations and prospects. Further, the lack of stability in the Polish tax regulations may hinder the Group's ability to effectively plan for the future and to implement our business plan.

Moreover, in relation to the cross-border nature of the Group's business, the international agreements, including double tax treaties, to which Poland is a party also have an effect on the Group's business. Different interpretations of the double tax treaties by the tax authorities, as well as any changes to these treaties, may have a material adverse effect on the Group's business, financial standing or results.

**The Group faces the risk that its activity and/or transactions in selected areas could be reviewed under the GAAR.**

The GAAR regulations apply to tax benefits exceeding PLN 100,000 gained following the date the GAAR entered into force as a general anti-tax abuse law, in addition to existing anti-abuse regulations related to mergers, spinoffs, qualified exchanges of shares and exempt dividend distributions. Under certain conditions the tax authorities may also review past transactions under the GAAR. The GAAR allows the tax authorities to disregard a legally valid transaction (relationship) for tax purposes if the primary aim of the transaction was tax avoidance, where "tax avoidance" is interpreted as "an act (or series of acts) applied primarily in order to receive a tax benefit, which in certain circumstances defeats the object and purpose of the tax act, provided the manner of conduct in a particular case was artificial."

Conduct will be considered artificial if, under the existing circumstances, it would not be applied by a reasonable entity

and it is connected with lawful purposes other than tax benefits contradictory to the object and purpose of a taxable act. In order to assess if a particular act was artificial, attention should be paid especially to: (i) unjustified division of an operation, (ii) the involvement of intermediary entities without business substance, (iii) elements directed to achieve a result identical or similar to the initial state of facts, (iv) elements that cancel or exclude each other, and (v) economic risk exceeding the planned benefits other than tax benefits to the degree that it must be decided that a rational entity would not have chosen to act that way.

A transaction will be considered to have been carried out primarily to obtain a tax benefit if the other economic or commercial objectives of the transaction as stated by the taxpayer should be considered negligible.

A tax benefit refers to a situation in which: (i) a tax liability has not arisen, the date when a tax liability arises has been deferred or the tax liability has been reduced, or a tax loss has been incurred or overstated; or (ii) a tax overpayment or a right to claim a tax refund has arisen, or the amount of a tax overpayment or tax to be refunded has been increased.

At this stage, while it is not expected that the rule will apply to genuine commercial transactions, the application and approach of the Polish tax authorities regarding these rules is untested.

The Group faces the risk that its activity and/or transactions in selected areas could be reviewed under the GAAR, including regarding transactions performed before the GAAR regulations entered into force. Any possible decisions regarding GAAR unfavorable to the Group may have a material adverse effect on the Group's business, financial condition and operational results.

#### **Polish tax rulings may be subject to review.**

Poland applies a tax ruling system that generally protects taxpayers or tax remitters against negative tax consequences of their actions if: (i) a tax ruling is obtained prior to the tax effect of an action or prior to an action which is subject to a tax ruling, (ii) the taxpayer or tax remitter complies with the tax treatment of the action confirmed in a tax ruling, and (iii) the matter subject to a tax ruling is not subject to tax proceedings initiated, conducted or ended by the tax authorities. Tax rulings can protect a taxpayer or tax remitter against negative tax consequences only if facts presented for the purpose of a tax ruling truly and accurately describe a real action subject to such tax ruling and its circumstances.

The tax authorities may review the facts presented by the taxpayer or tax remitter and compare them with what subsequently occurs. If they find that the facts are different or not adequate, then a tax ruling will not protect the taxpayer or tax remitter against negative tax consequences. Even if Play believes that the facts are properly presented for the purpose of the tax rulings it obtained, the tax authorities could still attempt to challenge what subsequently occurs (or has occurred) as not being in compliance with the facts described by Play for the purpose of its tax rulings and, therefore, challenge the tax protection which might result from such rulings. Tax rulings which relate to any matters subject to or challenged under the GAAR are not binding and will not protect a taxpayer or tax remitter against negative tax consequences.

#### **The interpretation of Polish tax laws related to the taxation of investors may be inconsistent, and subject to change, and it is possible that a non-Polish investor may be subject to Polish tax as a result of investment in the shares under the current Polish tax laws.**

The Polish legal system, and specifically Polish tax law, is characterized by frequent changes, ambiguity and inconsistent tax law practice on the part of the tax authorities; thus, judicial decisions relating to the application of Polish tax law regulations are frequently inconsistent. This applies in particular to issues relating to the taxation of income generated by investors in relation to their acquisition, holding and disposal of shares in a non-Polish company admitted to organized trading on the Warsaw Stock Exchange. In particular, new Polish regulations on the source of income may treat income from the Shares as earned in Poland and subject to Polish income tax. Furthermore, no assurance may be given that amendments to tax laws that are unfavorable to investors will not be introduced or that the tax authorities will not establish a different interpretation of tax provisions that is unfavorable to investors, which could have an adverse effect on effective tax burdens and the actual profit of investors from their investment in the Shares.

#### **Tax authorities may increase the frequency with which they perform tax audits.**

Based on publicly available information, an unprecedented number of tax audits have been initiated by the Polish tax authorities recently, in particular with respect to corporate income tax and transfer pricing settlements. During these audits, special emphasis is placed on any group restructuring actions, trademark-related transactions and schemes, intra-group settlements, new innovative offerings and their terms and conditions, as well as debt financing.

In the last few years, the Group has actively worked on tailoring its structure and offerings to respond to competitive market challenges and consumer needs, and performed similar transactions which currently are or potentially might be subject to the above mentioned intensified tax audits.

Please note that the Group performed in-depth, detailed legal and tax analysis before carrying out the above mentioned restructurings and transactions, and making innovative offerings. Moreover, whenever possible, Play has obtained individual tax rulings confirming the correctness of the tax treatment to be adopted or actually adopted. Therefore, in the Company's view, all transactions have been correctly categorized for tax purposes, in particular in line with binding legal and tax provisions.

Nevertheless, in the current tax environment, the Group cannot exclude the risk that the tax authorities (e.g., during a tax audit) may take a different approach from the one adopted by Play.

#### **Certain tax audits are ongoing with respect to Play.**

Currently, there are two ongoing tax audits in Play being conducted with respect to corporate income tax settlements for the financial year ended December 31, 2013 (initiated in 2016) and for the financial year ended December 31, 2012 (initiated in 2017). Play has been informed that the 2013 audit should be completed by April 3, 2018, whereas the 2012 audit should finish by March 26, 2018, please note that these deadlines are likely to be further extended (this is a common practice of the Polish tax authorities).

Tax authorities investigate in particular: (i) intra-group transitions and settlements, with special emphasis on the settlements between Play and Play Brand Management Limited and (ii) trademarks-related settlements. Moreover, the tax authorities have requested documents concerning different types of related party transactions (e.g., transfer pricing documentation, fee calculations, and other similar documentation).

So far, no formal or informal findings have been communicated or notified to Play.

We cannot exclude the risk that the tax authorities will apply a different approach from the one adopted by Play, which may adversely affect our business.

#### **VAT risk related to TV services rendered by Play.**

In 2016, Play launched online TV offers, in addition to its ongoing provision of its core telecommunications services. In line with a positive tax ruling it obtained, Play applied a lower VAT rate for TV services. One cannot exclude the risk that the Polish tax authorities will adopt a different view of the revenues from these services and their VAT treatment (including payment already made), and thus VAT exposure might arise and affect our business, financial condition and results of operations.

#### **An increased focus by the tax authorities on related party transactions may cause our policies to undergo more scrutiny, and we may be subject to further audits and challenges in relation to such transactions**

When concluding and performing related-party transactions, the Group takes special care to ensure that such transactions comply with the applicable transfer pricing regulations. However, due to the specific nature of related-party transactions, the complexity and ambiguity of legal regulations governing the methods of examining the applied prices, as well as the difficulties in identifying comparable transactions for reference purposes, no assurance can be given that specific companies in the Group will not be subject to inspections or other investigative activities undertaken by the tax authorities. The tax authorities may have a different view of the Group's compliance with transfer pricing and may attempt to challenge the arm's-length nature of some of our related party transactions. Should the methods of determining arm's-length terms for the purpose of the above transactions be challenged, resulting in, e.g., the assessment of additional taxable income,

this may have a material adverse effect on the Group's business, financial condition, results of operations and the price of the Shares.

Moreover, an increased focus by the Polish tax authorities on related party transactions may cause our policies to undergo more scrutiny, and we may be subject to further audits and challenges in relation to such transactions.

**The recent reforms to Open Pension Funds may have an impact on the capital markets in Poland and the price, trading volume, and liquidity of the Shares.**

Historically, Open Pension Funds (“OFEs”) were the largest private investors on the WSE and important participants in public offerings of shares on the WSE. On February 1, 2014, the Act of December 6, 2013, amending Certain Legal Acts in Connection with the Determination of Rules of Payment of Pensions from Funds accumulated in Open-end Pension Funds (the “OFE Act”) entered into force, reforming the pension system in Poland by changing the rules of operation for OFEs. The OFE Act introduced a number of changes concerning the operations of OFEs, including the transfer to the Social Insurance Office (Zakład Ubezpieczeń Społecznych, “ZUS”) certain assets managed by OFEs in a total amount representing 51.5 percent of the assets of OFEs (which were later redeemed), a mechanism of remittance of pension insurance premiums to ZUS (unless an individual member of an OFE makes a declaration that part of his or her pension insurance premium should be remitted to OFEs), a mechanism of gradually transferring funds accumulated in an OFE member's account to ZUS ten years before such OFE member reaches retirement age, and a requirement for OFEs to adapt their articles of association to the new requirements, including restrictions on investing funds.

It is not possible to guarantee that in the future another reform will not be carried out to fully eliminate OFEs, in particular, given that the Constitutional Tribunal, in its judgment of November 4, 2015, ruled that the reform was constitutional. In February 2016, the Polish government confirmed its intention to transfer 75 percent of the assets currently held by OFEs to individual pension accounts which will be maintained for each citizen and to transfer the remaining 25 percent of the assets to the Demographic Reserve Fund (Fundusz Rezerwy Demograficznej) which will be managed by the Polish Development Fund (Polski Fundusz Rozwoju). On December 30, 2016, the proposed amendments were presented to the Parliament by the Polish Government. Currently these amendments are subject to further analysis by the Polish Social Insurance Institution and the Ministry of Labor and Social Policy. According to the Polish Government's plans, the OFEs would be transformed into open-ended investment funds managing individual pension accounts. Open pension funds are important investors in debt securities issued in the Polish market. Any changes to the operations of the pension funds which may limit the number of pension funds, the value of assets managed by the pension funds or their investment policies may affect the investors' demand for covered bonds issued by the bank and therefore may adversely affect the Bank's financial standing and ability to meet its obligations under the covered bonds. According to the information provided by the Polish Minister of Finance these actions should be implemented in 2018, at the latest.

The changes to OFEs, may result in limiting the number of OFEs, the value of the assets managed, or have an impact on the investment policies of OFEs (including an increase in investments in foreign instruments instead of in capitalization on the WSE) and may impact the demand for shares and the price of shares on the WSE. In addition, the reform and changes in the operations of OFEs may also have an adverse effect on the perception of the capital markets in Poland and the stability of its institutional framework and, consequently, discourage investors from investing in shares of companies listed on the WSE. There is a risk that the OFE reform may adversely affect the prices of the Shares, or the trading volume of the Shares, their liquidity and the Company's shareholding structure, as well as the success of the potential future offering.

**The substantial leverage and debt service obligations of the Group could adversely affect our business.**

We are and will continue to be, highly leveraged. As of December 31, 2017, we had total financial liabilities (principal increased by accrued interest) of PLN 7,416 million (including PLN 945 million of leases).

The degree to which we will be leveraged following the repayment of indebtedness, could have important consequences, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to our indebtedness

- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, joint ventures or other general corporate purposes
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations. In addition, the terms of the Senior Facilities Agreement and the agreements governing the Local Overdraft Facilities permit, and any other credit facility agreement or similar agreement that we may enter into in the future may permit, the Group members to incur substantial additional indebtedness, which would further increase our leverage, and exacerbate the risks mentioned above.

**We are subject to restrictive debt covenants that may limit our ability to finance future operations and capital needs and to pursue business opportunities and activities.**

The Company and certain of its subsidiaries will be subject to the affirmative and negative covenants contained in the Senior Facilities Agreement and that may be contained in any other future finance documents. A breach of any of those covenants or restrictions could result in an event of default under the Senior Facilities Agreement. Upon the occurrence of any event of default under the Senior Facilities Agreement, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the Revolving Credit Facility and elect to declare all amounts outstanding under the Senior Facilities Agreement, together with accrued interest, immediately due and payable. The same risks may apply to future finance documents we enter into. If our creditors, including the creditors under the Senior Facilities or other credit facilities, accelerate the payment of those amounts, we cannot assure you that the assets of our subsidiaries would be sufficient to repay in full those amounts or to satisfy all other liabilities of our subsidiaries which would be due and payable. In addition, if we are unable to repay those amounts, our creditors could proceed against any collateral granted to them to secure repayment of those amounts. If any of the above were to occur, it could have a material negative impact on the results of our operations and our financial performance.

**We will require a significant amount of cash to service our debt and sustain our operations. Our ability to generate or raise sufficient cash depends on many factors beyond our control.**

Our ability to make principal or interest payments when due on our indebtedness, including our obligations under the Senior Facilities Agreement, to the extent required to be paid in cash, and to fund our ongoing operations or planned capital expenditures, will depend on our future performance and ability to generate cash, which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these “Risk Factors,” many of which are beyond our control. The Revolving Credit Facility matures in March 2023, Term Loan Facility A matures in March 2022, Term Loan Facility B matures in September 2022, and Term Loan Facility C matures in March 2023. Term Loan A also has an amortization feature, which requires principal repayments over time. See “Business—Material contracts—Financing agreements—The Senior Facilities Agreement.” In addition, our ability to make interest payments on our indebtedness and to otherwise fund our ongoing operations will also depend on any significant capital expenditures we may make, including in respect of potential spectrum frequency reservation acquisitions, which may require additional financing, and which may further increase the amount of interest payments we make on our indebtedness. If at the maturity of our credit facilities (or at the time of any amortization payments) or any other debt which we may incur, we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, we may be required to refinance or restructure our indebtedness.

Furthermore, we may need to refinance all or a portion of our indebtedness on or prior to their stated maturity. If we are unable to refinance or restructure all or a portion of our indebtedness or obtain such refinancing or restructuring on terms acceptable to us, we may be forced to sell assets, or raise additional debt or equity financing in amounts that could be substantial or the holders of our debt may accelerate our debt and, to the extent such debt is secured, foreclose on our assets. The type, timing and terms of any future financing, restructuring, asset sales or other capital raising transactions will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In such an event, we may not have sufficient assets to repay all of our debt. In addition, the terms of the Senior Facilities Agreement may limit our ability to pursue any of these measures.

**We conduct regular risk assessments to identify, evaluate and mitigate the risks of any misconduct. We continuously adapt, and stay-up-to-date by using behavioral ethics research to enhance the effectiveness of our policy.**

Assessing human rights risks and impacts provides the basis for defining and fine-tuning appropriate measures to prevent, mitigate and remedy adverse impacts. We widely show that we respect and act in line with human rights. The Group should assess on an ongoing basis where there is a risk of potential negative impacts and what actual negative impacts it is having on people through its business activities and relationships. In case of not respecting human right, the Group exposing itself on reputation damage and legal proceedings. For more details related to human-rights area, please refer to Chapter 14 "*Corporate Responsibility*".

Despite the Group's drive to strengthen its anti-corruption policy, corruption cases could occur due to a number of partners engaged and complex processes performed. This could have an adverse impact, particularly on Group's reputation. For details related to anti-corruption area, please refer to Chapter 14 "*Corporate Responsibility*".

Safety of the work environment is one of principle our code, operationalized by measurable standards covering the key areas of risk related with construction works, including handling of heavy equipment and prevention of any accidents. The Group has always been engaged in prevention measures aimed at ensuring maximum levels of protection in all company areas, since safety and health in workplaces are considered an important indicator of quality. Identifying and assessing risks at the Group, the main prevention measure taken, is ensured by ongoing supervision of company processes and our development in close connection with line structures. We have implemented numerous initiatives to help employees meet the requirements set, including the distribution of personal protective equipment and specialized training to improve the understanding of safety and promote the adoption of risk avoidance behaviors. If the Group fails to successfully perform mentioned above actions, its operating margins, financial position and results could be adversely impacted. For details related to this area, please refer to Chapter 14 "*Corporate Responsibility*".

## **Risks Related to Regulatory Matters**

**The mobile telecommunications industry is subject to significant governmental regulation and supervision and current regulations as well as any future changes in regulations may have an adverse impact on our revenues, require us to make additional expenditures and otherwise have a material adverse effect on our business, financial condition and results of operations.**

We are subject to Polish and EU laws and regulations that restrict the manner in which we operate. As an MNO in Poland we are subject to extensive legal and administrative requirements regulating, among other things, the setting of maximum rates for certain telecommunications services. We cannot assure you that we will be able to satisfy the extensive requirements imposed on us by Polish and EU laws and regulations, in particular those regulating our telecommunications business, the reservations we use and those related to ensuring effective competition, non-discrimination, transparency, price control, reporting, data protection and national security. We also cannot predict the impact of any proposed or future changes in the regulatory environment in which we operate. Any future changes in regulation may have adverse impact on our revenues, require us to make additional expenditures and otherwise have a material adverse effect on our business,

financial condition and results of operations.

Market regulators such as the UKE President play an active role in ensuring that we comply with the applicable telecommunications laws. The UKE President has broad regulatory and supervisory powers concerning the regulation of the provision of all electronic communications services, radio frequency spectrum management, orbital resources and the allocation and designation of telephone numbers as well as the terms and conditions of our frequency reservations. The UKE President generally attempts to support market competition. If the UKE President determines that a relevant market is not sufficiently competitive, it may designate one or more telecommunications providers as a provider with significant market power ("**SMP**") in such market and impose on such provider(s) certain regulatory obligations.

In 2012, the UKE President determined that Play has SMP in call termination on a public mobile network market. As an operator that is deemed to have SMP, Play must comply with certain obligations as imposed by the UKE President, which include non-discrimination, meeting reasonable requests for telecommunications access, make available to public specified information relating to the provision of telecommunications access, as well as with respect to technical specifications for telecommunications networks and equipment, network characteristics, terms and conditions for the provision of services and use of networks, as well as fees and charges, determination of prices on an effective operator model basis (voice calls).

In addition, on December 14, 2012, the UKE President imposed a new set of regulatory obligations which applied to the four main MNOs, including us, including new MTRs which announced an end to the MTR asymmetry from which we had benefitted since starting commercial operations in 2007 until December 31, 2012. The MTR reduction has directly impacted our interconnection revenue, one of the major services provided by us to other telecommunications operators, though this was largely offset by the reduction in MTR charges payable to other operators. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Key Factors Affecting Our Results of Operations and Significant Market Trends—General regulatory environment."

As part of our continued provision of telecommunications services in Poland, we are regularly reviewed by the UKE President to ensure that we have complied with the terms of the frequency reservations granted to us by the UKE. If the UKE President were to determine that we breached a provision of The Polish Act on the telecommunications law of July 16, 2004 (unified text Dz. U. of 2017, item 1907, as amended) (the "**Telecommunications Law**"), we could be forced to pay a fine of up to 3% of the revenue we generated in the year prior to the imposition of the fine and we could be prohibited from providing further telecommunications services in Poland.

The Minister of Digital Affairs, responsible for telecommunications, also exercises broad regulatory authority over us. The powers of the Minister of Digital Affairs (or other designated competent minister) under the Telecommunications Law include the power to specify by means of an ordinance general rules of tenders, auctions and contests for the reservation of frequencies, specific requirements for the provision of telecommunications access, the scope of a framework for and regulatory accounting and calculations of costs of services, as well as the quality of telecommunications services and the related complaint process.

Our operations are also supervised by the President of the Competition and Consumer Protection Office (the "**UOKiK**"), General Inspector for the Protection of Personal Data and other agencies reviewing our compliance with a variety of laws and regulations relating to various aspects of our business. In May 2016 a new Regulation on the Protection of Personal Data (Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data, and on the free movement of such data, and repealing Directive 95/46/EC, General Data Protection Regulation) (the "**GDPR**") came into force and instigated a two-year preparatory period during which we will need to adopt new data processing requirements. Amongst other provisions, in the event of non-compliance, the GDPR will enable the Inspector General for the Protection of Personal Data to impose financial penalties of up to 4% of our global revenue for the previous year. As a result we need to adapt: (i) filing systems of personal data within the Group; (ii) business processes, in which personal data are processed; (iii) IT systems used in the Group for processing of personal data; (iv) contracts with business partners of the Group entrusted with processing personal data; (v) documentation and internal regulations; (vi) new consents to the processing of personal data, (vii) new information obligations to customers.

We cannot assure you that we will be able to satisfy all relevant regulatory requirements or that we will not incur substantial costs, fines, sanctions or claims as a result of violation of, or liabilities under, such laws and regulations, or

that regulatory decisions may affect our ability to generate revenues, which, if it were to materialize, could have a material adverse effect on our business, financial condition, results of operations and prospects.

**We cannot guarantee that in the future the UOKiK President will not deem the operations we conduct to limit competition or violate the Polish competition and consumer protection laws.**

The UOKiK President is empowered under the Polish Act on the Protection of Competition and Consumers of February 16, 2007 (unified text: Dz. U. of 2017, Item 229, as amended) (the “**Competition Act**”) to conduct proceedings regarding anticompetitive practices, the declaration of a given clause utilized in a standard contract template to be abusive, an infringement of collective interests of consumers, intended concentrations of entrepreneurs (e.g., intended mergers, takeovers, creation of a joint entrepreneur or acquisition of another entrepreneur’s assets or a part thereof), including proceedings regarding failure to notify an intention to concentrate, as well as proceedings concerning fines for infringement of the Competition Act. As the telecommunications industry is characterized by agreements both between operators and between operators and subscribers, mobile network operators may be subject to proceedings concerning, the restriction of competition, the declaration of a given clause utilized in the standard contract template to be abusive and the infringement of the collective interests of consumers. As an example of the above, on April 11, 2014, the UOKiK President initiated a general and preliminary fact-finding process (i.e., explanatory proceedings) to investigate whether the activities of telecommunications operators involved in sharing and combining telecommunications networks, telecommunications infrastructure or frequency resources may constitute a violation of the Competition Act, and thereby justifying the initiation by the UOKiK President of antimonopoly proceedings. The explanatory proceedings were finally abandoned, and as of the date hereof, no antimonopoly proceedings have been initiated as a result, but we do not exclude the possibility that cooperation between operators in that respect will not be examined in the future.

Similarly, the telecommunications industry is characterized by agreements between operators and device suppliers or value added services providers. Such agreements may be negotiated with little bargaining power and on standard model templates of such suppliers or providers, and may therefore contain some onerous clauses. Such clauses may be viewed as anti-competitive, should regulatory authorities consider a number of conditions to be met (such as the market share of Play and the relevant supplier/provider). Given the susceptibility of such agreements to changing market circumstances, we cannot exclude the possibility that anticompetitive risk may arise in the future.

The activity of the UOKiK President, with respect to the business activity of entities operating in the telecommunications, has significantly increased within the last years. The UOKiK President has questioned the market practices of operators which have not been questioned in the past, including, e.g. the possibility for an operator to change subscriber agreements without cause (in which case the subscriber may leave without paying a contractual penalty) and annulment of amounts from top-ups within prepaid offers after the lapse of the validity period of a subscriber’s account.

See “Business—Legal Proceedings” for an overview of certain material regulatory proceedings to which we are currently a party. Adverse decisions in these cases, or bad publicity generated therefrom, may have a material adverse effect on our business, financial condition, results of operations and prospects.

The expansion of consumer protection legislation including, passing an act that allows for “collective claims,” which is a type of a class action where a group of people may sue in a single proceeding, has increased the existing or potential liability to which we are exposed, and which could have a material adverse effect on our business, financial condition and results of operations. For example, there has been an extension of the range of situations in which subscribers are entitled to terminate their agreements without obligation to pay any contractual penalty. This may happen in the event, for example, of changes in the terms and conditions of agreements even if such amendment is in our subscribers’ favor. Such early terminations of agreements with our subscribers may result in a significant increase in our subscriber retention costs and churn, and our subscriber acquisition costs in the event we try to attract new subscribers with attractive offers, and may consequently have a material adverse effect on our business, financial condition, results of operations and prospects.

**Our frequency reservations to provide mobile services have definitive terms and may be revoked or may not be renewed upon expiration on acceptable terms, if at all.**

We depend on our telecommunications frequency reservations issued by the UKE President and all our frequency

reservations have fixed terms. Our 800 MHz frequency reservation is scheduled to expire on June 23, 2031, our 900 MHz frequency reservation is scheduled to expire on December 31, 2023, our 1800 MHz frequency reservation is scheduled to expire on December 31, 2027, our 2100 MHz frequency reservation is scheduled to expire on December 31, 2022 and our 2600 MHz frequency reservation is scheduled to expire on January 25, 2031 and our 3700 MHz frequency reservation is scheduled to expire on December 29, 2019. We cannot guarantee that any of our frequency reservations will be renewed prior to or upon their expiration. In particular, according to the Telecommunications Law, the UKE President has the discretion not to renew or to revoke our frequency reservations if he concludes, among other things, that we have violated the applicable terms of use of our allocated frequencies, for example, if we are determined to have failed to meet the minimum investment requirements. If we are unable to renew any of our frequency reservations, it could have a material adverse effect on our business, results of operations and financial condition could be materially adversely affected.

In order to maintain our telecommunications frequency reservations, we must comply with the terms of the reservation decision as well as relevant laws and other regulations established by the UKE President and the minister responsible for telecommunications. Failure to comply with the terms of such reservation decision and other regulations could result in the revocation of reservations as well as the imposition of fines. In relation to any new reservations which we acquire, in order to maintain the frequency reservations, we are required to pay the frequency reservation fees at the appointed time. If we fail to reserve sufficient cash or raise new financings to pay such fees, a frequency reservation may also be revoked. As a result of the complexity of and frequent changes to the regulations governing the telecommunications industry, we may fail to comply with all applicable regulations or frequency reservation. Moreover, we may not be successful in obtaining new frequency reservations for the provision of mobile services using new technologies that we may seek to deploy in the future and will likely face competition for any such frequency reservations.

There are no penalties specified under the reservations for non-compliance. However, the Telecommunications Law states that the UKE President may issue a decision on the withdrawal of a frequency reservation, if: (i) it is found that the use of radio equipment in accordance with that frequency reservation is a source of harmful interference or harmful electromagnetic disturbance; (ii) the allocation of frequencies covered by that frequency reservation in the national strategy has changed; (iii) there are circumstances that pose a threat to national defense and security, as well as public safety and order; (iv) the use of the frequencies covered by the reservation is not started within the period referred in the frequency reservation, for reasons attributable to the entity that obtained the frequency reservation; (v) the frequencies are not used during a period of at least six months for reasons attributable to the entity that obtained the frequency reservation; (vi) there is a persistent breach of the conditions set out in the frequency reservations, or of the obligation to pay charges for the frequencies reservation; (vii) the entity that obtained the frequency reservation does not perform the obligations referred to in the frequency reservation for reasons attributable to that entity; or (viii) the use of frequencies covered by the reservation is inefficient.

We may also face certain challenges from third parties in relation to our frequency reservations. Plus, Polska Izba Radiodyfuzji Cyfrowej and Sferia S.A. ("**Sferia**") have applied to the UKE President to annul the tender process for 1800 MHz frequencies under which we obtained our new 1800 MHz frequency reservation on which we operate our 4G LTE technology. These entities have alleged certain violations in the tender process which led to a rejection of their tenders. In 2015, in its first decision, the UKE President dismissed this application for the annulment of the tender process and as a result of a request of an administrative retrial by a decision dated August 3, 2016, the UKE President upheld and remained unchanged in its decision from 2015. The decision was then appealed to the Lower Administrative Court and the proceedings are still pending. In separate proceedings, Plus, Sferia and Emitel S.A. ("**Emitel**") have applied to the UKE President in relation to our successful tender for the 1800 MHz frequencies and have applied for suspension and cancelation of our 1800 MHz frequency reservation until the proceedings mentioned above are finalized. The proceedings are currently pending before the Supreme Administrative Court.

In November 2015, Polkomtel, T-Mobile and Net Net Sp. z o.o. applied to the UKE President for the annulment of the auction for the 800 MHz and 2600 MHz frequency reservations in its entirety, claiming procedural violations. The motions to annul the auction have initiated administrative proceedings before the UKE President. The UKE President has not reviewed the case yet. On June 23, 2016, the UKE President issued a decision regarding frequency reservations in the 800 MHz band. As a result of the decision, a technical swap of the blocks between Play and T-Mobile has occurred. Plus appealed all new decisions on the reservations of 800/2600 MHz frequencies in the lower administrative court and T-

Mobile appealed the new decisions on reservations of the 800 MHz frequency with regard to Blocks C and E against in the lower administrative court. The Voivodship Administrative Court in its judgment on January 30, 2017, dismissed Polkomtel's and T-Mobile's complaints against the allocations of frequency to the Group. In April 2017, the judgments of the Voivodship Administrative Court were appealed against in the Supreme Administrative Court. The proceedings are still pending.

The results of proceedings regarding the 800 MHz, 1800 MHz and 2600 MHz bands are not certain and such proceedings generally last for a number of years and the timing for a final decision, including the exhaustion of all possible appeals procedures, with respect to either of the proceedings is difficult to anticipate. If these challenges are successful, we may have to re-tender for our respective 800 MHz, 1800 MHz or 2600 MHz frequency reservation which will cause us to expend time and costs, and we cannot assure you we will be successful in securing the tender a second time.

In the event that we are unable to renew any frequency reservation, any frequency reservation is revoked, suspended or canceled, or we are unable obtain a new frequency reservation for a technology that is important for the provision of our services, we could be forced temporarily or permanently to discontinue some or all of our services or we may be unable to use such technology or an important new technology. If we are unable to make use of the frequency reservations described above, it could have a material adverse effect on our business, financial condition and results of operations.

**Polish and EU regulation of the levels of MTRs and roaming charges may in the future have a material adverse effect on our business, financial condition and results of operations.**

The UKE President is responsible for determining MTRs applied to telecommunications operators. In determining these rates, the UKE President can attempt to support emerging businesses by allowing them to charge higher fees for calls terminating on their own networks. The entry of new operators in the market could have a material adverse effect on our competitive advantage, our business, financial condition, results of operations and prospects, if they were to be granted asymmetrical MTRs, as the Group was when it first entered the market.

EU regulators have also imposed price restrictions applicable to all operators in the European Union (both at the retail and wholesale level). In particular, on June 15, 2017, "roam-like-at-home" regulation came into force, lowering retail pricing to the home country level. At the same time wholesale rates are regulated on a level which in some cases may cause service margin losses. Finally, there are two security measures which may eliminate such losses—the Fair Use Policy, which limits regulated roaming services consumption (on the home price level prices) and Sustainability, which allows service providers to request their local national regulatory authority to allow them to implement additional surcharges if margins on international roaming services reach 3% of losses of Play's mobile service margin (understood as EBITDA from the sale of mobile services, other than retail roaming services provided within the EU, thereby excluding costs and revenues from retail roaming services).

Play implemented all Fair Use Policy measures. Additionally, we have requested the national regulatory authority to add surcharges for roaming services, following the sustainability procedure defined in the International Roaming Regulation, on the September 15, 2017. We received the positive decision on January 15, 2018.

"Decoupling regime" has been introduced to increase competition in the international roaming market, and the expected result is a reduction in international roaming retail prices to below the regulatory caps. This "decoupling regime" came into effect on July 1, 2014 and foresees Local Break-Out (LBO) services, i.e., the ability for foreign MNOs to target our outbound roaming customers to directly offer them data-only services on their networks. Such services would be paid directly by such roaming customer to the visited roaming network. On June 15, 2016, the EC issued a proposal for a regulation amending Regulation (EU) No 531/2012 with regard to rules for wholesale roaming markets. The Regulation (EU) 2017/920 of the European Parliament and of the Council of May 17, 2017, amended Regulation (EU) No 531/2012 with regard to rules for wholesale roaming markets, which was a necessary condition for the introduction and existence of "roam-like-at-home" legislation—tripartite negotiations between the EC, Parliament and Council have resulted in regulated wholesale roaming data charges at EUR 7.7 per 1000 megabytes from June 15, 2017, decreasing to EUR 6 as of January 1, 2018. The fees will slide to EUR 4.50 per gigabyte in 2019, EUR 3.50 in 2020, EUR 3 in 2021 and then to EUR 2.50 in 2022. Voice (originated) calls wholesale rates are agreed at EUR 0.032 per minute and SMS (originated) at EUR 0.01 per message. The regulation (EU) 2017/920 of the European Parliament and of the Council of May 17, 2017, amending Regulation (EU) No 531/2012 with regard to rules for wholesale roaming markets was published on June 9, 2017, in the

Official Journal of the European Union. Pursuant to the regulation, new wholesale charges entered into force on June 15, 2017. However, this regulation may be challenged on the grounds of its detrimental effects on telecommunications operators.

A reduction in the prices we can charge for mobile roaming services, as well as operation of the LBO (if any) may have a material adverse effect on our business, financial condition and results of operations.

**We face potential increased fraud risks following the implementation of the “roam-like-at-home” regulation.**

On June 15, 2017, EU Regulation 2015/2120 (“roam-like-at-home”) came in to effect and adjusted all retail roaming charges within the European Union to home-like conditions. This means customers will be charged the same rate for the use of voice, messaging and data services abroad as they are charged in their home state. Play customers can therefore use their mobile devices in the rest of Europe on their current tariff plans under the “roam-like-at-home” legislation, use of voice and SMS message services and uncapped, while data services may be subject to a “fair use policy”. The policy allows Play to issue a surcharge to a customer at wholesale rates when abusive or non-standard usage is detected.

We already have international roaming agreements in place with operators in the European Union which provide for network coverage for our customers. Typically, we pay the host operator directly on a monthly basis and then bill the amount to our customers under their normal tariff. Under the new “roam-like-at-home” legislation, we potentially face an increased risk of fraud in the event that a customer purchases a Play tariff, uses it outside of Poland, and then defaults on their payments to Play. As such activity would occur outside Poland and given that we would therefore be reliant on third party operators to track mobile use and data consumption, it may be more difficult to stop this fraud and recover amounts from such customers.

Additionally, due to discrepancies in domestic tariffs between Poland and other EU countries, there is a risk of misuse of Play’s services through extensive use abroad thus creating a negative margin for Play, regardless of whether or not they result in bad debt.

To the extent that we are not able to recover the amounts we pay to international operators from our customers, or if any increased costs result from service misuse or fraud generally, it could have a material adverse effect on our business, financial condition and results of operations.

As of the date of this Report, we are monitoring the situation but have not detected any unusual or mass-scale fraudulent activities.

## **Risks Related to Our Structure**

**Drawings under the Senior Facilities bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.**

Drawings under the Senior Facilities bear interest at floating rates tied to WIBOR plus a spread. WIBOR could rise significantly in the future. Although we have entered into certain hedging arrangements covering a third of this interest rate risk designed to fix a portion of these rates in the future, there can be no assurance that we will hedge the remaining two thirds of the exposure, or that hedging will be available or continue to be available on commercially reasonable terms. To the extent that interest rates or any drawings were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

**There are risks related to the 2014 Refinancing and Recapitalization.**

In the 2014 Refinancing and Recapitalization, the Group refinanced all of its outstanding indebtedness with the issue of notes. As part of the structuring of these transactions, the Group undertook several internal restructuring actions, including the purchase of shares and the merger of Play with Glenmore Investments Sp. z o.o., another Group entity. In March 2017, Play refinanced its debt resulting from the 2014 Refinancing and Recapitalization.

The tax treatment of the above transactions, including the tax treatment of expenses as tax-deductible costs, withholding

tax treatment, VAT treatment and/or their compliance with Polish tax regulations, is subjective; in particular, taxpayers and tax authorities may have different opinions on the tax deductibility of particular expenses incurred or refinanced and/or other tax characteristics of the transactions in question. Consequently, as an example, it cannot be excluded that Play may not be able to treat some of the interest, foreign exchange differences or other costs related to financing as tax-deductible costs. Challenges by the tax authorities of the tax deductibility of particular expenses financed or refinanced under the 2014 Refinancing and Recapitalization may have an impact on the tax classification of costs related to such financing and also on the tax treatment of interest, foreign exchange differences and other costs and/or other characteristics related to the 2017 Refinancing. If the tax authorities challenge the tax classification and settlements of the above transactions, that may have a material adverse effect on our business, financial condition and operational results.

**Tax authorities may take a different view of the tax treatment of business reorganization of trademarks within the Group.**

Between 2012 and 2014, Play trademarks were subject to certain intra-group reorganization transactions between Play Brand Management Limited, Play 3GNS and Play, resulting in, among other things, the transfer of such trademarks. If Polish tax authorities take a different view of the tax treatment of this reorganization, the steps taken as part of these transactions and the manner in which they were presented for tax purposes, and successfully challenge the tax approach taken by the entities involved, tax exposure might arise and affect our business, financial condition and results of operations.

**An increased focus by the Polish tax authorities on related party transactions may cause our policies to undergo more scrutiny, and we may be subject to further audits and challenges in relation to such transactions.**

Over the last few years there has been a significant increase in the number of transfer pricing audits conducted by the Polish tax authorities, in particular in relation to Polish taxpayers being part of international capital groups.

During the tax audit initiated in 2016 and in 2017 with respect to our 2013 and 2012 financial year, the tax authorities requested documents concerning different types of related party transactions (e.g., transfer pricing documentation, fee calculations, and other similar documentation) but as of the date of this Report they have not formally challenged any transaction or settlements resulting therefrom.

When concluding and performing related-party transactions, we exercise efforts to take special care to ensure that such transactions comply with the applicable transfer pricing. However, due to the specific nature of related-party transactions, the complexity and ambiguity of legal regulations governing the methods of examining the prices applied, as well as the difficulties in identifying comparable transactions for reference purposes, no assurance can be given that specific Group Companies will not be subject to inspections or other investigative activities undertaken by tax authorities or fiscal control authorities. The tax authorities may have a different view of the Groups' compliance with transfer pricing and may attempt to challenge the arm's length nature of some of our related party transactions. Should the methods of determining arm's-length terms for the purpose of the above transactions be challenged, resulting in e.g. assessing additional taxable income, this may have a material adverse effect on the Group's business, financial condition, results of operations and the price of the Shares.

**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)
- foreign currency options with an approved currency option hedging plan.

None of the derivatives were used during the year ended December 31, 2016. During the year ended December 31, 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 year ended December 31, 2016. The Group entered into interest rate swaps in the year ended December 31, 2017.

### **Credit risk**

A substantial part of the Group's receivables consists of billing receivables of low individual amounts. According to Group's principles the risk connected with billing receivables is limited by a number of procedures. These procedures include: verification of potential subscribers before signing the contract, imposing credit limits, payment monitoring, sending payment reminders and receivables 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, lease liabilities 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.

#### **December 31, 2017**

##### **PLN in millions**

	<b>Liabilities (including projected interest) payable within:</b>			<b>Total</b>
	<b>1 year</b>	<b>2 to 5 years</b>	<b>over 5 years</b>	
Bank loans	676.0	5,646.8	1,281.8	7,604.5
Lease	192.5	567.3	575.4	1,335.2
Other debt	12.1	15.5	-	27.6
	<b>880.5</b>	<b>6,229.6</b>	<b>1,857.2</b>	<b>8,967.3</b>

#### **December 31, 2016**

##### **PLN in millions**

	<b>Liabilities (including projected interest) payable within:</b>			<b>Total</b>
	<b>1 year</b>	<b>2 to 5 years</b>	<b>over 5 years</b>	
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
	<b>433.1</b>	<b>5,480.1</b>	<b>466.0</b>	<b>6,379.2</b>

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.

## 14. CORPORATE RESPONSIBILITY

### 13.1 Environmental responsibility

#### Identification of key areas

Polish mobile operators, acting as entities who have an impact on the environment, are required to comply with environmental regulations in respect of certain operations, in particular concerning:

- Packaging waste
- Obligations concerning batteries
- Obligations concerning WEEE waste electrical and electronic equipment (“WEEE”) and
- Protecting against electromagnetic fields (“EMFs”).

#### Implementation of rules

The Group does not have any designed procedures concerning the above-mentioned environmental issues. Nevertheless the obligations arising from the law have already been implemented and are already effective. The Group plans to start working on the procedures regarding environmental regulations in order to prepare an environmental policy during 2018 for the key areas of environmental focus identified through an impact assessment.

The Group has been running many informative campaigns via intranet concerning the environmental protection. As far as it is possible, the Group tries to inform employees and suppliers about activities undertaken by the Group in order to protect the environment. Employees received leaflets informing about the company's activities aimed at environmental protection. Public posters informing about the activities of the company aiming at environmental protection were placed on generally accessible surfaces for all employees (kitchens, open spaces, toilets). The company also organizes for all employees free annual inspections and repairs of private employees' bicycles to encourage them to use this means of communication when transportation to work. Moreover we are trying to inform Play's customers in our point of sales and via our website of actions concerning environmental protection which involve inter alia using recycled paper or waste segregation.

Additionally, in order to protect the environment the Group has introduced the following actions:

- Installation of photocells in toilets to reduce water consumption
- Switching on the air conditioning and lighting in the office after working hours in eco mode
- Launching a bicycle fleet and scooters in order to encourage employees not to use cars
- Stop providing plastic tableware in kitchens
- Replacing TV monitors in conference rooms for models that use less energy
- Increasing the amount of plants in the office to improve humidity and air quality

In addition to protecting the environment, we expect to have some savings due to lower operating fees based on the implementation of the above actions. Furthermore, in 2018 the Group is planning to launch marketing actions via intranet and via leaflets and public posters in order to encourage employees to turn off the light and projector after the meeting is over, and disconnect the power supply from the sockets after finishing the work.

In next sections we will focus on regulations effective in Poland as majority of business operations take place in Poland.

### **Requirements for proceeding with waste electrical and electronic equipment**

EU legislation promoting the collection and recycling of WEEE, Directive 2012/19/EU of the European Parliament and of the Council of July 4, 2012 on waste electrical and electronic equipment (the “**WEEE Directive**”), has been in force since February 2014. In Poland, the WEEE Directive was implemented by the Waste Electrical and Electronic Equipment Act dated September 11, 2015 (the “**WEEE Act**”), which sets forth certain obligations of companies introducing electrical or electronic equipment to the Polish market. These requirements include a requirement to organize and finance (i) collections from WEEE collection points, and (ii) the processing of electronic waste. This obligation may be fulfilled by entering into an agreement with WEEE recovery organization which performs the aforementioned duties for that company. However, the company continues to be liable for the performance of such duties.

The Act on Packaging Management and Packaging Waste dated June 13, 2013 sets forth packaging waste recovery and recycling rates. This includes 61% packaging waste recovery rate and 56% recycling rate to be attained by companies annually. Failure to achieve the minimum recovery or recycling rate for packaging waste in a given year triggers an obligation to pay a product fee. Since handsets and accessories are sold in cardboard packaging, the packaging waste recovery and recycling obligations described above are directly applicable to our operations.

The Batteries and Accumulators Act (dated April 24, 2009) also sets out certain obligations on the marketing and recycling of batteries and accumulators. Companies in Poland are obliged to organize and finance the collection, treatment, recycling and disposal of waste batteries and accumulators. These obligations may be achieved by the execution of agreements relating to the collection and processing of waste portable batteries or accumulators and a minimum 45% collection rate applies. Moreover, the company must be included in the relevant government registration. Furthermore, a retail seller whose sales area exceeds 25m<sup>2</sup> is obliged to take from its clients the waste portable batteries and accumulators without any charge and is required to transfer the collected batteries and accumulators to an entity responsible for collecting such waste.

Since we sell handsets, batteries and accessories, the provisions of the WEEE Act as well as the other acts mentioned above, apply to our operations and we met the statutory levels of recovery and recycling rate for handsets (published every year in the Act on Waste Electrical and Electronic Equipment of September 11, 2015). Any failure to attain these rates triggers an obligation to pay a product fee. In order to comply with the obligations imposed on us by these acts, we have entered into agreements with waste collection organizations (Biosystem Elektrorecykling Organizacja Odzysku Sprzętu Elektrycznego i Elektronicznego S.A. and Biosystem Organizacja Odzysku Opakowań S.A.). Every year we met the statutory levels of recovery and recycling rate for handsets and we have never been fined with penalty fee due to the failure to attain the statutory levels.

### **Protection against electromagnetic fields “EMFs”**

Environmental protection rules concerning EMFs are mainly governed by the Environmental Law dated April 27, 2001. The protection rules require the protection of environmental conditions by keeping the actual levels of EMFs below the maximum permissible levels or at least at the reference levels. The Regulation of the Minister of the Environment dated October 30, 2003 set out maximum permissible electromagnetic field exposure levels and the methods to be used to determine compliance with these levels. The regulation specifies different levels for land intended for housing development and areas accessible for people, as well as the range of EMF frequencies for which physical parameters are determined to assess the EMFs impact on the environment.

Compliance with the maximum permissible EMF exposure levels in the environment is assessed in the vicinity of the installations emitting such fields both directly after such installation becomes operational and following each change in the operations of the installation, if such change may affect the EMFs permissible levels and if the administrative authorities receive complaints regarding the operation of certain installations.

We actively take part in meetings organized by the Minister of Digitalization regarding the works on the Act on civil protection against electromagnetic radiation (“**Act**”). The main changes arising from the Act are: (i) inspections of

electromagnetic emissions from telecommunications devices, and (ii) extension of a list of entities that may request the Voivodship Environmental Protection Inspectorate to carry out emission inspections.

**KPI:**

- Increasing revenues from the sale of products or services created / rendered taking into account environmental protection criteria,
- Reduction of water bills, electricity bills in relation to environmental solutions introduced by the Company –
- Continuity of actions relating to reduce water and electricity consumption.

**13.2 Social Responsibility**

**Introduction - Organizational and culture of the Company - “Work hard, Play harder”**

Play is a young and dynamic organization driven by our core values: “PASSION with CLEAR, CLOSE, CAN DO”. With us every touch-point is easy , we communicate in a CLEAR way and seek simple solutions. We perceive the world as complicated enough therefore we follow the approach “less is more”. We remain CLOSE to our clients, employees and business partners. We tackle every challenge with CAN DO attitude, demonstrating courage, energy and motivation to work hard and play harder. Operationally PLAY is focused on speed of execution supported by a quick decision making process. We are a project driven organization with centralized co-ordination of projects to assure strategy alignment and quality assurance. Each project has a dedicated leader whose prime responsibility is to interact horizontally in the organization and “get things done”.

Management successfully leads the organization in alignment with the Company strategy and clear assignment of goals, cascaded in a yearly planning process . This is further supported by effective, direct and regular communication on all employee levels.

**Implementation of rules**

Key employee data, as of December 31, 2017:

	Number*	Average Age	Average Seniority	Female	Male	Disabled person	Absence 2017
HC (employees active and non-active excluding replacement)	2,631	32.7	5.2	49%	51%	14	6%

*\* Play Group employees: Company’s employees, Play’s and its affiliates’ employees, Play’s Management Board members (excluding Board of Directors members); HC – headcount*

**Recruitment and remuneration**

Company pursues the following rules in recruitment process:

- Each vacant position in the organization is recruited
- The organization promotes internal recruitment, so every vacant position is offered to employees first. If no internal candidate is found, the position is open to external candidates.
- All positions in the company are graded according to a leading 3rd party methodology
- The principle of remuneration policy is to be in line with market median

- Once a year, company procures an independent market report on payroll remuneration. This is to assure alignment of our remuneration policies with market trends and decide about possible adjustments.

### **Employee development**

Company puts high focus on continuous training and development to deliver best customer experience. This is achieved by:

- Personalized training paths on all career levels and premium programs for managers and specialists
- Dedicated HR business partner and Training Partner per region/channel
- 50% of trainings conducted by internal experts
- Combining competence development with career development offering vertical and horizontal promotions
- Specialized training and competence ( e.g. language courses, subsidizing individual educations)
- Assuring diversity and openness of the competence development by making possible for employees to voluntarily and directly apply for a substantial part of training portfolio based on her/his individual needs.

As a result in 2017 we provided training services to over 4,300 participants and organized over 900 trainings.

### **Benefits and work life balance**

Company provides the following benefits:

- medical care
- life insurance
- multisport card with an access to sports activities in many facilities across the country
- cinema tickets
- Christmas vouchers for employees and their children,
- socializing events for employees and their children e.g. family picnic, Santa Party
- social benefits such as co-financing of summer and winter vacation camps for children,
- possibility to participate in 11 sports sections dynamically run in the organization.

Below tables provides number of participants for particular benefits in 2017

	Cinema	Multisport Card	Life insurance	Medical Care	Christmas vouchers - employees	Christmas vouchers - children	Open Day for children	Winter vacation camp	Summer vacation camp	Santa Party	sport sections
HC	432	1,606	2,237	2,237	2,620	1,765	67	32	81	348	1,037

Additionally to above, a number of other activities was organized during the year to assure employee friendly atmosphere, e.g. PLAY branded bicycle rental service, fresh apples in autumn, Halloween, Christmas plays, "PLAY for kids"- Christmas charity auction dedicated to children of employees.

We support work family balance and in particular we take special care of mothers after 3rd months of pregnancy or 6 months after coming back from maternity leave. This includes, if feasible for the relevant employee and their relevant role, to offer certain flexible working arrangements, including up to 5 days of working from home per month.

### 13.3 Health and Safety

Given the nature of the business Company applied rigorous approach and monitoring procedures to mitigate the following Health and Safety (“H&S”) risks related to construction works:

- Falling of the structure during erecting and operating of site
  - qualified and trained subcontractors
  - physical protection against unauthorized access / theft of structural elements
  - annual basic surveys and five-year full reviews.
- Worker’s fall from height
  - specialized medical examinations for workers at height
  - specialized height trainings
  - fall protection systems on masts and towers
  - PPE (Personal Protective Equipment).
- Exposure to electromagnetic fields
  - electromagnetic field tests conducted by accredited laboratories
  - marking of electromagnetic field zones on sites
  - specialized medical examinations for workers
  - training of the safety work in the electromagnetic field.
- Car accidents
  - specialized medical examinations for drivers
  - additional training to improve driving techniques for users of company cars
  - vehicle speed monitoring system via GPS with SMS reporting to car fleet specialists and superiors of workers when speed is exceeded.

Additionally Company performs the following activities that aim at mitigating H&S risks:

- All contracts with subcontractors for work at heights contain provisions on minimum health and safety requirements such as medicine exams, H&S trainings and adequate PPE (personal protective equipment)
- In order for subcontractors to access base station areas we issue for them temporarily (yearly) passes, to be renewed on regular basis. In addition we randomly verify whether employees of subcontractors carry appropriate medical tests and safety training
- We conduct random site inspections to ensure that all engineers follow the regulations
- Employees performing particularly hazardous work, at heights, are provided with additional annual specialist training
- We organized 4 voluntary blood donations in 2017.

**KPI:**

The health and safety procedures and processes we have in place meant that in the roll-out organization we recorded no accidents during construction works and maintenance of the network in 2017. We recorded 12 minor accidents at other parts of our operations.

## **13.4 Human Rights And Fundamental Freedom**

### **Identification of key areas**

The Group's major rule is to respect and follow requirements of law. Therefore, acting in line with law as well as the protection of human rights and fundamental freedom constitute priorities for the Company in conducting its business activity. The most important principles followed by the Company have been described in a Code of Conduct (the "**Code of Conduct**").

### ***Code of Conduct – Priorities***

The Group is particularly attached to the spirit and the letter of laws governing:

- Human rights and fundamental freedom, in particular: prohibition of child labor and forced labor, discrimination, working time and remuneration, employees collective representations, freedom of speech, freedom of expression
- Quality, health and safety standards
- The environment protection
- Corruption and bribery
- Taxation and the accurate communication of financial information
- Fair competition.

According to the Code of Conduct, which is published on intranet, and Group's policies such as Regulation of Work the Group does not accept in particular child labor and any kind of forced labor.

We are focused on preventing discrimination, guarantying the freedom of speech and expression, and protecting of personal data.

The Code of Conduct is committed to equal opportunities and to respect the human rights. In points 14, 15 and 16 of the Code of Conduct we are trying to treat every candidate of employee equally when it comes to recruitment method, remuneration, employment terms, training possibilities, gaining professional experience and promoting possibilities, as well as in terms of advancement, regardless of gender, age, disability, race, religious beliefs, nationality, political convictions, trade union membership, ethnic background, faith, sexual orientation, as well as permanent, temporary, full time or part time employment.

All employees are recruited, promoted or treated exclusively on the basis of their competences and involvement in performing the work and results achieved. These principles apply to the recruitment process, advancement process, trainings, transferring to other positions, as well as to determining remuneration rules.

According to the regulations of Corporate Governance Code of the Warsaw Stock Exchange (Principle No. II.R.2) the decisions to elect members of the governing bodies of the company should ensure that the composition of these bodies is comprehensive and diversified among others in terms of gender, education background, age and professional experience. The Group has a gender neutral hiring policy and acts in line with gender best practices.

## **Personal data protection**

The Company, as a telecommunication operator, collects, processes and stores a significant amount of a basic personal data of natural persons and is accordingly subject to EU and Polish data protection laws (including, but not limited to, the Telecommunications Law).

The Telecommunications Law provides a protection regime for what are referred to as "telecommunications secrets", comprising: (i) user data; (ii) the content of individual messages; (iii) transmission data; (iv) location data; and (v) data relating to call attempts.

The requirement to retain connection data, introduced at EU level by the Data Retention Directive and implemented in Poland in 2009 by an amendment to the Telecommunications Law, applies to several data categories which are necessary to establish, in relation to a connection to/from our network: (i) the source; (ii) the recipient; (iii) date; (iv) time; (v) duration; (vi) telecommunications terminal equipment; and (vii) the location at which it was made. Polish law provides that such data is retained for a period of 12 months from receipt.

We confirm that:

- we have robust internal data protection policies and procedures in place to ensure compliance with all applicable data protection legislation
- there has been no historic material breach of any relevant data protection laws or regulations

In May 2016, a new regulation concerning the Protection of Personal Data (Regulation 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, General Data Protection Regulation) (the "GDPR") came into force and instigated a two-year preparatory period during which we will need to adopt new data processing requirements. Amongst other provisions, in the event of non-compliance the GDPR will enable the Inspector General for the Protection of Personal Data to impose financial penalties of up to 4% of our revenue for the previous year.

The Company has introduced better control mechanisms that allow for quick identification of personal data breaches, as well as for faster and more effective processing of personal data. The awareness of clients and our employees in the field of personal data protection has increased. We have sought to establish procedures to encourage employees to report personal data breaches to us. Starting from 2013, the Company is obliged to submit reports regarding personal data violations to the control authority, i.e. GIODO.

In 2017, we had one material personal data breach involving the transfer of clients' personal data by former company business advisors to the web portal. The company has notified prosecution authorities of the possibility of committing a crime, the proceedings are pending. The interested parties were also notified of the potential possibility of breaches relating to their personal data.

## **National defense, security and public safety and order**

The Company, along with other telecommunications undertakings, is required to perform tasks and obligations related to national defense, security and public safety and order, within the scope and under the terms specified in the Telecommunications Law and secondary legislation. In particular, all are required to keep up-to-date and agreed emergency action plans and to grant access to their telecommunications infrastructure necessary to carry out rescue actions. In addition, all are required to prepare and maintain the telecommunication network elements for the needs of a national security management system, primarily by ensuring technical and organizational conditions for access as well as retention of telecommunications messages and data. The Telecommunications Law defines certain data which must be retained, stored and properly protected for a period of twelve months by operator of a public telecommunications network and the provider of publicly available telecommunications services at its own cost, as it was introduced at the European level by Directive 2006/24/EC of the European Parliament and of the Council of March 15, 2006 on the retention

of data generated or processed in connection to the provision of publicly-available electronic communications services or of public communications networks.

### **Implementation of rules**

The Group has adopted the Code of Conduct. The Code of Conduct is available to all employees via intranet. All the above mentioned rules which constitute priorities for the Company in conducting its business activity, were described in details in the Code of Conduct.

Moreover the Company refers to the above mentioned rules in Conditions of Employment and the Staff Rules.

Managers and employees working in the Company are educated how to evaluate critically their approach to other persons and to **eliminate any discrimination practices** in their assessments and evaluations.

The Company also takes the following actions to **counteract mobbing (workplace bullying)**:

- monitors the daily operations of the Company in order to detect early signs of mobbing
- holds training on mobbing and other undesired types of behavior
- support initiatives, behavior and information that counteract mobbing
- support the functioning of the Ethics Committee.

The employees have right and technical possibilities to inform the relevant body about any infringement or violation of human rights via Compliance Officer (special e-mail account), Ethics Committee or using "whistle blowing box".

Using the whistle blowing box we obtained 2 applications in 2017 (sales of employee codes on the network and receiving confidential information). We have also received two e-mail notifications regarding violations of human rights and workers' rights - mobbing and accusation of unequal treatment. Both cases were resolved internally between employees and the Company.

As a result of GDPR we are under process of adaptation of: (i) filing systems of personal data within the Company; (ii) business processes, in which personal data are processed; (iii) IT systems used in the Company for processing of personal data; (iv) contracts with business partners of the Company entrusted with processing personal data; (v) documentation and internal regulations.

### **KPI:**

- With reference to personal data protection – conducting trainings for the employees (via intranet ) in order to strength the control mechanisms which allow for quick identification of personal data breaches, as well as for faster and more effective processing of personal data
- Published the Code of Ethics on the Company's website in order to inform the third parties about the principles and values we follow
- Annual audit of the information received on whistle blowing box or to the Ethics Committee in order to assess the statute of protection and respect of human rights in the Company and measure the use of this communication channel by employees
- Encouraging employees via intranet (publications regarding compliance or ethics) to use the anonymous channel of internal communication in order to inform the Company about any violations of human rights and employees' rights.

## 13.5 BUSINESS ETHICS

### Identification of key areas

In 2014, the Group adopted the Code of Conduct. All employees are obliged to act in line with the provisions of the Code of Conduct. The Code of Conduct sets standards of employees behavior and describes rules which constitute priorities for the Group in conducting its business activity. The Code of Conduct does not replace the law and valid regulations. The Code of Conduct is available to all employees via intranet. Every Employee received the paper version of the Code of Conduct. Moreover, during Welcome days organized in our Company once a month we inform employees about the rules and priorities indicated in the Code of Conduct. We are trying to inform our employees via intranet and during Welcome Day meetings about the rules and provisions of the Code of Conduct.

Code of Conduct sets the rules concerning inter alia: receiving gifts and other type of benefits and register of the occurrence of potential conflict of interest. The policy relating to receiving gifts and other type of benefits and policy regarding the conflict of interest is described in the Code of Conduct and it is available to all employees via intranet.

The Ethics Committee publishes on the intranet several times a year information on how to make entries about received gifts and benefits. These activities are intensified especially during the Christmas season.

The Group accepts if employees receive reasonable and symbolic gifts which are signs of hospitality and are completely noncommittal. These benefits cannot be binding in any business way.

The Company requires that employees announce a declaration to both registers once a year in the event of obtaining benefits or occurring a conflict of interest. Over the last few years, we have been observing not only an increase in the number of statements made about the benefits obtained and about the potential conflict of interests among employees (not only in the scope of senior management, who has such an obligation), but above all, these declarations are submitted at the appropriate time indicated by the Company. In the Company's opinion, the awareness of the importance of keeping both registers is increasing among employees, and the level of discipline in the scope of informing about obtained benefits or the emergence of a conflict of interests increases.

Employees very often declare that the benefits they receive, if they have been accepted, are allocated to charity auctions or charitable causes, or they pay charitable benefits or charity purposes the equivalent of the obtained benefits..

In order to assure the best service for our customer, we actively establish durable relations with providers, requiring from them the adherence to the ethical business standards. We do not involve ourselves in any unlawful actions, in particular in actions of a corruptive nature. When negotiating agreements with providers, we take every action to assure the reliability of statements and provided information.

In the Code of Conduct there are also rules describing how to act in a situation in which there is an actual or potential contradiction between the interest of a client, a third party or an employee's personal interest and the best interest of employer (conflict of interest).

### Implementation of rules

The Company's Management Board appointed the Chairman and the members of the Ethics Committee ("**Committee**") who represent each department of the organization, for a period of 2 years. Once a year the Committee presents a report about its operations to the Management Board of the Company. The Ethics Committee is responsible for:

- settling issues related to abiding by ethical standards
- analyzing cases of breaching the provisions of the Code of Conduct
- monitoring and communicating ethical standards
- providing advice regarding the implementation of guidelines included in the Code of Conduct

- maintaining and initiating amendments to the Code of Conduct

In case of an investigation of the reported abuse or unethical behavior the Committee is responsible for conducting investigations in order to assure the most impartial and substantive assessment of the case.

Managers and employees working in the Group are educated how to use the Code of Conduct, why this document is important for the Group and also how to communicate any case of breach of ethics, fraud, abuse or other actions.

The Management Board of the Company appointed the **Compliance Officer** who is responsible for coordinating the work flow related to the code of conduct. The responsibilities are indicated in Umbrella Agreement. Compliance Officer is responsible in particular for:

- coordination and implementation of all activities and efforts that prevent the Company from being not compliant with any applicable laws or regulation
- managing the risk of being non-compliant
- conducting relevant trainings for employees (if necessary)
- monitoring legal and regulatory changes
- ensuring implementation of legal or regulatory changes in the internal procedures
- informing about identified risks
- informing about fraud and illegality
- conflict management
- external communication
- conducting the third parties due diligence, monitoring of proper performance of compliance rules in relation to third parties.

Compliance Officer, according to the provisions of the Umbrella Agreement, is obliged to report to the Head of the Legal Department. Head of the Legal Department reports directly to the Management Board and Board of Directors.

The employees of the Company are obliged to treat suppliers in compliance with the principles of integrity and in a manner that does not restrict or limit free competition. They are strictly banned from offering or accepting financial gains of corruptive nature to or from suppliers. Play does not tolerate any corrupt practices.

From the outset of the P4 Group, procurement processes and rules of suppliers selection have been regulated by and described in procurement procedure which applies to majority of goods and services which P4 Group acquires. The procedure is being update from time to time.

The execution of procurement procedure is supported by relevant IT systems and tools, which enables conducting, monitoring and controlling the process of suppliers selection, obtaining required corporate approvals and allows electronic exchange of purchase orders with selected suppliers.

The procurement processes are consistent with principles of business ethics as set in the Code of Conduct.

According to the draft of the Bill on public life transparency (applicable legislation will likely be enacted at the beginning of March 2018 and will enter into force at the beginning of September/October 2018), the Company will be obliged to take a lot of activities relating to the implementation of effective anti-corruption procedures on the Company, consisting in:

- Changing the Code of Ethics and adjusting it to the requirements set forth in the Act, making all employees, contractors and business partners sign the same
- Making the procedure of giving and accepting gifts and hospitalities more specific
- Developing internal procedures for the reporting of any corruptive practices (information within the entire organization on the existing whistleblowing channel)
- Drawing up and including anti-corruptive clauses in agreements
- Advising employees on criminal liability for corruption-related crimes

- Strengthening the position and role of the compliance officer
- Making no decisions within the company based on any corruptive practices.

Our Compliance Officer has already started meetings within the whole organization regarding the obligations arising from the proposed legislation on public life transparency and a series of workshops relating to anticorruption proceedings are planned. In due course, relevant processes and procedures will be implemented in the Company.

**KPI:**

- Indication of the planned number of training in the area of ethics and compliance for 2018 (minimum 12)
- Published the Code of Ethics on the Company's website in order to inform the third parties about the principles and values we follow
- Indication of the planned number of training for all employees (via intranet) regarding the necessity of registration of all benefits received from the Company's contractors and registration of the potential conflict of interest in order to increase the awareness of employees in the scope of anti-corruption activities undertaken by the Company - 3
- Indication of the planned number of audits in the area of ethics and compliance for 2018 – 1
- Introduction of anti-corruption clauses to contracts with suppliers, providing necessary trainings for all employees via intranet regarding the necessity of use of the anti-corruption clauses.

PLAY

# PART IV ANNEXES



## 15. 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 <sup>th</sup> 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.

PLAY

# PART V

# FINANCIAL

# STATEMENTS



Play Communications S.A.  
*Société anonyme*  
4/6, rue du Fort Bourbon, L-1249 Luxembourg  
Grand Duchy of Luxembourg  
R.C.S. Luxembourg: B 183.803  
(the Company)

## RESPONSIBILITY STATEMENT

February 27, 2018

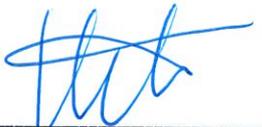
The board of directors of the Company (the **Board**) confirms that, to the best of its knowledge:

- the consolidated financial statements of the Company and its subsidiaries prepared in accordance with IFRS as adopted by the European Union as at and for the year ended December 31, 2017 give a true and fair view of the assets, liabilities, financial position and profit or loss 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 year ended December 31, 2017 provides a fair review of the important events of the development and performance of the business and the position of the Company and its subsidiaries, as well as the description of the principal risks and uncertainties that the Company and its subsidiaries face.

Approved by the Board and signed on its behalf by



Name: Ioannis Karagiannis  
Title: Class B director



Name: Serdar Çetin  
Title: Class C director

## Independent auditor's report

To the Shareholders of  
Play Communications S.A.  
4/6, rue du Fort Bourbon  
L-1249 Luxembourg

### **Opinion**

We have audited the consolidated financial statements of Play Communications S.A. (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

### **Basis for opinion**

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under those Regulation, Law and standards are further described in the « Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements » section of our report. We are also independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

1. Revenue recognition – accuracy of revenue recorded given the complexity of systems

Risk identified

The Group's revenue amounting to PLN 6,670 million consists of voice and SMS communications, data transfer, interconnection, international roaming and sales of handsets and other equipment.

Revenue is considered a significant risk due to both the bundling of these services with sales of handsets and the complexity of the Group's systems and processes used to record revenue. Also, the application of revenue recognition accounting standards is complex and involves a number of key judgments and estimates, especially in the light of IFRS 15 application.

Our response

Our audit procedures over revenue recognition included, among others:

- We understood and assessed the overall IT control environment and the controls in place which included controls over access to systems and data, as well as system changes.
- We tested the operating effectiveness of controls around system development, program changes and IT dependent business controls to establish that changes to the system were appropriately authorized and also developed and implemented properly.
- We tested controls, assisted by our information technology specialists including those over: set-up of customer accounts, pricing data, segregation of duties, and the linkage to usage data that drives revenue recognition.
- We tested transactions for main revenues streams.
- We assessed the accounting applied to commercial offers, particularly in light of the revenue recognition criteria set by IFRS 15 that the Group early adopted.
- We assessed the adequacy of the assumptions used by the Management in the process of determination of significant judgements and estimates relating to the application of IFRS 15. Those judgements include mainly the determination of the Standalone Selling Price of handsets, assessment of the Adjusted Contract Term, agent vs. principal considerations and the use of practical expedient in relation to the significant financing component.
- We performed testing on the accuracy of customer bill generation on a sample basis and testing of a sample of the credits and discounts applied to customer bills.
- We performed substantive procedures over deferred income and contract liabilities, through validation reports used in its determination at period end;
- We tested cash receipts for a sample of customers back to the customer invoice;
- We performed substantive analytical procedures on revenue and deferred revenue based on our industry knowledge, forming an expectation of revenue based on key performance indicators;
- We evaluated the adequacy of the provision for impairment of trade receivables, capitalized contracts costs and contract assets, including the appropriateness of the methodology used to calculate the provision, and analyzed individual significant long outstanding balances.

We also assessed the adequacy of the Company's disclosures in respect of the revenue recognition as set out in Notes 2.23, 2.29 and 23.

## 2. Tax contingencies

### Risk identified

As of December 31, 2017, provisions for uncertain tax positions have not been recognized. Income tax positions were significant to our audit because the assessment process is complex and involves a high degree of judgment due to complex and evolving tax laws. Furthermore, the regulations and the amounts involved are material to the consolidated financial statements. The Company's Management exercises judgment in assessing the level of provision required for taxation when such taxes are based on the interpretation of complex tax laws. The future actual outcome concerning these tax exposures may result in materially higher or lower amounts than the accrual included in the accompanying consolidated financial statements.

### Our response

Our audit procedures over tax contingencies included, among others:

- We assessed, with the support of EY tax specialists, the likelihood and exposure of the potential tax risks and reasonability of tax provisions.
- We reviewed communications between tax authorities and the Group.
- We reviewed legal opinions obtained by the Management of the Group in relation to tax matters.

We also assessed the adequacy of the Company's disclosures in respect of the tax and tax contingencies as set out in Notes 30 and 35.1.

## 3. Capitalization and Asset lives

### Risk identified

The net book value of property, plant, equipment, intangibles assets, right-of-use assets and assets under construction at 31 December 2017 amounts to PLN 5,124 million. The assessment and timing of whether assets meet the capitalization criteria set out in the relevant accounting standards, the estimation of appropriate economic useful lives and the assessment of whether any impairment indicators are present, such as redundant assets, as well as the identification and the classification of leases all require judgment.

### Our response

Our audit procedures over capitalization and asset lives included, among others:

- We assessed the design and tested the operating effectiveness of controls around the asset capitalization cycle.
- We reviewed management assumptions over the carrying value and economic useful life of key assets by consideration of internal and external available data. We challenged the management's assumptions used in the process of estimating the economic useful lives of existing and new assets capitalized in the year based on our knowledge of the business.

- We performed substantive procedures on fixed asset and verified evidence such as purchase invoice and bank statement to assess the validity, valuation and appropriateness of capitalization of those additions.
- We considered the circumstances as to whether any additions or prevailing events give rise to indicators of impairment such as redundant assets.
- We assessed the adequate application of IFRS 16, that the Group early adopted.
- We assessed the estimates and judgements relating to the determination of contracts in scope of IFRS 16. We reviewed the interest rates used for discounting of future cash flows and assessed the appropriateness and application of lease contract terms, especially in relation to those agreements with indefinite contract term.

We also assessed the adequacy of the Company's disclosures as set out in Notes 2.4, 2.5, 2.6, 2.29, 3, 4, 5 and 6.

#### 4. Refinancing and capital restructuring

##### Risk identified

In March 2017, the Group refinanced its primary financing, leading to early termination of the former bonds, including intercompany financing, through the issuance of a new bank loan of PLN 6,443 million. In addition, in July 2017, the Group became listed on the Warsaw Stock Exchange, leading namely to the termination of the previous long term management incentive plan, generating a charge of PLN 226 million and the set-up of a new long term management incentive plan. These transactions were identified as key audit matter for our audit as they had a significant impact on the overall financial position of the Group.

##### Our response

Our audit procedures in relation to the refinancing and capital restructuring included, among others:

- We obtained and read the new bank loan agreement entered into by the Company as well as the journal entries related to the recognition of a new debt. We have also assessed the compliance with financial covenants and the sufficiency of disclosures in respect of any other obligations resulting from the loan agreement.
- We assessed the accounting treatment concerning the de-recognition of the former debt, including an unamortized cost, as well as de-recognition of the early redemption option.
- We assessed the accounting treatment in relation to the new financing, including treatment of the loan origination costs and the related agreements.
- We tested the cash movements in relation to these transactions.
- We assessed the accounting impact of the listing of the Company's shares on the Warsaw Stock Exchange, including the accounting for the termination of the old incentive plan and the accounting of the new long term incentive plan for the Management of the Company.

We also assessed the adequacy of the Company's disclosures in relation to the above matters as set out in Notes 16, 17 and 19.

## **Other information**

The Board of Directors is responsible for the other information. The other information comprises the information included in the consolidated Directors' report and elsewhere in the Annual Report but does not include the consolidated financial statements and our report of "réviseur d'entreprises agréé" thereon. Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

## **Responsibilities of the Board of Directors and of those charged with governance for the consolidated financial statements**

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Director is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Director either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## **Responsibilities of the "réviseur d'entreprises agréé" for the audit of the consolidated financial statements**

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

### **Report on other legal and regulatory requirements**

We have been appointed as réviseur d'entreprises agréé by the General Meeting of the Shareholders on 21 June 2017 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 1 year.

The Director's report on pages 17 to 110, which is the responsibility of the Board of Directors, is consistent with the annual accounts and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, on pages 111 to 159, is the responsibility of the Board of Directors. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent, at the date of this report, with the consolidated financial statements and has been prepared in accordance with applicable legal requirements.

### **Other matter**

The corporate governance statement includes, when applicable, the information required by article 68ter paragraph (1) points a), b), e), f) and g) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended.

Ernst & Young  
Société anonyme  
Cabinet de révision agréé



Olivier Lemaire

Luxembourg, 27 February 2018

# **PLAY COMMUNICATIONS S.A. AND ITS SUBSIDIARIES - CONSOLIDATED FINANCIAL STATEMENTS**

PREPARED IN ACCORDANCE WITH IFRS AS ADOPTED  
BY THE EUROPEAN UNION AS AT AND FOR THE YEAR  
ENDED DECEMBER 31, 2017

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## Consolidated statement of financial position

	Notes	December 31, 2017	December 31, 2016	December 31, 2015
<b>ASSETS</b>				
<b>Non-current assets</b>				
Property, plant and equipment	3	1,282,347	1,089,437	907,747
Right-of-use assets	4	855,867	745,509	767,924
Intangible assets	5	2,683,857	2,628,786	1,126,772
Assets under construction	6	303,351	540,416	393,536
Contract costs	7	361,002	350,681	309,944
Long-term finance receivables	8	-	341,001	153,441
Other long-term receivables	9	13,835	12,164	11,134
Other long-term finance assets	10	4,268	134,246	19,219
Deferred tax asset	30	-	134,446	184,146
<b>Total non-current assets</b>		<b>5,504,527</b>	<b>5,976,686</b>	<b>3,873,863</b>
<b>Current assets</b>				
Inventories	11	159,279	149,685	212,209
Short-term finance receivables	8	-	274	-
Trade and other receivables	12	1,100,466	1,259,939	876,894
Contract assets	13	1,366,913	997,780	1,000,880
Current income tax receivables		47,529	-	-
Prepaid expenses	14	23,530	21,239	41,771
Cash and cash equivalents	15	628,725	340,994	1,556,801
<b>Total current assets</b>		<b>3,326,442</b>	<b>2,769,911</b>	<b>3,688,555</b>
<b>TOTAL ASSETS</b>		<b>8,830,969</b>	<b>8,746,597</b>	<b>7,562,418</b>
<b>EQUITY AND LIABILITIES</b>				
<b>Equity attributable to equity holders of the parent</b>				
Share capital	16	128	52	52
Share premium	16	3,673,350	5,644,191	5,644,191
Other reserves	10, 19	28,228	-	-
Retained losses		(3,914,285)	(4,301,631)	(5,013,619)
<b>Total equity</b>		<b>(212,579)</b>	<b>1,342,612</b>	<b>630,624</b>
<b>Non-current liabilities</b>				
Long-term finance liabilities - debt	17	6,752,867	5,176,417	4,996,618
Long-term provisions	18	58,335	47,520	46,472
Long-term retention programs liabilities	19	-	150,064	163,040
Deferred tax liability	30	117,101	314	36
Other non-current liabilities		10,125	10,873	11,379
<b>Total non-current liabilities</b>		<b>6,938,428</b>	<b>5,385,188</b>	<b>5,217,545</b>
<b>Current liabilities</b>				
Short-term finance liabilities - debt	17	585,955	277,150	277,245
Other short-term finance liabilities	10	6,871	-	-
Trade and other payables	20	1,106,528	1,177,581	976,949
Contract liabilities		86,957	99,727	89,885
Current income tax payable		10,258	173,759	61,296
Accruals	21	59,519	54,429	68,539
Short-term provisions	18	78	1,006	996
Short-term retention programs liabilities	19	17,743	17,740	22,294
Deferred income	22	231,211	217,405	217,045
<b>Total current liabilities</b>		<b>2,105,120</b>	<b>2,018,797</b>	<b>1,714,249</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>8,830,969</b>	<b>8,746,597</b>	<b>7,562,418</b>

## Consolidated statement of comprehensive income

	Notes	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Operating revenue</b>	23	<b>6,669,859</b>	<b>6,117,558</b>	<b>5,436,503</b>
Service revenue		4,878,228	4,492,818	4,059,534
Sales of goods and other revenue		1,791,631	1,624,740	1,376,969
<b>Operating expenses</b>		<b>(5,578,059)</b>	<b>(4,753,520)</b>	<b>(4,373,058)</b>
Interconnection, roaming and other services costs	24	(1,729,506)	(1,495,831)	(1,330,623)
Contract costs, net	25	(429,143)	(398,912)	(376,269)
Cost of goods sold		(1,409,818)	(1,366,156)	(1,181,221)
General and administrative expenses	26	(1,212,336)	(858,538)	(887,685)
Depreciation and amortization	27	(797,256)	(634,083)	(597,260)
Other operating income	28	109,778	70,662	78,488
Other operating costs	28	(94,695)	(144,449)	(76,080)
<b>Operating profit</b>		<b>1,106,883</b>	<b>1,290,251</b>	<b>1,065,853</b>
Finance income	29	178,850	134,953	7,576
Finance costs	29	(656,423)	(499,096)	(367,978)
<b>Profit before income tax</b>		<b>629,310</b>	<b>926,108</b>	<b>705,451</b>
Income tax charge	30	(241,964)	(214,120)	(155,173)
<b>Net profit</b>		<b>387,346</b>	<b>711,988</b>	<b>550,278</b>
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods</b>	10	<b>118</b>	-	-
<b>Total comprehensive income</b>		<b>387,464</b>	<b>711,988</b>	<b>550,278</b>
Earnings per share (in PLN) (basic equals diluted)	31	1.54	2.84	2.20
Weighted average number of shares (in thousands) (basic equals diluted)	31	251,906	250,538	250,538

No net profit for the current and comparative periods was attributable to non-controlling interest.

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

## Consolidated statement of changes in equity

	Attributable to equity holders of the parent					Notes
	Share capital	Share premium	Other reserves	Retained losses	Total equity	
<b>As at January 1, 2017</b>	<b>52</b>	<b>5,644,191</b>	-	<b>(4,301,631)</b>	<b>1,342,612</b>	
Net profit for the period	-	-	-	387,346	387,346	
<u>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</u>						
Effect of valuation of finance assets and liabilities at fair value through other comprehensive income	-	-	118	-	118	10
<b>Total comprehensive income</b>	<b>-</b>	<b>-</b>	<b>118</b>	<b>387,346</b>	<b>387,464</b>	
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	-	-	8,731	-	8,731	19
Increase of share premium	-	171,184	-	-	171,184	16
Redemption of share premium	-	(2,256,148)	-	-	(2,256,148)	16
<b>As at December 31, 2017</b>	<b>128</b>	<b>3,673,350</b>	<b>28,228</b>	<b>(3,914,285)</b>	<b>(212,579)</b>	

	Attributable to equity holders of the parent					Notes
	Share capital	Share premium	Other reserves	Retained losses	Total equity	
<b>As at January 1, 2016</b>	<b>52</b>	<b>5,644,191</b>	-	<b>(5,013,619)</b>	<b>630,624</b>	
Net profit for the period	-	-	-	711,988	711,988	
<b>As at December 31, 2016</b>	<b>52</b>	<b>5,644,191</b>	-	<b>(4,301,631)</b>	<b>1,342,612</b>	17

	Attributable to equity holders of the parent					Notes
	Share capital	Share premium	Other reserves	Retained losses	Total equity	
<b>As at January 1, 2015</b>	<b>52</b>	<b>5,635,996</b>	-	<b>(5,563,897)</b>	<b>72,151</b>	
Correction of currency translation	-	8,195	-	-	8,195	
Net profit for the period	-	-	-	550,278	550,278	
<b>As at December 31, 2015</b>	<b>52</b>	<b>5,644,191</b>	-	<b>(5,013,619)</b>	<b>630,624</b>	17

## Consolidated statement of cash flows

	Notes	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Profit before income tax</b>		<b>629,310</b>	<b>926,108</b>	<b>705,451</b>
Depreciation and amortization		797,256	634,083	597,260
Change in contract costs		(10,321)	(40,737)	(52,830)
Interest expense (net)		372,452	316,870	302,743
(Gain)/Loss on finance instruments at fair value		169,341	(115,027)	38,392
Foreign exchange (gains)/losses		(64,083)	162,211	19,329
Gain on disposal of non-current assets		(5,780)	(8,796)	(3,900)
Impairment of non-current assets		5,586	6,275	1,664
Change in provisions and liabilities or equity related to retention programs		(123,149)	(17,118)	61,180
Changes in working capital and other	33	201,222	(237,122)	(37,755)
Change in contract assets		(369,133)	3,100	(114,890)
Change in contract liabilities		(12,770)	9,842	12,445
<b>Cash provided by operating activities</b>		<b>1,589,931</b>	<b>1,639,689</b>	<b>1,529,089</b>
Interest received		476	81	68
Income tax paid		(201,069)	(52,241)	(4,213)
Transfers from restricted cash (operating)		-	-	200
<b>Net cash provided by operating activities</b>		<b>1,389,338</b>	<b>1,587,529</b>	<b>1,525,144</b>
Proceeds from sale of non-current assets		3,539	5,511	7,832
Proceeds from loans given	8	18,335	-	79
Proceeds from finance receivables (Repayment of notes by Impera Holdings S.A.)	8	388,250	-	-
Purchase of fixed assets and intangibles and prepayments for assets under construction		(734,816)	(2,195,861)	(436,787)
Loans given		-	(17,851)	-
Purchase of debt securities (Notes issued by Impera Holdings S.A.)	8	(68,922)	(141,056)	(143,993)
<b>Net cash used in investing activities</b>		<b>(393,614)</b>	<b>(2,349,257)</b>	<b>(572,869)</b>
Proceeds from equity increase		285,382	-	-
Proceeds from finance liabilities	17.4	6,443,000	385,000	543,772
Repaid finance liabilities and paid interest and other costs relating to finance liabilities	17.4	(5,208,251)	(839,168)	(436,965)
Purchase of notes issued by Impera Holdings S.A.	8, 17.4	(2,227,933)	-	-
<b>Net cash provided by/(used in) financing activities</b>		<b>(707,802)</b>	<b>(454,168)</b>	<b>106,807</b>
<b>Net change in cash and cash equivalents</b>		<b>287,922</b>	<b>(1,215,896)</b>	<b>1,059,082</b>
Effect of exchange rate change on cash and cash equivalents		(408)	89	(62)
<b>Cash and cash equivalents at the beginning of the period</b>		<b>340,994</b>	<b>1,556,801</b>	<b>497,781</b>
<b>Cash and cash equivalents at the end of the period</b>	32	<b>628,508</b>	<b>340,994</b>	<b>1,556,801</b>

## 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, sales of mobile devices and managing a distribution network of mobile telecommunications products under the brand "PLAY".

These consolidated financial statements comprise:

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

as at and for the year ended December 31, 2017 and comparative periods, hereafter the "consolidated financial statements".

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

Entity	Location	Principal activity	Ownership and percentage of voting rights		
			As at December 31, 2017	As at December 31, 2016	As at December 31, 2015
Play Holdings 3 S. à r. l.	Luxembourg	Holding	(merged with the Company)	(merged with the Company)	100%
Play Finance 1 S.A.	Luxembourg	Financing	100%	100%	100%
Play Finance 2 S.A. under liquidation	Luxembourg	Financing	100%	100%	100%
P4 Sp. z o.o.	Poland	Operating	100%	100%	100%
3GNS Sp. z o.o.	Poland	Holding	100%	100%	100%
Play 3GNS Spółka z ograniczoną odpowiedzialnością sp. k.	Poland	Brand management	100%	100%	100%
Tonhil Investments S.A.	Poland	Holding	(disposed of in the year ended December 31, 2017)	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 consolidated financial statements were authorized for issue by the Board of Directors of the Company on February 27, 2018.

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 relating to cash-settled retention programs and derivatives which are measured at fair value and equity items relating to equity-settled retention programs which 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 in Note 2.29.

#### 2.1.1 New standards, interpretations and amendments to existing standards

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") issued and effective as at December 31, 2017. For the purpose of these consolidated financial statements the Group has adopted the following new standards, amendments to standards and interpretations:

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	January 1, 2017	Permitted	Fully implemented
Amendments to IAS 7: Disclosure Initiative	January 29, 2016	January 1, 2017	January 1, 2017	Permitted	Fully implemented
Clarifications to IFRS 15: Revenue from Contracts with Customers	April 12, 2016	January 1, 2018	January 1, 2018	Permitted	Fully implemented

Please note that the Group had early adopted IFRS 15: Revenues from contracts with customers and IFRS 16: Leases as of January 1, 2013, applying the full retrospective method.

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ended December 31, 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

Play Communications S.A. and its subsidiaries  
Consolidated financial statements prepared in accordance with IFRS as adopted by the European Union  
As at and for the year ended December 31, 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 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 2: Classification and Measurement of Share-based Payment Transactions	June 20, 2016	January 1, 2018	Not endorsed yet	-	Assessment in progress
Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	September 12, 2016	January 1, 2018	January 1, 2018	Permitted	Assessment in progress
Annual Improvements to IFRS Standards 2014-2016 Cycle - Amendments to IFRS 1 and IAS 28	December 8, 2016	January 1, 2018	January 1, 2018	Permitted	Assessment in progress
Annual Improvements to IFRS Standards 2014-2016 Cycle - Amendments to IFRS 12	December 8, 2016	January 1, 2017	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
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
Annual Improvements to IFRS Standards 2015-2017 Cycle	December 12, 2017	January 1, 2019	Not endorsed yet	-	Assessment in progress
Amendments to IAS 19: Plan Amendment, Curtailment or Settlement	February 7, 2018	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

### **2.1.2 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 and the Group's plans. Although the Group presents negative shareholders equity on consolidated basis, the Group generates positive cash flows from operating activities which can be used to finance further development of telecommunications infrastructure as well as expected dividend payments by the Company. 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.

### **2.1.3 Assessment of impact of IFRS 9**

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions.

The Group has decided to adopt the new standard on January 1, 2018 and will not restate comparative information. The Group has performed a detailed impact assessment of all three aspects of IFRS 9. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Group in 2018 when the Group issues first financial statements with adoption of IFRS 9. Overall, the Group expects no significant impact on its statement of financial position and equity except for the effect of applying the impairment requirements of IFRS 9. The Group expects an increase in the loss allowance resulting in a negative impact on equity as discussed below. In addition, the new classification criteria will not result in change of valuation methods used by the Group for the financial assets and liabilities existing as at December 31, 2017.

#### **Classification and measurement**

The Group does not expect a significant impact on its statement of financial position or equity of applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets which are currently measured at fair value. Trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group has analyzed the contractual cash flow characteristics of those instruments and has concluded that they meet the criteria for amortized cost measurement under IFRS 9. Therefore, reclassification of these instruments is not required.

#### **Impairment**

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group has decided to apply the simplified approach and to record lifetime expected losses on all trade receivables as well as contract asset.

Currently, when measuring impairment provision for billing receivables the Group uses collectability ratio from previous periods including information on recoverability through the process of sales of outstanding invoices. This approach is in line with requirements of IFRS 9 which allows using historical credit loss experience as well as observable market information about the credit risk of the particular financial instrument for the calculation of expected credit losses. The Group has determined that the impact of implementing IFRS 9 on loss allowance on unsecured receivables will not be significant.

For other trade receivables the Group performs assessment for each individual debtor taking into account the probability of default or delinquency in payments and the probability that debtor will enter into financial difficulties or bankruptcy. When determining whether the recognition of lifetime expected credit loss is required under IFRS 9, the Group will use all reasonable and supportable information regarding debtors available at the assessment date and the Group expects that by using this approach the amount of loss allowance will not change significantly.

Currently, under IAS 39 the Group recognizes impairment of contract assets at the moment of disconnecting the customer due to breach of the contract. When measuring the loss allowance for contract assets under IFRS 9, at the initial recognition of contract asset the Group will use professional judgement to calculate probability-weighted estimate of credit losses over the expected life of contract assets.

The Group has determined that the provision for impairment of contract assets, existing as at December 31, 2017 will increase by about PLN 65 – 70 million with corresponding related decrease in the deferred tax liability of about PLN 12-13 million. As a result the consolidated equity will decrease by about PLN 53-57 million. The decrease in equity will be recorded as an adjustment to the retained losses opening balance as at January 1, 2018.

### Hedge accounting

The Group has determined that all existing hedge relationships that are currently designated in effective hedging relationships will continue to qualify for hedge accounting under IFRS 9. As IFRS 9 does not change the general principles of how an entity accounts for effective hedges, applying the hedge accounting requirements of IFRS 9 will not have a significant impact on Group's financial statements.

### 2.1.4 Presentation changes

In the year ended December 31, 2017 the Group changed the presentation of certain items relating to prepaid offerings between "Deferred income" and "Contract liability" lines. Contract liabilities represent the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the customer or the amount is due. Deferred income represents the Group's obligation to transfer goods or services to a customer for which the Group has not yet received consideration from the customer or the amount is not due. In relation to prepaid services the Group considers the delivery from the distributor to the end customer to be the event which triggers transfer from deferred income to contract liability, because only then the Group has to fulfill the performance obligation towards the end customer. However, as the Group has no means of knowing the exact moment at which the prepaid products are delivered to end customers, due to the fact that most of prepaid products are sold via independent third party sales channels, the Group needs to perform certain estimations in order to calculate the contract liability amount. During the IFRS 15 post-implementation analysis the Group concluded that for some prepaid tariffs it is more accurate to reclassify some balances presented previously in "Deferred income" line to "Contract liability" line as in order to reflect amounts already paid by the end customers in a more accurate way.

The amounts reclassified are as follows:

STATEMENT OF FINANCIAL POSITION	December 31, 2016 Previous report	Change	December 31, 2016 Changed	December 31, 2015 Previous report	Change	December 31, 2015 Changed
<b>Current liabilities</b>						
Contract liabilities	44,933	54,794	99,727	22,322	67,563	89,885
Deferred income	272,199	(54,794)	217,405	284,608	(67,563)	217,045
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>8,746,597</b>	-	<b>8,746,597</b>	<b>7,562,418</b>	-	<b>7,562,418</b>

## 2.2 Consolidation

Subsidiaries, i.e. those entities over which the Play Group has a control, 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 are adjusted 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 value of 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.

## **2.3 Foreign currency translation**

### **2.3.1 Functional and presentation currency**

Items included in the financial statements of each of the entities of the Play Group 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 zloty ("PLN"), which is the Company's presentation and functional currency, due to the fact that the operating activities of the Group are conducted primarily in Poland.

### **2.3.2 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 actual spot rate applied as at this date resulting from the type of transaction - in case of foreign currency purchases and sales.
- 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,

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:

<b>Currency</b>	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
EUR	4.1709	4.4240	4.2615
GBP	4.7001	5.1445	5.7862
USD	3.4813	4.1793	3.9011

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.

## **2.4 Property, plant and equipment**

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment. The cost includes direct costs (materials, direct labor and work contracted out) and directly attributable own work costs. Fixed assets under construction represent the accumulation of costs associated with the construction of the telecommunications and data transmission networks and other tangible fixed assets; they are presented as Assets under construction. The Play Group includes in the construction cost of its assets all eligible borrowing costs (including interest expense and exchange differences arising from foreign currency borrowings relating to purchases of qualifying assets regarded as an adjustment to interest costs) and expenditure that is directly attributable to the acquisition or to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group. Costs relating to fixed assets under construction are transferred to the related property, plant and equipment account and depreciation begins when they become available for use.

Significant components of property, plant and equipment that require replacement at regular intervals are recognized as separate items. All other repairs and maintenance costs are charged to general and administrative expenses during the financial period in which they are incurred.

Subsequent costs are recognized as a separate asset only when the recognition criteria are met.

Depreciation is calculated using the straight-line method to allocate the surplus of the cost of the asset over its residual values over its estimated useful life. The estimated useful lives are as follows:

Description	Term in years
Buildings	10-25
Telecommunications equipment	1-10
Computers	3-5
Machinery and equipment	3-10
Motor vehicles	2-5
Office machinery and equipment	1-7

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of property, plant and equipment are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

## **2.5 Right-of-use assets and lease liabilities**

The Group is a party to lease contracts for, among others:

- a) land for telecommunications constructions,
- b) buildings:
  - office space, warehouses and points of sale space,
  - collocation centers,
  - other space for other telecommunications equipment,
- c) telecommunications network and equipment- dark fiber-optic cables,
- d) computers,
- e) motor vehicles.

Leases are recognized, measured and presented in line with IFRS 16 'Leases'.

### **Accounting by the lessee**

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 to apply exemptions for short term leases in

relation to leases of billboards and not to apply exemptions for other short term leases or for leases for which the underlying asset is of low value.

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. The commencement date is the date on which a lessor makes an underlying asset available for use by a lessee.

The right-of-use assets are initially measured at cost, which comprises:

- the amount of the initial measurement of the lease liability,
- any lease payments made at or before the commencement date, less any lease incentives,
- any initial direct costs incurred by the lessee,
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying assets or restoring the site on which the assets are located.

After the commencement date the right-of-use assets are measured at cost less any accumulated depreciation and any accumulated impairment losses and adjusted for any re-measurement of the lease liability.

Depreciation is calculated using the straight-line method over the estimated useful lives, as follows:

Description	Term in years
Land	15-25
Buildings	1-20
Telecommunications equipment	1-10
Computers	3-5
Motor vehicles	2-5

If the lease transfers ownership of the underlying asset to the Group by the end of the lease term or if the cost of the right-of-use asset reflects that the Group will exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group recognizes asset retirement obligations mainly in relation to leased land for telecommunications constructions and other space for other telecommunications equipment ("sites") which would need to be restored to previous state when the lease ends. Asset retirement obligations are capitalized as part of the cost of right-of-use assets and depreciated over the asset's estimated useful life. The Group estimates the fair value of asset retirement obligations using number of sites available for use, average site reinstatement cost and the discount rate which equals the interest rate of long-term treasury bonds.

The lease liability is initially measured at the present value of the lease payments that are not paid at that date. These include:

- fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments exclude variable elements which are dependent on external factors such as e.g. sale volume in the point of sale leased. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss.

The lease payments are discounted using the Group's incremental borrowing rate or the rate implicit in the lease contract.

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 lessee is reasonably certain to exercise that option,
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date the Group measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect lease payments made, and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.

### **Accounting by the lessor**

In case of lease contracts based on which the Group is acting as a lessor each of its leases is classified as either operating or finance lease. Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership to the lessee. Examples of situations where the risks and rewards of ownership are considered as having been transferred to the lessee are as follows:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised,
- the lease term is for at least 3/4 of the economic life of the asset even if title is not transferred,
- at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset; or
- the leased assets are of such a specialized nature that only the lessee can use them without major modifications.

## **2.6 Intangible assets**

### **2.6.1 Licenses**

Licenses are stated at cost less accumulated amortization and accumulated impairment losses. The licenses are amortized over the period for which they are granted.

### **2.6.2 Computer software costs**

Costs that are directly associated with the production of identifiable and unique software products controlled by the Play Group, and that will probably generate economic benefits exceeding costs, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Computer software development costs are recognized as separate assets and are amortized using the straight-line method over their estimated useful lives (not exceeding 5 years).

Costs associated with maintaining computer software programs are recognized as an expense as incurred.

### **2.6.3 Goodwill**

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.

Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing goodwill is allocated to cash-generating units, not larger than an operating segment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, but not larger than operating segment and not larger than units for which goodwill is monitored by the Group. The Group allocates goodwill to the entire Play Group as a single cash-generating unit.

#### **2.6.4 Intangible assets under construction**

Intangible assets under construction represent mainly software under development and are presented in Assets under construction.

### **2.7 Contract costs**

Contract costs eligible for capitalization as incremental costs of obtaining a contract comprise commission on sale relating to postpaid contracts and "mix" contracts (contracts for a specified number and value of top-ups) with acquired or retained subscribers. Contract costs are capitalized in the month of service activation if the Group expects to recover those costs. Contract costs comprise sales commissions to dealers and to own salesforce which can be directly attributed to an acquired or retained contract. Contract costs constitute non-current assets as the economic benefits from these assets are expected to be received in the period longer than twelve months.

In all other cases, including acquisition of prepaid telecommunications customers, subscriber acquisition and retention costs are expensed when incurred.

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. Contract costs relating to contracts signed with acquired or retained subscribers are amortized:

- for postpaid contracts - 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,
- for "mix" contracts – over the term during which a customer is expected to fulfil their obligation in relation to all top-ups required under a contract.

When the customer enters into a retention contract before the term of the previous one expires (which means that the original contracts costs have not been fully amortized), the new asset is recognized in the month the new contract is signed. The new asset is amortized over the term representing the sum of the period remaining to the end of the previous contract and the retention contract term. Amortization period of the contract cost relating to previous contract is then shortened to be in line with the actual contract term.

Contract costs capitalized are impaired if the customer is disconnected or if the asset's carrying amount exceeds projected discounted cash flows relating to the contract. An impairment loss is recognized in profit or loss to the extent of the carrying amount of an contract costs asset over the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates less the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

### **2.8 Impairment of non-financial assets**

Assets that are subject to amortization are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. According to IAS 36 an impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

Impairment losses are reversed if the carrying amount of the previously impaired asset is lower than its recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

## **2.9 Inventories**

Inventories are stated at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less the applicable variable selling expenses. For inventories intended to be sold in promotional offers calculation of net realizable value takes into account future margin expected from telecommunications services, with which the item of inventories is offered.

Inventories include handsets and other equipment transferred to dealers who act as agents. They are expensed to costs of goods sold on the date of activation of telecommunications services in relation to which the equipment was sold to the end customer or on the date when the equipment was sold to the end customer without a telecommunications service contract. The Group estimates the prevalent period between the date of transfer of the equipment to dealer and the date of service activation based on historical data. If no service agreement relating to the mobile device is activated during the period estimated as described above, it is assumed, that the mobile device was sold to the end customer without related service agreement and revenue from sale of goods and corresponding cost of sale are recognized in statement of comprehensive income.

## **2.10 Trade and other receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If there is objective evidence that the Play Group will not be able to collect amounts due according to the original terms of receivables, a provision for impairment is recognized in the statement of comprehensive income within "other operating costs".

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. For other trade receivables it is calculated on the basis of individual case analysis. Significant financial difficulties of the debtor, the probability that the debtor will enter bankruptcy, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The carrying amount of the asset is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Trade receivables are derecognized when:

- the rights to receive cash flows from the asset have expired,
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. In particular the Group derecognizes receivables when they are sold to collection agencies.

## **2.11 Contract assets**

A contract asset is the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditional on something other than the passage of time (for example, delivery of other elements of the contracts). The Group recognizes contract assets mainly from the contracts in which goods delivered at a point in time are bundled with services delivered over time. The Group considers contract assets as current assets as they are expected to be realized in the normal operating cycle.

## **2.12 Prepaid expenses**

Prepaid expenses comprise among others prepayments made in relation to ordered but not yet delivered services. Prepaid expenses are recognized at fair value of cash or cash equivalents transferred.

## **2.13 Cash and cash equivalents in statement of financial position**

Cash and cash equivalents include cash in hand, cash at bank, short-term deposits with original maturities of three months or less and restricted cash.

In the statement of financial position cash and cash equivalents are carried at nominal value increased by interest accrued.

## **2.14 Cash and cash equivalents 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 because bank overdrafts constitute integral component of cash management. For the purpose of the consolidated statement of cash flows, restricted cash is excluded from cash and cash equivalents because it is not regarded as an element of cash management but is used to secure the repayment of financial liabilities. Interest accrued is excluded as it does not represent actual cash inflows in the reporting period.

## **2.15 Retirement benefits**

The Play Group makes contributions mainly to the Polish Government's retirement benefit scheme at the applicable rate during the period, based on gross salary payments (the "State Plan").

The State Plan is funded on a pay-as-you-go basis, i.e. the Play Group is only obliged to pay the contributions as they fall due based upon a percentage of salary, and if the Play Group ceases to employ members of the State Plan, it will have no obligation to pay any additional benefits. The State Plan is a defined contribution plan. The expense for the contributions is charged to the profit or loss in the same period as the related salary expense.

The Play Group has no other employee retirement plans.

## **2.16 Retention programs**

The Play Group operates cash-settled and equity-settled share-based retention programs. Membership in programs is granted to members of the Management Board of P4 and key employees of the Group.

Under the terms of the cash-settled programs, members of the programs are entitled to remuneration paid in cash which value is dependent on the fair value of the Group as at the disposal of the shares by the shareholder or shareholders (liquidity event) or at the end of a program if the liquidity event has not occurred. Liabilities relating to cash-settled share-based retention programs are measured at the fair value of the liability at each end of the reporting period. Changes in the fair value of the liability are recognized in the profit or loss.

Under the terms of equity-settled programs 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 2.29.4. The cost is recognized in the statement of comprehensive income in line with vesting conditions, which are described in Note 19.

## **2.17 Financial liabilities**

Financial liabilities are recognized initially at fair value, net of the transaction costs incurred. Bank loans, finance lease liabilities and notes liabilities are subsequently stated at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in profit or loss in the period in which they are incurred unless they are capitalized.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

Financial liabilities are derecognized when the obligation under the liability is discharged or cancelled or expires.

## **2.18 Derivative instruments**

### **2.18.1 Derivatives embedded in host contracts**

Derivatives embedded in host contracts are accounted for as separate derivatives if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

In case of an early redemption option embedded in a host debt instrument, the close relation to the host instrument exists if:

- on each exercise date, the option's exercise price is approximately equal to the debt instrument's amortized cost or
- the exercise price of an early redemption option reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of the host contract (lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the early redemption date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract).

Otherwise the early redemption option is not regarded as closely related and as such is subject to separate recognition and measurement.

The assessment of whether an embedded derivative meets the conditions for its separation from the host contract is made on initial recognition of the contract.

Early redemption options recognized as separate instruments are measured at fair value with changes in the valuation recognized in profit or loss.

### **2.18.2 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 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 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).

## **2.19 Trade liabilities**

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

## **2.20 Provisions**

Provisions are recognized when the Group has a present obligation towards a third party and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. The obligation may be legal, regulatory or contractual or it may represent a constructive obligation deriving from the Group's actions.

The estimate of the amount of the provision corresponds to the expenditure likely to be incurred by the Group to settle its obligation. If a reliable estimate of the amount of the obligation cannot be made, no provision is recognized and the obligation is disclosed as a contingent liability.

## **2.21 Deferred income**

Deferred income on sales of contract services comprises amounts relating to services that will be delivered in the future, which are billed to a customer in advance but not yet due. Deferred income on sales of prepaid products comprises the value of prepaid products delivered to a distributor but not yet transferred to the end customer.

## **2.22 Contract liabilities**

Contract liabilities comprise the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the end customer or the amount is due.

## **2.23 Revenue**

Revenue is measured based on consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over a good or service to a customer. Revenue is presented net of value added tax (VAT), rebates and discounts and after eliminating intragroup sales.

The Group's revenues are earned mainly from the following telecommunications services and goods:

- voice and SMS telecommunications;
- data transfer;
- television and video on demand;
- value added services;
- interconnection;
- international roaming;
- sales of handsets and other equipment.

Revenues from voice, SMS telecommunications and data transfer include charges for telecommunications traffic originated in the Play network, including revenues from prepaid products.

Goods and services may be sold separately or in bundled packages. 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 (see Note 2.7). 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 estimated based on cost of sale plus margin. Please see Note 2.29.1. Stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services.

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.

Mobile services are billed on a monthly basis and payments are due shortly after the bill date.

Telecommunications revenue from the sale of prepaid products in single-element contracts (i.e. with one performance obligation for telecommunications services) is recognized at the face value of a prepaid top-up sold, net of VAT. The difference between the face value of a prepaid offerings and the value for which the offerings are sold by the Group to its 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 recognized as other service costs when the distribution service is provided, i.e. when the prepaid product is delivered to the end customer. The revenue from the sale of prepaid products is deferred until the end customer commences using the product and presented in the statement of financial position as deferred income in case the prepaid product is held by a distributor or as contract liability in case the prepaid product had been transferred to the end customer but not yet used. The revenue from the sale of prepaid products is recognized in the profit or loss as telecommunications services are provided, based on the actual airtime or data usage at an agreed tariff, or upon expiration of the obligation to provide the service.

Revenues from the value added services 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.

Interconnection revenues are derived from calls and other traffic that originate in other operators' networks but use Play network. The Group receives interconnection fees based on agreements entered into with other telecommunications operators. These revenues are recognized in the period in which the services were rendered.

International roaming revenues are derived from calls and other traffic generated by foreign operators' customers in Play network. The Group receives international roaming fees based on agreements entered into with other telecommunications operators. These revenues are recognized in the profit or loss in the period in which the services were rendered.

Revenue from sale of handsets, other equipment and other goods is recognized when a promised good is transferred to the customer (typically upon delivery). The amount of revenue recognized for mobile devices is adjusted for expected returns, which are estimated based on the historical data. For mobile devices sold separately (i.e. without the telecommunications contract), a customer usually pays full price at the point of sale.

For mobile devices sold in bundled contracts, customers are offered two schemes of payments – full payment at the commencement of the contract (in such contracts the handset price is significantly reduced and the cost of device is recovered through monthly fees for telecommunication services) or instalment sales with monthly instalments paid over the period of the contract plus initial fee paid upon delivery of a handset.

Revenues from content services (e.g. music and video streaming, applications and other value added services) rendered to our subscribers are recognized after netting off costs paid by us to third party content providers (when the Group acts as an agent in the transaction) or in the gross amount billed to a subscriber (when the Group acts as a principal).

## **2.24 Interest income**

Interest income is recognized on a time-proportion basis using the effective interest method.

## **2.25 Current income tax**

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 reporting date in countries where the Company and its subsidiaries operate and generate taxable income.

Income tax payable represents the amounts payable at the reporting date. If the amount paid on account of current income tax is greater than the amount finally determined, the excess is recognized in the statement of financial position as an income tax receivables.

## **2.26 Deferred income tax**

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 relating deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from different valuations of depreciable assets and accruals, provisions and deferred income for tax and accounting purposes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are also recognized for unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination; and at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

Deferred tax assets and deferred tax liabilities are offset if, and only if, a company has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable base.

## **2.27 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.

### **2.27.1 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 denominated in foreign currencies, mainly EUR. Also international roaming costs and revenue are recorded in foreign currencies.

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Currency risk management is aimed at managing within acceptable limits both the volatility of cash flows (expressed in 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 (expressed in PLN).

Currency risk 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.

No derivatives were used during the year ended December 31, 2016 or in the year ended December 31, 2015. During the year ended December 31, 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 purchasing of EUR-denominated Notes of Impera Holdings S.A. - see Note 8 (forward contracts for the purchase of EUR 520,000 thousand).

The table below presents split of assets and liabilities balances into currencies in which they are denominated:

	PLN	EUR	other currencies	Total
<b>Year ended December 31, 2017</b>				
Other long-term receivables before the impairment provision	12,541	1,664	-	14,205
Other long-term finance assets	4,268	-	-	4,268
Trade and other receivables before the impairment provision	1,201,723	18,014	10,898	1,230,635
Cash and cash equivalents	576,713	49,523	2,489	628,725
<b>Assets</b>	<b>1,795,245</b>	<b>69,201</b>	<b>13,387</b>	<b>1,877,833</b>
Long-term finance liabilities - debt	6,671,616	76,635	4,616	6,752,867
Other non-current liabilities	10,125	-	-	10,125
Short-term finance liabilities - debt	551,626	33,537	792	585,955
Other short-term finance liabilities	6,871	-	-	6,871
Trade and other payables	856,970	203,529	46,029	1,106,528
Short-term retention programs liabilities	17,743	-	-	17,743
<b>Liabilities</b>	<b>8,114,951</b>	<b>313,701</b>	<b>51,437</b>	<b>8,480,089</b>
<b>Year ended December 31, 2016</b>				
Long-term receivables - debt securities	-	322,641	-	322,641
Long-term loans	-	18,360	-	18,360
Other long-term receivables before the impairment provision	11,213	1,359	-	12,572
Short-term finance receivables	-	274	-	274
Trade and other receivables before the impairment provision	1,372,992	15,268	14,870	1,403,130
Cash and cash equivalents	321,017	19,054	923	340,994
<b>Assets</b>	<b>1,705,222</b>	<b>376,956</b>	<b>15,793</b>	<b>2,097,971</b>
Long-term finance liabilities - debt	728,209	4,444,183	4,025	5,176,417
Long-term retention programs liabilities	16,901	133,163	-	150,064
Other non-current liabilities	10,873	-	-	10,873
Short-term finance liabilities - debt	151,463	124,913	774	277,150
Trade and other payables	1,045,352	98,303	33,926	1,177,581
Short-term retention programs liabilities	6,827	10,913	-	17,740
<b>Liabilities</b>	<b>1,959,625</b>	<b>4,811,475</b>	<b>38,725</b>	<b>6,809,825</b>

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<b>Year ended December 31, 2015</b>	PLN	EUR	other currencies	<b>Total</b>
Long-term receivables - debt securities	-	153,441	-	153,441
Other long-term receivables before the impairment provision	10,876	1,230	-	12,106
Trade and other receivables before the impairment provision	951,177	8,852	9,835	969,864
Cash and cash equivalents	1,507,714	48,232	855	1,556,801
<b>Assets</b>	<b>2,469,767</b>	<b>211,755</b>	<b>10,690</b>	<b>2,692,212</b>
Long-term finance liabilities - debt	723,707	4,272,911	-	4,996,618
Long-term retention programs liabilities	12,296	150,744	-	163,040
Other non-current liabilities	11,379	-	-	11,379
Short-term finance liabilities - debt	152,097	125,148	-	277,245
Trade and other payables	758,508	189,154	29,287	976,949
Short-term retention programs liabilities	-	22,294	-	22,294
<b>Liabilities</b>	<b>1,657,987</b>	<b>4,760,251</b>	<b>29,287</b>	<b>6,447,525</b>

Other assets and liabilities are denominated in PLN.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant. As the balances denominated in other foreign currencies are relatively insignificant, the changes in the exchange rates other than EUR would not have any material impact on the financial statements.

	<b>Change in EUR rate</b>	<b>Effect on result before tax</b>
December 31, 2017	+5%	(12,225)
	-5%	12,225
December 31, 2016	+5%	(217,248)
	-5%	217,248
December 31, 2015	+5%	(222,707)
	-5%	222,707

The sensitivity analysis assumes that a 5% change in the EUR/PLN exchange rate had occurred at the end of the reporting period and had been applied to the financial assets and liabilities denominated in EUR at the end of the reporting period. Effect on equity comprises effect on profit before tax resulting from assets and liabilities valuation, as well as corresponding deferred tax effect.

The result is less sensitive to movement in EUR/PLN exchange rates in 2017 than in 2016 and 2015 mainly because of the repayment of euro-denominated notes which was replaced with PLN-denominated bank borrowings and because of settlement of euro-denominated retention programs liabilities.

### **2.27.2 Credit risk**

A substantial part of the Group's receivables consists of billing receivables of low individual amounts. According to Group's principles the risk connected with billing receivables is limited by a number of procedures. These procedures include: verification of the financial standing of potential subscribers before signing the contract, imposing credit limits, payment monitoring, sending payment reminders and receivables collection.

Apart from billing receivables, the Group also has receivables from interconnect and international roaming partners, MVNOs, handsets dealers and other. The table below shows the balance of three major counterparties at the end of the reporting period and comparative periods and the percentage that the balance represents in total Group's trade and other receivables:

	<b>December 31, 2017</b>	
	%	Balance
Counterparty B	6.5%	72,045
Counterparty A	3.8%	41,624
Counterparty C	2.8%	30,707
	<b>13.1%</b>	<b>144,376</b>

	<b>December 31, 2016</b>	
	%	Balance
Counterparty A	6.7%	84,541
Counterparty B	2.3%	29,402
Counterparty C	2.1%	25,975
	<b>11.1%</b>	<b>139,918</b>

	<b>December 31, 2015</b>	
	%	Balance
Counterparty A	4.9%	43,217
Counterparty B	3.0%	26,294
Counterparty C	2.6%	23,220
	<b>10.6%</b>	<b>92,731</b>

Management and control of credit risk regarding receivables other than billing receivables, including the receivables from counterparties A, B, C is based on:

- investigation of financial standing in relation to the Group's business partners (current and potential);
- investigation of individual credit limit needs of business partners;
- security of credit limits by using hard security instruments (deposit, bank guarantee) and soft security instruments (submission for execution based on clause 777 of Polish code of civil procedure, bill of exchange);
- insurance of trade receivables in external institutions;
- periodical monitoring of different warning signals: lack of payment, lack of new orders;
- immediate response in case of appearance of any warning signals.

Except for balances listed above, the Play Group has no significant concentrations of credit risk because the Group has an extensive portfolio of receivables of low individual amounts.

Cash is deposited only in well recognized financial institutions.

### **2.27.3 Interest rate risk**

In the years ended December 31, 2016 and December 31, 2015, the exposure on interest rate risk related primarily to bonds and finance 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.

	<b>Increase / decrease in basis points (EURIBOR 3M, 6M / WIBOR 3M)</b>	<b>Effect on result before tax</b>
Year ended December 31, 2017	+50	(18,340)
	-50	18,340
Year ended December 31, 2016	+50	(636)
	-50	636
Year ended December 31, 2015	+50	(659)
	-50	659

The result is more sensitive to changes in interest rates in 2017 than in 2016 and 2015 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 EURIBOR, a 50 basis points change in the 6M EURIBOR and 50 basis points change in the 3M WIBOR PLN interest rates had occurred during the whole period and had been applied to the appropriate floating rate liabilities during the year ended December 31, 2017, year ended December 31, 2016 and year ended December 31, 2015.

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 year ended December 31, 2016 and year ended December 31, 2015. The Group entered into interest rate swaps in the year ended December 31, 2017, as described above.

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

#### **December 31, 2017**

	<b>Liabilities (including projected interest) payable within:</b>			
	<b>1 year</b>	<b>2 to 5 years</b>	<b>over 5 years</b>	<b>Total</b>
Bank loans	675,951	5,646,780	1,281,813	7,604,544
Lease	192,490	567,295	575,400	1,335,185
Other debt	12,072	15,503	-	27,575
	<b>880,513</b>	<b>6,229,578</b>	<b>1,857,213</b>	<b>8,967,304</b>

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
	<b>433,093</b>	<b>5,480,087</b>	<b>466,007</b>	<b>6,379,187</b>

December 31, 2015	Liabilities (including projected interest) payable within:			
	1 year	2 to 5 years	over 5 years	Total
Notes	243,905	5,015,574	-	5,259,479
Lease	183,130	538,218	433,931	1,155,279
	<b>427,035</b>	<b>5,553,792</b>	<b>433,931</b>	<b>6,414,758</b>

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.

### 2.27.5 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, to enable the repayment of debt and to maintain an optimal capital structure to reduce the cost of capital. The Group monitors capital using the net debt figure. The Group includes to net debt the borrowings at nominal value increased by accrued interest (excluding the impact of loan origination fees), less cash and cash equivalents.

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Cash and cash equivalents</b>	<b>628,725</b>	<b>340,994</b>	<b>1,556,801</b>
Senior Facilities	6,444,597	-	-
Senior Secured Notes	-	3,408,206	3,287,868
Senior Notes	-	1,226,615	1,181,559
Leases	948,816	842,714	841,397
Other debt	26,448	2,672	-
<b>Total debt</b>	<b>7,419,861</b>	<b>5,480,207</b>	<b>5,310,824</b>
<b>Net debt</b>	<b>6,791,136</b>	<b>5,139,213</b>	<b>3,754,023</b>

### 2.28 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 relating to retention programs and derivatives are described in Notes 2.29.3 and 2.18.2 respectively.

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

## **2.29 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 years are discussed below.

### **2.29.1 Recognition of revenue**

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 (please see also Note 23). 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 were historically determined based on the standard list prices at which the Group sold them separately (without a service contract). In the fourth quarter 2017, based on past experience, the Group changed its estimate to determine the stand-alone selling prices for mobile devices to cost of sale plus margin. The change results in a slightly different timing of revenue recognition. The Group considers the impact of the change on the recognized revenue as immaterial (less than 1% of the total operating revenues in the year ended December 31, 2017). 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 contract services (including these bundled with handsets) and prepaid services. The Group has assessed that the dealers act as agents (and therefore do not control the goods or services before they are provided to the end-customer) 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 telecommunications services to the end-customer and organizes the process of repairs of the equipment within the guarantee period,
- b) prices of services and equipment delivered 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.

### **2.29.2 Valuation of lease liabilities and right-of-use assets**

The application of IFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities (please see Note 17.3) and the valuation of right-of-use assets (please see Note 4). 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 discount rate representing the rate of interest rate swap 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.

### **2.29.3 Valuation of the liabilities relating to cash-settled retention programs**

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 final settlement of the retention programs granted to members of P4's Management Board: EGA MB Plan, PSA 1, PSA 2 and PSA 3 Plans. On July 27, 2017 the payouts from these programs were exercised and programs ended. For detailed descriptions of the plans, including also the description of prior interim payments, please see Note 19.

In the year ended December 31, 2017, apart from the retention programs granted to members of P4's Management Board, 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 as defined under VDP 3 agreements, the IPO was not considered an event triggering the payouts from VDP 3. Due to the fact that there was no change of control before December 31, 2017, the value of the future payouts from VDP 3 is calculated based on level of achievement of certain key performance indicators by the Group in the years 2015-2017 and the fair value of the liabilities relating to the VDP 3 was estimated accordingly, taking into account the interim payments exercised in prior periods.

### **2.29.4 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 members of the programs would not have incentive to sell shares before the fifth anniversary of the IPO date. Expected turnover of key employees was established based on historical data regarding similar incentive plans.

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

With respect to Senior Facilities Agreement signed in March 2017 (please see Note 17.1.1) the Group had concluded that option's exercise price approximated debt amortized cost value and that it could be moreover assessed that implied fee for early redemption reimbursed 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 Senior Facilities Agreement signed in March 2017 for accounting and valuation purposes.

#### **2.29.6 Valuation of the assets retirement obligation provision**

As at December 31, 2017 the assets retirement obligation provision (please see Note 18) was calculated using discount rate of 2.99% (3.62% as at December 31, 2016 and 2.95% as at December 31, 2015), 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.

#### **2.29.7 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 (please see Note 30). 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.

#### **2.29.8 Impairment of non-current 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 December 31, 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, 2017. 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 2018-2022.

The key assumptions for the calculations include: the number of the new subscribers added (“gross adds”), ARPU Outbound (monthly revenue from retail usage per average subscriber), the costs of national roaming/network sharing and interconnection costs, unit subscriber acquisition and retention costs. The discount rate used (of 9.54%) reflects the risks specific to the Play Group’s operations. The growth rate used to extrapolate cash flow projections beyond the forecast period (from 2023 onwards) is conservatively determined at 0%.

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, 2017. 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, possible significant changes in mobile 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 development of 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 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 the actual recoverable amount of the CGU may differ significantly in the future from the Play Group’s current estimates.

However,

- If the total number of new subscribers added by the Group (“gross adds”) in the projection period was 10% lower than the Group’s assumptions, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.
- If the Blended ARPU Outbound (monthly revenue from retail usage per average subscriber) in the projection period was 5% lower than the Group’s assumptions, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.
- If the revised estimated discount rate applied to the discounted cash flows was increased by 2 p.p., compared with the Group’s estimates, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.

### **2.30 Segment reporting**

The Group’s business activity embraces the provision of mobile telecommunications services, sales of mobile devices and managing a distribution network of mobile telecommunications products in Poland.

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 PLN 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):

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Operating profit</b>	<b>1,107</b>	<b>1,290</b>	<b>1,066</b>
Add depreciation and amortization	797	634	597
Add management fees	49	36	28
Add valuation of retention programs and special bonuses	283	7	93
Add other non-recurring costs	62	68	2
<b>Adjusted EBITDA</b>	<b>2,298</b>	<b>2,035</b>	<b>1,786</b>

Non-recurring 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 year ended December 31, 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 year ended December 31, 2017 due to one-off fees incurred in connection with the IPO.

Other non-recurring costs for the year ended December 31, 2017 comprised: (i) costs of the IPO in the amount of PLN 45.9 million; (ii) non-recurring costs of PLN 11.4 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) net non-recurring costs of strategic projects out of usual scope of our business of PLN 3.4 million and other non-recurring costs of PLN 1.3 million. Non-recurring costs of strategic projects out of usual scope of the Group's business incurred in prior periods were offset in the three-month period ended December 31, 2017 with income from sale of assets relating to those projects.

Other non-recurring costs for the year ended December 31, 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) non-recurring costs of strategic projects out of usual scope of our business of PLN 12.0 million; (iv) a non-cash adjustment of prior years' deferred income balances of PLN 7.7 million; (v) impairment allowance for other non-current assets in the amount of PLN 4.6 million; and (vi) other non-recurring costs of PLN 10.5 million comprised mostly of costs of prepaid registration process to comply with new regulations.

Other non-recurring costs for the year ended December 31, 2015, comprised: (i) income from a reversal of provisions for a potential liability towards the UOKiK of PLN 10.7 million relating to the alleged participation in an anti-competitive agreement due to the repeal of the UOKiK's decision by the District Court in Warsaw in its judgment of June 19, 2015; (ii) non-recurring costs relating to legal and advisory services of PLN 3.3 million and other non-recurring costs of PLN 9.1 million.

Adjusted EBITDA is a non-IFRS financial measure. Other entities 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	Total
<b>Cost</b>							
As at January 1, 2017	46	858,585	125,567	1,066,942	345	122,018	2,173,503
Additions	-	-	41	-	-	27	68
Transfers and reclassifications	-	123,630	114,909	301,562	29	(39,620)	500,510
Disposals	-	(8,732)	(5,743)	(110,449)	(54)	(5,133)	(130,111)
<b>As at December 31, 2017</b>	<b>46</b>	<b>973,483</b>	<b>234,774</b>	<b>1,258,055</b>	<b>320</b>	<b>77,292</b>	<b>2,543,970</b>
<b>Accumulated depreciation</b>							
As at January 1, 2017	4	390,861	96,046	548,752	323	47,894	1,083,880
Charge	-	41,373	29,364	202,727	34	14,670	288,168
Transfers and reclassifications	-	(13,583)	17,345	20,694	-	(7,111)	17,345
Disposals	-	(8,624)	(5,740)	(110,263)	(52)	(4,778)	(129,457)
<b>As at December 31, 2017</b>	<b>4</b>	<b>410,027</b>	<b>137,015</b>	<b>661,910</b>	<b>305</b>	<b>50,675</b>	<b>1,259,936</b>
<b>Accumulated impairment</b>							
As at January 1, 2017	-	-	34	-	-	152	186
Impairment charge	-	-	471	984	-	145	1,600
Utilization of impairment provision	-	-	(2)	-	-	(97)	(99)
<b>As at December 31, 2017</b>	<b>-</b>	<b>-</b>	<b>503</b>	<b>984</b>	<b>-</b>	<b>200</b>	<b>1,687</b>
<b>Net book value as at December 31, 2017</b>	<b>42</b>	<b>563,456</b>	<b>97,256</b>	<b>595,161</b>	<b>15</b>	<b>26,417</b>	<b>1,282,347</b>

The transfers recorded during year ended December 31, 2017 relate mainly to transfers from assets under construction to property, plant and equipment due to the completion of investment projects. 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. The increase in value of completed investments in buildings in the year ended December 31, 2017 in comparison to the year ended December 31, 2016 is connected with the nationwide rollout of the network. The increase in value of IT equipment in the year ended December 31, 2017 in comparison to the year ended December 31, 2016 relates to completion of certain IT projects. The continuing increase in value of completed investments in telecommunications network and equipment in the year ended December 31, 2017 and in the year ended December 31, 2016 in comparison to the year ended December 31, 2015 is connected with the improvements on the existing sites to expand our 4G LTE and 4G LTE Ultra coverage using the 800 MHz and 2600 MHz frequencies acquired in the year ended December 31, 2016 as well as with the nationwide rollout of the network.

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	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
<b>Cost</b>							
As at January 1, 2016	46	796,404	101,546	905,081	-	60,098	1,863,175
Transfers and reclassifications	-	65,409	29,239	234,843	345	65,363	395,199
Disposals	-	(3,228)	(5,218)	(72,982)	-	(3,443)	(84,871)
<b>As at December 31, 2016</b>	<b>46</b>	<b>858,585</b>	<b>125,567</b>	<b>1,066,942</b>	<b>345</b>	<b>122,018</b>	<b>2,173,503</b>
<b>Accumulated depreciation</b>							
As at January 1, 2016	4	360,362	88,999	471,981	-	34,082	955,428
Charge	-	32,680	16,011	142,743	27	17,613	209,074
Transfers and reclassifications	-	-	(3,866)	6,631	296	(609)	2,452
Disposals	-	(2,181)	(5,098)	(72,603)	-	(3,192)	(83,074)
<b>As at December 31, 2016</b>	<b>4</b>	<b>390,861</b>	<b>96,046</b>	<b>548,752</b>	<b>323</b>	<b>47,894</b>	<b>1,083,880</b>
<b>Accumulated impairment</b>							
As at January 1, 2016	-	-	-	-	-	-	-
Impairment charge	-	-	34	-	-	152	186
<b>As at December 31, 2016</b>	<b>-</b>	<b>-</b>	<b>34</b>	<b>-</b>	<b>-</b>	<b>152</b>	<b>186</b>
<b>Net book value as at December 31, 2016</b>	<b>42</b>	<b>467,724</b>	<b>29,487</b>	<b>518,190</b>	<b>22</b>	<b>73,972</b>	<b>1,089,437</b>

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	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
<b>Cost</b>							
As at January 1, 2015	46	691,837	111,593	926,038	-	49,616	1,779,130
Additions	-	-	-	-	-	-	-
Transfers and reclassifications	-	111,530	4,967	187,824	-	23,332	327,653
Disposals	-	(6,963)	(15,014)	(208,781)	-	(12,850)	(243,608)
<b>As at December 31, 2015</b>	<b>46</b>	<b>796,404</b>	<b>101,546</b>	<b>905,081</b>	<b>-</b>	<b>60,098</b>	<b>1,863,175</b>
<b>Accumulated depreciation</b>							
As at January 1, 2015	4	274,028	90,719	516,700	-	37,328	918,779
Charge	-	90,831	13,745	163,268	-	9,479	277,323
Transfers and reclassifications	-	95	(454)	-	-	-	(359)
Disposals	-	(4,592)	(15,011)	(207,987)	-	(12,725)	(240,315)
<b>As at December 31, 2015</b>	<b>4</b>	<b>360,362</b>	<b>88,999</b>	<b>471,981</b>	<b>-</b>	<b>34,082</b>	<b>955,428</b>
<b>Net book value as at December 31, 2015</b>	<b>42</b>	<b>436,042</b>	<b>12,547</b>	<b>433,100</b>	<b>-</b>	<b>26,016</b>	<b>907,747</b>

#### 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	Right-of-Use: Total
<b>Cost</b>							
As at January 1, 2017	132,530	1,174,013	82,525	74,056	25,767	718	1,489,609
Additions	39,143	217,493	-	5,980	-	27	262,643
Asset retirement obligation	-	10,145	-	-	-	-	10,145
Transfers and reclassifications	(7,513)	7,513	(17,236)	-	7,483	-	(9,753)
Disposals	(706)	(39,701)	(2,289)	(7,041)	(6,155)	-	(55,892)
<b>As at December 31, 2017</b>	<b>163,454</b>	<b>1,369,463</b>	<b>63,000</b>	<b>72,995</b>	<b>27,095</b>	<b>745</b>	<b>1,696,752</b>
<b>Accumulated depreciation</b>							
As at January 1, 2017	44,524	572,474	58,716	54,518	13,203	665	744,100
Charge	10,816	103,270	14,337	9,553	7,437	13	145,426
Charge from asset retirement obligation	-	2,602	-	-	-	-	2,602
Transfers and reclassifications	(377)	377	(17,345)	-	-	-	(17,345)
Disposals	(134)	(20,608)	(2,276)	(4,756)	(6,124)	-	(33,898)
<b>As at December 31, 2017</b>	<b>54,829</b>	<b>658,115</b>	<b>53,432</b>	<b>59,315</b>	<b>14,516</b>	<b>678</b>	<b>840,885</b>
<b>Net book value as at December 31, 2017</b>	<b>108,625</b>	<b>711,348</b>	<b>9,568</b>	<b>13,680</b>	<b>12,579</b>	<b>67</b>	<b>855,867</b>

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN nil for the year ended December 31, 2017. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed. The expenses 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 10,126 thousand for the year ended December 31, 2017.

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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	Right-of-Use: Total
<b>Cost</b>							
As at January 1, 2016	113,374	1,104,525	89,116	92,219	26,097	-	1,425,331
Additions	20,460	121,489	-	4,112	-	-	146,061
Asset retirement obligation	-	(88)	-	-	-	-	(88)
Transfers and reclassifications	-	-	4,426	(9,827)	6,735	718	2,052
Disposals	(1,304)	(51,913)	(11,017)	(12,448)	(7,065)	-	(83,747)
<b>As at December 31, 2016</b>	<b>132,530</b>	<b>1,174,013</b>	<b>82,525</b>	<b>74,056</b>	<b>25,767</b>	<b>718</b>	<b>1,489,609</b>
<b>Accumulated depreciation</b>							
As at January 1, 2016	35,875	501,646	44,821	61,681	13,384	-	657,407
Charge	9,495	97,270	21,019	10,661	7,164	56	145,665
Charge from asset retirement obligation	-	2,242	-	-	-	-	2,242
Transfers and reclassifications	-	-	3,866	(6,631)	(296)	609	(2,452)
Disposals	(846)	(28,684)	(10,990)	(11,193)	(7,049)	-	(58,762)
<b>As at December 31, 2016</b>	<b>44,524</b>	<b>572,474</b>	<b>58,716</b>	<b>54,518</b>	<b>13,203</b>	<b>665</b>	<b>744,100</b>
<b>Net book value as at December 31, 2016</b>	<b>88,006</b>	<b>601,539</b>	<b>23,809</b>	<b>19,538</b>	<b>12,564</b>	<b>53</b>	<b>745,509</b>

In the year ended December 31, 2016 the cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 3,810 thousand.

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

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 10,128 thousand in the year ended December 31, 2016.

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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	Right-of-Use: Total
<b>Cost</b>							
As at January 1, 2015	98,159	973,753	63,478	106,064	27,121	-	1,268,575
Additions	15,432	143,641	-	6,976	-	-	166,049
Asset retirement obligation	-	6,224	-	-	-	-	6,224
Transfers and reclassifications	-	(364)	25,668	31	7,770	-	33,105
Disposals	(217)	(18,729)	(30)	(20,852)	(8,794)	-	(48,622)
<b>As at December 31, 2015</b>	<b>113,374</b>	<b>1,104,525</b>	<b>89,116</b>	<b>92,219</b>	<b>26,097</b>	-	<b>1,425,331</b>
<b>Accumulated depreciation</b>							
As at January 1, 2015	27,382	418,451	25,359	62,839	15,231	-	549,262
Charge	8,493	94,870	19,038	19,545	6,899	-	148,845
Charge from asset retirement obligation	-	1,923	-	-	-	-	1,923
Transfers and reclassifications	-	(95)	454	-	-	-	359
Disposals	-	(13,503)	(30)	(20,703)	(8,746)	-	(42,982)
<b>As at December 31, 2015</b>	<b>35,875</b>	<b>501,646</b>	<b>44,821</b>	<b>61,681</b>	<b>13,384</b>	-	<b>657,407</b>
<b>Net book value as at December 31, 2015</b>	<b>77,499</b>	<b>602,879</b>	<b>44,295</b>	<b>30,538</b>	<b>12,713</b>	-	<b>767,924</b>

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 3,175 thousand in the year ended December 31, 2015.

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

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 11,888 thousand in the year ended December 31, 2015.

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## 5. Intangible assets

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
<b>Cost</b>					
As at January 1, 2017	2,779,955	830,955	238,301	29,904	3,879,115
Additions	81,000	-	-	-	81,000
Transfers and reclassifications	-	321,359	-	14,242	335,601
Disposals	-	(4,929)	-	-	(4,929)
<b>As at December 31, 2017</b>	<b>2,860,955</b>	<b>1,147,385</b>	<b>238,301</b>	<b>44,146</b>	<b>4,290,787</b>
<b>Accumulated amortization</b>					
As at January 1, 2017	557,879	672,922	-	14,931	1,245,732
Charge	194,136	158,861	-	8,063	361,060
Disposals	-	(458)	-	-	(458)
<b>As at December 31, 2017</b>	<b>752,015</b>	<b>831,325</b>	<b>-</b>	<b>22,994</b>	<b>1,606,334</b>
<b>Accumulated impairment</b>					
As at January 1, 2017	-	-	-	4,597	4,597
Impairment charge	-	596	-	(128)	468
Transfers and reclassifications	-	4,469	-	(4,469)	-
Utilization of impairment provision	-	(4,469)	-	-	(4,469)
<b>As at December 31, 2017</b>	<b>-</b>	<b>596</b>	<b>-</b>	<b>-</b>	<b>596</b>
<b>Net book value as at December 31, 2017</b>	<b>2,108,940</b>	<b>315,464</b>	<b>238,301</b>	<b>21,152</b>	<b>2,683,857</b>

The transfers recorded during year ended December 31, 2017 relate mainly to transfers from assets under construction to intangible assets due to the completion of computer and network software and other intangible assets.

On August 23, 2005 the Group was granted by the Polish regulator Urząd Komunikacji Elektronicznej ("UKE") a reservation of the 2100 MHz frequency for the period from July 1, 2006 to December 31, 2022. On March 16, 2007 the Group 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 December 31, 2017 the carrying value of the 2100 MHz license was PLN 109,207 thousand.

On December 9, 2008 the Group was granted a reservation of the 900 MHz frequency for the period from December 9, 2008 to December 31, 2023. The Group started to amortize the 900 MHz license from January 2009. The license is amortized over the period for which it was granted. As at December 31, 2017 the carrying value of the 900 MHz license was PLN 87,079 thousand.

On February 13, 2013, the Group 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 December 31, 2017 the carrying value of the 1800 MHz license was PLN 343,448 thousand.

On January 25, 2016, the Group 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 (the Group 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 December 31, 2017 the carrying value of the 800 MHz license was PLN 1,303,477 thousand.

On January 25, 2016, the Group 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 December 31, 2017 the carrying value of the 2600 MHz license was PLN 193,729 thousand.

On August 10, 2017, the Group was granted a reservation of the 3700 MHz frequency for the period from October 1, 2017 to December 29, 2019. The license is amortized over the period for which it was granted. As at December 31, 2017 the carrying value of the 3700 MHz license was PLN 72,000 thousand.

The goodwill was recognized primarily on the acquisition of the Germanos Group in the year ended December 31, 2007.

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.

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	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
<b>Cost</b>					
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	-	56,871	-	8,408	65,279
Disposals	-	(7,524)	-	(130)	(7,654)
<b>As at December 31, 2016</b>	<b>2,779,955</b>	<b>830,955</b>	<b>238,301</b>	<b>29,904</b>	<b>3,879,115</b>
<b>Accumulated amortization</b>					
As at January 1, 2016	380,388	582,856	-	13,041	976,285
Charge	177,491	97,590	-	2,020	277,101
Disposals	-	(7,524)	-	(130)	(7,654)
<b>As at December 31, 2016</b>	<b>557,879</b>	<b>672,922</b>	<b>-</b>	<b>14,931</b>	<b>1,245,732</b>
<b>Accumulated impairment</b>					
As at January 1, 2016	-	-	-	-	-
Impairment charge	-	-	-	4,597	4,597
<b>As at December 31, 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,597</b>	<b>4,597</b>
<b>Net book value as at December 31, 2016</b>	<b>2,222,076</b>	<b>158,033</b>	<b>238,301</b>	<b>10,376</b>	<b>2,628,786</b>

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	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
<b>Cost</b>					
As at January 1, 2015	1,061,522	764,901	238,301	17,934	2,082,658
Transfers and reclassifications	-	27,368	-	6,937	34,305
Disposals	-	(10,661)	-	(3,245)	(13,906)
<b>As at December 31, 2015</b>	<b>1,061,522</b>	<b>781,608</b>	<b>238,301</b>	<b>21,626</b>	<b>2,103,057</b>
<b>Accumulated amortization</b>					
As at January 1, 2015	309,688	497,586	-	13,748	821,022
Charge	70,700	95,931	-	2,538	169,169
Disposals	-	(10,661)	-	(3,245)	(13,906)
<b>As at December 31, 2015</b>	<b>380,388</b>	<b>582,856</b>	<b>-</b>	<b>13,041</b>	<b>976,285</b>
<b>Net book value as at December 31, 2015</b>	<b>681,134</b>	<b>198,752</b>	<b>238,301</b>	<b>8,585</b>	<b>1,126,772</b>

## 6. Assets under construction

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Cost</b>			
As at January 1	543,114	395,385	286,447
Additions	595,919	611,065	504,908
Radio network	391,810	391,279	259,467
Core network and network operations center	48,923	72,978	73,096
IT	131,955	116,452	111,418
Other capital expenditures	23,231	30,356	60,927
Transfers and reclassifications	(826,358)	(462,530)	(395,063)
Disposals	(3,106)	(806)	(907)
<b>As at December 31</b>	<b>309,569</b>	<b>543,114</b>	<b>395,385</b>
<b>Accumulated impairment</b>			
As at January 1	2,698	1,849	981
Impairment charge	3,520	1,491	1,686
Utilization of impairment provision	-	(642)	(818)
<b>As at December 31</b>	<b>6,218</b>	<b>2,698</b>	<b>1,849</b>
<b>Net book value as at December 31</b>	<b>303,351</b>	<b>540,416</b>	<b>393,536</b>

Assets under construction comprise expenditures on property, plant and equipment as well as intangible assets being under construction. Assets under construction include also right-of-use assets being in the process of preparation for use amounting to PLN 10,010 thousand as at December 31, 2017, PLN 10,140 thousand as at December 31, 2016 and nil as at December 31, 2015.

Transfers and reclassifications represent transfers from assets under construction to property, plant and equipment, to intangible assets and to right-of-use assets.

The Group did not capitalize any interest expense or exchange rate differences during the periods presented.

Contractual commitments for purchase of property, plant and equipment and intangible assets amounted to PLN 120,037 thousand as at December 31, 2017, PLN 85,724 thousand as at December 31, 2016 and PLN 75,585 thousand as at December 31, 2015.

## 7. Contract costs

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Cost</b>			
As at January 1	703,567	605,668	484,039
Additions	414,155	421,951	395,403
Disposals - terminated contracts	(388,758)	(324,052)	(273,774)
<b>As at December 31</b>	<b>728,964</b>	<b>703,567</b>	<b>605,668</b>
<b>Accumulated amortization</b>			
As at January 1	352,886	295,724	226,925
Charge (including impairment)	403,834	381,214	342,573
Disposals (including impairment) - terminated contracts	(388,758)	(324,052)	(273,774)
<b>As at December 31</b>	<b>367,962</b>	<b>352,886</b>	<b>295,724</b>
<b>Net book value as at December 31</b>	<b>361,002</b>	<b>350,681</b>	<b>309,944</b>

The contract costs presented above are costs to obtain contracts with customers (sales commissions).

## 8. Finance receivables

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Long-term finance receivables</b>			
EUR 8.22% Senior Notes due in 2020, tranche A, B, C	-	249,788	153,441
EUR 6.11% Senior Notes due in 2020, tranche D	-	72,853	-
Loans given	-	18,360	-
	-	<b>341,001</b>	<b>153,441</b>
<b>Short-term finance receivables</b>			
Loans given	-	274	-
	-	<b>274</b>	-

### 8.1 Debt securities

#### EUR Senior Notes tranche A, B, C, D and E, due in 2020 issued by 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. 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% and on tranche D amounted to 6.12%. The effective interest rate 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 issued by 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. 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 issuance of 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.

**8.2 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**

	December 31, 2017	December 31, 2016	December 31, 2015
Long-term receivables	14,205	12,572	12,106
Impairment of long-term receivables	(370)	(408)	(972)
	<b>13,835</b>	<b>12,164</b>	<b>11,134</b>

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

## 10. Other finance assets and other finance liabilities

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Other finance assets</b>			
Early redemption option embedded in Senior Secured Notes	-	83,522	8,580
Early redemption option embedded in Senior Notes	-	50,724	10,639
<b>Finance assets at fair value through profit or loss</b>	<b>-</b>	<b>134,246</b>	<b>19,219</b>
Interest rate swaps	4,268	-	-
<b>Finance assets at fair value through other comprehensive income</b>	<b>4,268</b>	<b>-</b>	<b>-</b>
<b>Other long-term finance assets</b>	<b>4,268</b>	<b>134,246</b>	<b>19,219</b>
<b>Other finance liabilities</b>			
Interest rate swaps	6,871	-	-
<b>Finance liabilities at fair value through other comprehensive income</b>	<b>6,871</b>	<b>-</b>	<b>-</b>
<b>Other short-term finance liabilities</b>	<b>6,871</b>	<b>-</b>	<b>-</b>

### 10.1 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 2.27.3.

The effective portion of changes in the fair value of the above mentioned finance assets and finance liabilities resulted in other comprehensive gain of PLN 118 thousand for the year ended December 31, 2017.

### 10.2 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 2.29.5 and Note 10). These financial instruments were derecognized in the year ended December 31, 2017.

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 (finance income or finance costs). The table below presents reconciliation of change in fair value in the reporting periods.

	<b>Early redemption option embedded in Senior Secured Notes</b>	<b>Early redemption option embedded in Senior Notes</b>	<b>Total</b>
Valuation as at January 1, 2017	83,522	50,724	134,246
Valuation as at December 31, 2017	-	-	-
<b>Impact of change in fair value on profit or loss for the year ended December 31, 2017</b>	<b>(83,522)</b>	<b>(50,724)</b>	<b>(134,246)</b>
Valuation as at January 1, 2016	8,580	10,639	19,219
Valuation as at December 31, 2016	83,522	50,724	134,246
<b>Impact of change in fair value on profit or loss for the year ended December 31, 2016</b>	<b>74,942</b>	<b>40,085</b>	<b>115,027</b>
Valuation as at January 1, 2015	38,948	18,663	57,611
Valuation as at December 31, 2015	8,580	10,639	19,219
<b>Impact of change in fair value on profit or loss for the year ended December 31, 2015</b>	<b>(30,368)</b>	<b>(8,024)</b>	<b>(38,392)</b>

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 year ended December 31, 2017.

## 11. Inventories

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Goods for resale	130,494	121,686	166,643
Goods in dealers' premises	38,439	39,619	34,611
Prepaid deliveries	-	2	18,158
Impairment of goods for resale	(9,654)	(11,622)	(7,203)
	<b>159,279</b>	<b>149,685</b>	<b>212,209</b>

The impairment of the Play Group's inventories relates mainly to handsets and other mobile devices for which the Group assessed that the net realizable value 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 intended to be 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 telecommunications services.

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

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2015</b>
<b>Beginning of period</b>	<b>11,622</b>	<b>7,203</b>	<b>6,503</b>
- charged/(credited) to income statement	(1,968)	5,985	1,421
- utilized	-	(1,566)	(721)
<b>End of period</b>	<b>9,654</b>	<b>11,622</b>	<b>7,203</b>

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

## 12. Trade and other receivables

	December 31, 2017	December 31, 2016	December 31, 2015
Trade receivables	1,226,757	1,400,747	967,401
Impairment of trade receivables	(130,169)	(143,191)	(92,970)
<b>Trade receivables (net)</b>	<b>1,096,588</b>	<b>1,257,556</b>	<b>874,431</b>
VAT and other government receivables	3,272	2,127	2,161
Other receivables	606	256	302
<b>Other receivables (net)</b>	<b>3,878</b>	<b>2,383</b>	<b>2,463</b>
	<b>1,100,466</b>	<b>1,259,939</b>	<b>876,894</b>

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.

As part of its receivables management the Group sells past due receivables to third party collection agencies; the receivables are then derecognized.

As of December 31, 2017 trade receivables of PLN 130,169 thousand (December 31, 2016: PLN 143,191 thousand and December 31, 2015: PLN 92,970 thousand) were impaired. The individually impaired receivables are mainly receivables from subscribers who have violated the provisions of the agreements or who have withdrawn from agreements.

As of December 31, 2017 trade receivables of PLN 195,945 thousand (December 31, 2016: PLN 174,225 thousand and December 31, 2015: PLN 161,408 thousand) were past due but not impaired. These relate mainly to individual customers for whom there is no history of default.

The ageing analysis of trade receivables that were not impaired is as follows:

	December 31, 2017	December 31, 2016	December 31, 2015
Current	900,643	1,083,331	713,023
Overdue 0 to 3 months	152,903	119,339	91,819
Overdue 3 to 6 months	18,957	17,511	18,436
Overdue over 6 months	24,085	37,375	51,153
	<b>1,096,588</b>	<b>1,257,556</b>	<b>874,431</b>

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

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

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Beginning of period</b>	<b>143,191</b>	<b>92,970</b>	<b>84,945</b>
- charged/(credited) to income statement	(12,813)	50,221	8,165
- write-downs applied	(209)	-	(140)
<b>End of period</b>	<b>130,169</b>	<b>143,191</b>	<b>92,970</b>

The amount charged to income statement in the year ended December 31, 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 year ended December 31, 2017 the decrease in provision for impairment of trade receivables results from decreased volume of installments sales as well as improved collectability of receivables achieved among others thanks to accelerated sales of receivables to collection agencies at favorable prices.

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

### 13. Contract assets

	December 31, 2017	December 31, 2016	December 31, 2015
Contract assets	1,366,913	997,780	1,000,880

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 also 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

	December 31, 2017	December 31, 2016	December 31, 2015
Distribution and selling costs	8,449	8,815	9,612
Security deposits paid to UKE	-	-	20,000
Network and IT maintenance	3,852	2,626	749
Other	11,229	9,798	11,410
	<b>23,530</b>	<b>21,239</b>	<b>41,771</b>

As of December 31, 2017, other prepaid expenses include mainly advance payments for services.

The security deposits in the amount of PLN 20,000 thousand were paid to UKE during the year ended December 31, 2014 in relation with Group's participation in auction for frequencies in the 800 MHz and in the 2600 MHz band, of which the security deposits in the amount of PLN 14,000 thousand were accounted for payment for the reservations granted to the Group in the year ended December 31, 2016. The remaining portion was returned to the Group.

## 15. Cash and cash equivalents

	December 31, 2017	December 31, 2016	December 31, 2015
Petty cash	871	702	493
Balances deposited with banks	627,403	339,336	1,555,755
Other cash assets	451	956	553
	<b>628,725</b>	<b>340,994</b>	<b>1,556,801</b>

## 16. Shareholders' equity

### 16.1 Share capital

As at December 31, 2016, the Play Group's share capital consisted of 12,501 shares issued, paid and authorized with a par value of EUR 1 per share. Play Holdings 1 S. à r. l. was the owner of 12,501 shares, constituting 100% of the Play Group's share capital.

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

The Company's shares have been listed on the Warsaw Stock Exchange ("WSE") since July 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 were issued under new Performance Incentive Plan for the members of the Management Board of P4. 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 December 31, 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.

## 16.2 Share premium

On July 26, 2017 the A Series Notes issued by Impera Holdings S.A. (see Note 8.1) 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 repayment of the liabilities resulting from settlement of the cash-settled retention programs towards the members of the Management Board of P4.

## 17. Finance liabilities - debt

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Long-term finance liabilities</b>			
Long-term bank loans	5,975,570	-	-
Long-term notes liabilities	-	4,505,269	4,333,232
Long-term lease liabilities	762,214	669,635	663,386
Other debt	15,083	1,513	-
	<b>6,752,867</b>	<b>5,176,417</b>	<b>4,996,618</b>
<b>Short-term finance liabilities</b>			
Short-term bank loans	387,988	-	-
Short-term notes liabilities	-	102,941	99,234
Short-term lease liabilities	186,602	173,079	178,011
Other debt	11,365	1,130	-
	<b>585,955</b>	<b>277,150</b>	<b>277,245</b>
	<b>7,338,822</b>	<b>5,453,567</b>	<b>5,273,863</b>

### 17.1 Bank loans

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Long-term bank loans</b>			
SFA	5,975,570	-	-
	<b>5,975,570</b>	-	-
<b>Short-term bank loans</b>			
SFA	387,988	-	-
	<b>387,988</b>	-	-
	<b>6,363,558</b>	-	-

#### 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 a consortium of banks. 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 December 31, 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. Loan origination fees incurred in relation to the loan are included in the calculation of the effective interest rate. The balance of unamortized fees amounted to PLN 81,039 thousand as at December 31, 2017. The effective interest rate was 4.56% for Facility A, 4.87% for Facility B and 5.37% for Facility C as at December 31, 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.

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

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

Additionally, in case of change of control there a certain procedure is launched. The SFA also lists certain permitted acquisition transactions. Any acquisition transactions outside the list require prior written consent of the majority lenders. The SFA also restricts the Group from making certain type of unusual payments at the same time allowing the Group to run normal operations under permitted payments definition.

### **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. As at December 31, 2017 the available amount was PLN 150,000 thousand. On February 8, 2018 the agreement was amended: the available amount was reduced to PLN 100,000 thousand in order to reflect the good cash position of the Group and to optimize the cost of available financing. 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 December 31, 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 December 31, 2017, the overdraft line in Bank Millennium S.A. was fully available.

## **17.2 Notes**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
<b>Long-term notes liabilities</b>			
EUR 5.25% Senior Secured Notes due 2019	-	2,631,938	2,525,394
PLN Floating Rate Senior Secured Notes due 2019	-	129,297	128,546
EUR 6.5% Senior Notes due 2019	-	1,183,033	1,135,512
2015 EUR 5.25% Senior Secured Notes due 2019	-	561,001	543,780
	<b>-</b>	<b>4,505,269</b>	<b>4,333,232</b>
<b>Short-term notes liabilities</b>			
Accrued interest related to notes	-	102,941	99,234
	<b>-</b>	<b>102,941</b>	<b>99,234</b>
	<b>-</b>	<b>4,608,210</b>	<b>4,432,466</b>

#### **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 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, 2014.

The notes liability was measured at amortized cost using the effective interest rate. Loan origination fees incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized fees amounted to PLN 22,462 thousand as at December 31, 2016 and PLN 31,506 thousand as at December 31, 2015. The effective interest rate was 5.77% as at December 31, 2016 and December 31, 2015.

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. Unamortized loan origination fees were fully written-off.

#### **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 on 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. Loan origination fees incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized

fees amounted to PLN 703 thousand as at December 31, 2016 and PLN 1,454 thousand as at December 31, 2015). The effective interest rate was 5.70% as at December 31, 2016 and 5.82% as at December 31, 2015).

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. Unamortized loan origination fees were fully written-off.

#### **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 on 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.

The notes liability was measured at amortized cost using the effective interest rate. Loan origination fees incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized fees amounted to PLN 11,447 thousand as at December 31, 2016 and PLN 15,092 thousand as at December 31, 2015. The effective interest rate was 7.04% as at December 31, 2016 and December 31, 2015.

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. Unamortized loan origination fees were fully written-off.

#### **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 maturity date was 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. Loan origination fees 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 fees was negative and amounted to PLN 8,001 thousand as at December 31, 2016 and PLN 11,091 as at December 31, 2015. The effective interest rate was 4.57% as at December 31, 2016 and December 31, 2015.

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. Unamortized loan origination fees were fully written-off.

### 17.3 Lease liabilities

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Long-term lease liabilities</b>			
Telecommunications sites	660,308	564,680	536,813
Points of sale	54,257	33,390	35,657
Dark fiber optic cable	6,322	10,581	16,475
Collocation centers	11,797	16,931	20,163
Offices and warehouse	22,173	29,813	33,967
IT equipment and telecommunications equipment	2,723	9,803	15,300
Motor vehicles	4,634	4,437	5,011
	<b>762,214</b>	<b>669,635</b>	<b>663,386</b>
<b>Short-term lease liabilities</b>			
Telecommunications sites	119,386	109,607	108,415
Points of sale	28,932	22,290	24,914
Dark fiber optic cable	7,484	9,162	9,992
Collocation centers	5,785	6,234	5,690
Offices and warehouse	10,705	4,766	7,617
IT equipment and telecommunications equipment	9,616	15,136	16,128
Motor vehicles	4,694	5,884	5,255
	<b>186,602</b>	<b>173,079</b>	<b>178,011</b>
	<b>948,816</b>	<b>842,714</b>	<b>841,397</b>

For future payments payable under leases which are in place at the reporting date, please see Note 2.27.4.

## 17.4 Changes in finance liabilities

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Bank loans</b>			
As at January 1	-	-	-
Cash inflows	6,443,000	385,000	-
Interest accrued	265,101	7,647	3,706
Cash outflows: interest paid	(238,432)	(4,328)	-
Cash outflows: other payments	(106,111)	(3,319)	(3,706)
Cash outflows: repayment of principal	-	(385,000)	-
As at December 31	<b>6,363,558</b>	-	-
<b>Notes</b>			
As at January 1	<b>4,608,210</b>	<b>4,432,466</b>	<b>3,864,630</b>
Cash inflows	-	-	543,772
Interest accrued	157,457	267,372	244,643
Cash outflows: interest paid	(156,223)	(252,433)	(226,065)
Cash outflows: other payments	(78,689)	-	(8,792)
Effect of changes in foreign exchange rates	(104,961)	160,805	14,278
Cash outflows: repayment of principal	(4,425,794)	-	-
As at December 31	-	<b>4,608,210</b>	<b>4,432,466</b>
<b>Finance lease</b>			
As at January 1	<b>842,714</b>	<b>841,397</b>	<b>797,038</b>
New leases	263,512	156,200	166,049
Modifications or terminations of lease contracts	(16,865)	(26,535)	15,126
Interest accrued	62,411	60,656	61,066
Effect of changes in foreign exchange rates	(6,861)	3,713	520
Lease payments	(196,095)	(192,717)	(198,402)
As at December 31	<b>948,816</b>	<b>842,714</b>	<b>841,397</b>
<b>Other debt</b>			
As at January 1	<b>2,643</b>	-	-
New contracts	30,344	4,001	-
Interest accrued	368	13	-
Cash outflows: interest paid	(368)	(13)	-
Cash outflows: repayment of principal	(6,539)	(1,358)	-
As at December 31	<b>26,448</b>	<b>2,643</b>	-

Lines "Interest accrued" above represent interest calculated using the amortized cost method, i.e. including amortization of the loan origination fees.

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.

Apart from cash flows related to finance liabilities in the year ended December 31, 2017 the Group presents in cash flows from financing activities also 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). 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 previously used to finance distribution of share premium to Impera Holdings S.A. shareholders.

### **17.5 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.

## **18. Provisions**

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Assets retirement provision	49,985	38,902	38,255
Other long-term provisions	8,350	8,618	8,217
Short-term provisions	78	1,006	996
	<b>58,413</b>	<b>48,526</b>	<b>47,468</b>

Movements of the provisions are as follows:

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
<b>As at January 1, 2017</b>	<b>38,902</b>	<b>8,618</b>	<b>1,006</b>	<b>48,526</b>
Increase	11,512	315	15	<b>11,842</b>
Decrease:	(429)	(583)	(943)	<b>(1,955)</b>
- reversal of provisions	(429)	(220)	(162)	<b>(811)</b>
- utilization	-	(363)	(781)	<b>(1,144)</b>
<b>As at December 31, 2017</b>	<b>49,985</b>	<b>8,350</b>	<b>78</b>	<b>58,413</b>

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
<b>As at January 1, 2016</b>	<b>38,255</b>	<b>8,217</b>	<b>996</b>	<b>47,468</b>
Increase	1,021	592	20,443	<b>22,056</b>
Decrease:	(374)	(191)	(20,433)	<b>(20,998)</b>
- reversal of provisions	(374)	(191)	-	<b>(565)</b>
- utilization	-	-	(20,433)	<b>(20,433)</b>
<b>As at December 31, 2016</b>	<b>38,902</b>	<b>8,618</b>	<b>1,006</b>	<b>48,526</b>

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
<b>As at January 1, 2015</b>	<b>31,640</b>	<b>21,883</b>	<b>1,653</b>	<b>55,176</b>
Increase	7,129	602	47	<b>7,778</b>
Decrease:	(514)	(14,268)	(704)	<b>(15,486)</b>
- reversal of provisions	(514)	(10,848)	-	<b>(11,362)</b>
- utilization	-	(3,420)	(704)	<b>(4,124)</b>
<b>As at December 31, 2015</b>	<b>38,255</b>	<b>8,217</b>	<b>996</b>	<b>47,468</b>

## 19. Retention programs

### 19.1 Cash-settled retention programs

During the year ended December 31, 2017 and during the comparative periods, the Play Group operated following cash-settled share-based retention programs, which were settled in the year ended December 31, 2017 or earlier:

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

The Play Group operated also a cash-settled retention program "VDP 3" which ended on December 31, 2017 and will be finally settled in 2018 – please see below.

#### EGA MB Plan

Under the EGA MB Plan the members of P4's Management Board were granted share appreciation rights by P4 during year 2006 and 2007. During year 2014 the plan operated by P4 was replaced by the plan with the same conditions operated by the Company. The percentage granted under the plan was transformed into number of rights. In accordance with the conditions of the EGA MB Plan upon disposal of shares by the shareholders

(a liquidity event), including the following transactions: sale of shares, initial public offering, cancellation or redemption of shares, at or above a minimum required liquidity event price, program members were entitled to receive amounts calculated as number of rights multiplied by the value of one right which was dependent on liquidity event price corrected by excess equity contributions, if they have not resigned or been dismissed by the Group during the vesting period. In case of the distribution of equity to shareholders program members were entitled to receive additional payments. The number of rights granted under the plan was 2,181 as at December 31, 2016 and as at December 31, 2015. The fair value of share appreciation rights was estimated using a geometric Brownian motion process (a Monte Carlo model).

The EGA MB Plan was settled in cash upon the IPO in the year ended December 31, 2017.

#### **PSA 1, PSA 2 and PSA 3 Plans**

Under the PSA 1 Plan the members of P4's Management Board were granted share appreciation rights by P4 during year 2009. Under the PSA 2 and PSA 3 Plan the members of P4's Management Board were granted share appreciation rights by P4 during year 2013. During year 2014 the plans operated by P4 were replaced by one plan operated by the Company and modified; the percentage granted under the plans was transformed into number of rights. In accordance with the conditions of the PSA 1 Plan, upon a change of control over the Company or initial public offering (a liquidity event), at or above a minimum required liquidity event price, program members were entitled to receive amounts calculated as number of rights multiplied by the value of one right which was dependent on the excess of liquidity event price above base value defined in the agreement, if they have not resigned or been dismissed by the Group during the vesting period. The number of rights granted under the plan was 2,181 as at December 31, 2016 and as at December 31, 2015. In accordance with the conditions of the PSA 2 Plan, upon a change of control over the Company or initial public offering (a liquidity event), at or above a minimum required liquidity event price, program members were entitled to receive amounts calculated as number of rights multiplied by the value of one right which was dependent on the excess of liquidity event price above base value defined in the agreement less amount paid under PSA 3 Plan. The amount paid under PSA 2 Plan could not be greater than the limit set in agreement. The number of rights granted under the plan was 727 as at December 31, 2016 and as at December 31, 2015. In accordance with the conditions of the PSA 3 Plan, upon a change of control over the Company or initial public offering (a liquidity event), at or above a minimum required liquidity event price, program members were entitled to receive amounts defined in the agreement. In case of the distribution of equity to shareholders program members were entitled to receive interim payments. The fair value of share appreciation rights of PSA 1, PSA 2 and PSA 3 Plans was estimated using a geometric Brownian motion process (a Black-Scholes model).

The agreement relating to one member of PSA 1, PSA 2 and PSA 3 Plans was transformed into EGA MB Plan in the year ended December 31, 2017 before the IPO.

The PSA 1, PSA 2 and PSA 3 Plans were settled in cash upon the IPO in the year ended December 31, 2017.

#### **SF 1 and SF 2 Plans**

Under the SF 1 and SF2 Plan the member of P4's Management Board was granted share appreciation rights by P4 during year 2013. During year 2015 the plans operated by P4 were replaced by plans operated by the Company and modified. In accordance with the conditions of the SF 1 Plan, upon a change of control over the Company or initial public offering (a liquidity event), at or above a minimum required liquidity event price, program member was entitled to receive amount defined in agreement. In accordance with the conditions of the SF 2 Plan, upon a change of control over the Company or initial public offering (a liquidity event), at or above a minimum required liquidity event price, the program member was entitled to receive amount calculated as granted percentage of the excess of liquidity event price above base value defined in the agreement less amount paid under SF 1 Plan. The amount paid from SF 2 Plan could not be greater than the limit set in agreement. Percentage granted under the plan was 0.20% as at December 31, 2016 and as at December 31, 2015. In case of the distribution of equity to shareholders program member was entitled to receive interim payments. The fair value of share appreciation rights of SF 1 and SF 2 Plans was estimated using a geometric Brownian motion process (a Black-Scholes model).

The agreements relating to SF 1 and SF 2 Plans were terminated in March 2017. The member of the program received a payout based on the agreed liquidity option.

The total cost recognized in the general and administrative expenses in relation to the P4's Management Board cash-settled retention programs in the year ended December 31, 2017 amounted to PLN 226,002 thousand.

#### **EGA Employees Plan**

Under the EGA Employees Plan the members of the Group's Key Personnel were granted share appreciation rights by P4 during years 2007 and 2008. In April 2014 the program was modified: the percentage granted under the plan was transformed into rights to remuneration dependent on the Group's performance in 2014, rights to remuneration dependent on the Group's performance in 2016 and share appreciation rights. In accordance with the conditions of the EGA Employees Plan, upon the disposal of shares by the current shareholders (a liquidity event) before June 30, 2016, at or above a minimum required liquidity event price, program members would be entitled to receive amounts calculated as number of rights multiplied by the value of one right which is dependent on liquidity event price corrected by excess equity contributions. As there was no change of control over P4 until June 30, 2016, program members were entitled to remuneration dependent on the Group's performance in 2014 and 2016. The rights to remuneration dependent on the Group's performance in 2014 have been exercised in the year ended December 31, 2014. The rights to remuneration dependent on the Group's performance in 2016 have been exercised in the year ended December 31, 2016. The plan was settled in cash. The number of rights granted to the Group's Key Personnel under the plan was 27 as at December 31, 2015. Historically the fair value of share appreciation rights was estimated using a geometric Brownian motion process (a Monte Carlo model).

#### **VDP 2 Plan**

Under the VDP 2 the members of the Group's key personnel were granted share appreciation rights by P4 during the year 2013 and 2014. In accordance with the conditions of the VDP 2, the program members were entitled to receive amounts calculated as number of rights granted under the plan multiplied by the value of one right. The value of one right was calculated in reference to the increase in fair value of P4's equity until the date of change of control over P4 (a liquidity event), or until the end of the program in case liquidity event would not take place before the end of the program. The program ended on December 31, 2014. Therefore value of one right was calculated taking into account the increase in fair value of P4's equity until December 31, 2014. Amounts due under VDP 2 plan were paid out to program members in the year ended December 31, 2015.

#### **VDP 3 Plan**

Under the VDP 3 the members of the Group's key personnel were granted share appreciation rights by P4 in June 2015, August 2015 and September 2016. In accordance with the conditions of the VDP 3, the program members were entitled to receive amounts calculated as number of rights granted under the plan multiplied by the value of one right. The value of one right was calculated in reference to the increase in fair value of Group's equity until the date of change of control over the Group (a liquidity event), or until the end of the program in case liquidity event would not take place before the end of the program. The program ended on December 31, 2017. In the light of the provisions of the program, IPO did not qualify as a change of control. Due to the fact that there was no change of control before December 31, 2017, the value of the payouts from VDP 3 is calculated based on level of achievement of certain key performance indicators by the Group in the years 2015-2017 and the fair value of the liabilities relating to the VDP 3 was estimated accordingly, taking into account the interim payments exercised in prior periods. Historically, the fair value of share appreciation rights was estimated using a geometric Brownian motion process (a Black-Scholes model).

## **19.2 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 Management 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 on Award Shares. The percentage of Original Shares subject to lock-up is 100%, 80% and 40% in the periods commencing on the IPO date and ending on respectively the first, second and third IPO anniversary. The percentage of Award Shares subject to lock-up is 100% and 50% in the periods commencing on the date of issuance of the Award Shares and ending on respectively the first and second anniversary of the date of issuance of the Award Shares.

### 19.3 Additional information

#### Number and movements of VDP 3 and VDP 2 share appreciation rights

The following table illustrates the number of, and movements in VDP 3 and VDP 2 share appreciation rights (not in thousands) during the periods:

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015	
	VDP Plan 3	VDP Plan 3	VDP Plan 2	VDP Plan 3
<b>As at January 1</b>	<b>19,707,094</b>	<b>20,443,338</b>	<b>12,085,617</b>	-
Granted during the period	-	228,334	-	20,490,000
Granted in prior periods (correction)	-	-	70,601	-
Forfeited during the period	(38,328)	(964,578)	-	(46,662)
Exercised during the period	-	-	(12,156,218)	-
<b>As at December 31</b>	<b>19,668,766</b>	<b>19,707,094</b>	-	<b>20,443,338</b>
Exercisable at December 31	19,668,766	-	-	-

**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
<b>As at January 1, 2017</b>	<b>150,064</b>	<b>17,740</b>	-
Granted during the period	-	-	19,380
Exercised during the period	-	(381,587)	-
Changes in valuation during the period	231,526	-	8,730
Transferred during the period	(381,590)	381,590	-
<b>As at December 31, 2017</b>	<b>-</b>	<b>17,743</b>	<b>28,110</b>
Vested at December 31, 2017	-	17,743	-

The amounts exercised during the year ended December 31, 2017 comprise the interim payments exercised 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
<b>As at January 1, 2016</b>	<b>163,040</b>	<b>22,294</b>
Exercised during the period	-	(24,701)
Changes in valuation during the period	7,171	-
Transferred during the period	(20,147)	20,147
<b>As at December 31, 2016</b>	<b>150,064</b>	<b>17,740</b>
Vested at December 31, 2016	132,721	10,806

	Long-term cash- settled retention programs liabilities	Short-term cash- settled retention programs liabilities
<b>As at January 1, 2015</b>	<b>95,702</b>	<b>14,129</b>
Granted in prior periods (correction)	-	84
Exercised during the period	-	(18,009)
Changes in valuation during the period	93,175	253
Transferred during the period	(25,837)	25,837
<b>As at December 31, 2015</b>	<b>163,040</b>	<b>22,294</b>
Vested at December 31, 2015	145,390	10,670

## 20. Trade and other payables

	December 31, 2017	December 31, 2016	December 31, 2015
Trade payables	812,761	761,621	670,060
Investment payables	190,478	320,617	194,600
Government payables	97,218	89,991	109,613
Employee payables	107	104	35
Other	5,964	5,248	2,641
	<b>1,106,528</b>	<b>1,177,581</b>	<b>976,949</b>

## 21. Accruals

Accruals include accruals for employee bonuses and unused holidays.

## 22. Deferred income

	December 31, 2017	December 31, 2016	December 31, 2015
Prepaid services	92,257	78,482	73,345
Contract services	138,327	138,923	143,700
Other	627	-	-
	<b>231,211</b>	<b>217,405</b>	<b>217,045</b>

## 23. Operating revenue

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

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Service revenue</b>	<b>4,878,228</b>	<b>4,492,818</b>	<b>4,059,534</b>
Usage revenue	3,645,807	3,432,026	3,180,086
Interconnection revenue	1,232,421	1,060,792	879,448
<b>Sales of goods and other revenue</b>	<b>1,791,631</b>	<b>1,624,740</b>	<b>1,376,969</b>
	<b>6,669,859</b>	<b>6,117,558</b>	<b>5,436,503</b>

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Usage revenue by category</b>			
Retail contract revenue	2,875,570	2,679,081	2,459,003
Retail prepaid revenue	618,996	639,991	642,894
Other revenue	151,241	112,954	78,189
	<b>3,645,807</b>	<b>3,432,026</b>	<b>3,180,086</b>

Other usage revenue consists mainly of revenues from MVNOs to whom the Group provides telecommunications services and revenues generated from services rendered to subscribers of foreign mobile operators that have entered into international roaming agreements with the Group.

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2015</b>
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	92,546	84,001	74,710

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.

	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Transaction price allocated to the remaining performance obligation to be satisfied within:			
1 year	1,720,012	1,512,888	1,536,445
later than 1 year and not later than 2 years	684,130	460,961	321,201
later than 2 years and not later than 3 years	69,784	77,923	8,154
later than 3 years	145	99	-
	<b>2,474,070</b>	<b>2,051,871</b>	<b>1,865,800</b>

## 24. Interconnection, roaming and other service costs

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2015</b>
Interconnection costs	(1,291,446)	(1,154,265)	(1,002,357)
National roaming/network sharing	(192,344)	(176,255)	(160,045)
Other services costs	(245,716)	(165,311)	(168,221)
	<b>(1,729,506)</b>	<b>(1,495,831)</b>	<b>(1,330,623)</b>

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 the Group acts as a principal.

## 25. Contract costs, net

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Contract costs incurred	(439,464)	(439,649)	(429,099)
Contract costs capitalized	414,155	421,951	395,403
Amortization and impairment of contract costs	(403,834)	(381,214)	(342,573)
	<b>(429,143)</b>	<b>(398,912)</b>	<b>(376,269)</b>

The contract costs presented above are costs to obtain contracts with customers (sales commissions).

## 26. General and administrative expenses

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Employee benefits</b>	<b>(525,565)</b>	<b>(227,476)</b>	<b>(307,699)</b>
Salaries	(213,095)	(194,237)	(189,188)
Social security	(29,612)	(26,067)	(25,387)
Special bonuses	(23,223)	-	388
Retention programs, including:	(259,635)	(7,172)	(93,512)
- <i>equity settled</i>	(28,110)	-	-
<b>External services</b>	<b>(606,301)</b>	<b>(567,041)</b>	<b>(525,524)</b>
Network maintenance, leased lines and energy	(131,078)	(119,443)	(111,642)
Advertising and promotion expenses	(169,347)	(198,068)	(181,011)
Customer relations costs	(70,337)	(65,702)	(66,573)
Office and points of sale maintenance	(16,091)	(15,736)	(15,940)
IT expenses	(28,334)	(29,509)	(30,088)
People related costs	(20,631)	(18,925)	(19,169)
Finance and legal services	(55,181)	(19,902)	(18,532)
Management fees	(48,606)	(35,898)	(27,677)
Other external services	(66,696)	(63,858)	(54,892)
<b>Taxes and fees</b>	<b>(80,470)</b>	<b>(64,021)</b>	<b>(54,462)</b>
	<b>(1,212,336)</b>	<b>(858,538)</b>	<b>(887,685)</b>

The increase in costs of special bonuses and retention programs resulted from the settlement of the Management Board retention plans triggered by the IPO. The increase in costs of finance and legal services was mainly caused by expenses related to the IPO. The increase in management fees (see also Note 36) was mainly due to additional services provided in connection with the IPO process.

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 year ended December 31, 2017, the year ended December 31, 2016 and the year ended December 31, 2015, 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.

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.

## 27. Depreciation and amortization

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Depreciation and amortization</b>			
Depreciation of property, plant and equipment	(288,168)	(209,074)	(277,323)
Amortization of intangibles	(361,060)	(277,102)	(169,169)
Depreciation of right-of-use assets	(148,028)	(147,907)	(150,768)
	<b>(797,256)</b>	<b>(634,083)</b>	<b>(597,260)</b>

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

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Other operating income</b>			
Income from early contract termination	14,249	30,969	30,255
Gain on disposal of non-current assets	5,351	8,796	3,900
Reversal of bad debt provision	20,960	-	-
Reversal of provisions	382	-	10,706
Exchange rate gains	7,835	-	-
Income from subleasing of right-of-use assets	11,426	8,661	8,567
Interest income on trade receivables and cash	9,842	8,216	14,918
Other miscellaneous operating income	39,733	14,020	10,142
	<b>109,778</b>	<b>70,662</b>	<b>78,488</b>
<b>Other operating costs</b>			
Impairment of contract assets	(75,889)	(49,202)	(51,394)
Impairment of non-current assets	(5,586)	(6,275)	(1,664)
Bad debt provision	-	(53,325)	(14,171)
Exchange rate losses	-	(4,619)	(2,368)
Other miscellaneous operating costs	(13,220)	(31,028)	(6,483)
	<b>(94,695)</b>	<b>(144,449)</b>	<b>(76,080)</b>

The lines "Reversal of bad debt provision" and "Bad debt provision" represent the movement of the provision for impairment of receivables as well as net result of sales of overdue receivables to collecting agencies. In the year ended December 31, 2017, using the favorable market circumstances, the Group accelerated the sales of substantial volume of overdue receivables, which resulted in net income recognized in the "Reversal of bad debt" line.

## 29. Finance income and finance costs

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Finance income</b>			
Interest income	114,358	19,926	7,576
Net gain on finance instruments at fair value	-	115,027	-
Exchange rate gains	64,492	-	-
	<b>178,850</b>	<b>134,953</b>	<b>7,576</b>
<b>Finance costs</b>			
Interest expense, including:	(486,810)	(336,796)	(310,319)
- <i>on lease liabilities</i>	(62,411)	(60,656)	(61,066)
Net loss on finance instruments at fair value	(169,613)	-	(38,392)
- <i>early redemption options</i>	(134,246)	-	(38,392)
- <i>hedging instruments at fair value through profit or loss</i>	(32,646)	-	-
- <i>loss relating to ineffective portion of hedging instruments at fair value through other comprehensive income</i>	(2,721)	-	-
Exchange rate losses	-	(162,300)	(19,267)
	<b>(656,423)</b>	<b>(499,096)</b>	<b>(367,978)</b>

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 increase in interest income resulted mainly from early redemption fee as well as one-off recognition of income from unamortized loan origination fees in the total amount of PLN 67,756 thousand in relation to early redemption of the notes issued by Impera Holdings S.A. in July 2017. Please see Note 8.

The loss on finance assets at fair value in the year ended December 31, 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 2.27.1).

## 30. Taxation

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Current tax benefit/(charge)	9,269	(164,142)	(57,808)
Deferred tax charge	(251,233)	(49,978)	(97,365)
<b>Income tax charge</b>	<b>(241,964)</b>	<b>(214,120)</b>	<b>(155,173)</b>

Play Communications S.A. and its subsidiaries  
 Consolidated financial statements prepared in accordance with IFRS as adopted by the European Union  
 As at and for the year ended December 31, 2017  
 (Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Reconciliation between tax calculated at the prevailing tax rate applicable to profit (19%) and income tax charge:

	<b>Year ended December 31, 2017</b>	<b>Year ended December 31, 2016</b>	<b>Year ended December 31, 2015</b>
<b>Profit before income tax</b>	<b>629,310</b>	<b>926,108</b>	<b>705,451</b>
Tax calculated at the prevailing tax rate applicable to profit (19%)	(119,569)	(175,961)	(134,036)
Effect of difference between tax rates in Luxembourg and in Poland	16,085	(13,002)	2,101
Expenses not subject to tax	(65,581)	(25,097)	(25,052)
Income not subject to tax	65,913	42,010	11,358
Previous years tax income included in current year accounting profit	1,782	-	315
Adjustments relating to previous tax years	11,617	(27,491)	(13,764)
Change in unrecognized deferred tax asset arising from tax losses	(89,329)	(882)	4,896
Taxable costs not included in accounting profit	-	-	8,136
Taxable income not included in accounting profit	(904)	(13,728)	(9,062)
Effect of changes in tax regulations	(61,927)	-	-
Other	(51)	31	(65)
<b>Income tax charge</b>	<b>(241,964)</b>	<b>(214,120)</b>	<b>(155,173)</b>

Most of the Play Group's taxable revenue is generated in Polish tax jurisdiction. The corporate income tax rate applicable to subsidiaries registered in Poland was 19% in all presented periods. The corporate income tax rate applied to the Company and the subsidiaries registered in Luxembourg was 22.80%-27.08% as at December 31, 2017 and December 31, 2016 and 29.22% as at December 31, 2015.

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 December 31, 2017 Luxembourg entities incurred tax losses which resulted in positive effect of the higher tax rate in the above reconciliation.

The line "Effect of changes in tax regulations" relates to implementation of recent changes of Polish income tax law which since January 1, 2018 does not allow to account for depreciation charges of trademarks as tax costs. In the year ended December 31, 2017 the Group recorded a write-off of the deferred income tax asset in the amount of PLN 61,927 thousand recognized in prior periods in relation to tax depreciation of trademarks expected at that time.

**Deferred income tax**

	December 31, 2017	December 31, 2016	December 31, 2015
<b>Base for deferred income tax calculation:</b>			
net deductible temporary differences	(685,416)	705,167	906,564
carry-forwards of unused tax losses	435,154	10,861	69,305
	<b>(250,262)</b>	<b>716,028</b>	<b>975,869</b>
<b>Potential deferred income tax net asset/(liability) arising from:</b>			
net deductible temporary differences	(130,294)	133,894	172,235
carry-forwards of unused tax losses	104,623	3,045	13,863
	<b>(25,671)</b>	<b>136,939</b>	<b>186,098</b>
Recognized deferred income tax assets	-	<b>134,446</b>	<b>184,146</b>
Recognized deferred income tax liability	<b>(117,101)</b>	<b>(314)</b>	<b>(36)</b>
Not recognized deferred income tax assets	<b>91,430</b>	<b>2,807</b>	<b>1,988</b>

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. The estimation is based upon the budget for the year 2018 and long term financial projections. As at December 31, 2017 and December 31, 2016 and December 31, 2015 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.

Deferred income tax assets and liabilities are offset on the level of the standalone financial statements of consolidated entities.

The Polish and Luxembourg tax systems have 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 fully utilized by a taxpayer within 2 subsequent years at the earliest).

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The deferred tax assets and liabilities consist of the following:

**Deferred tax assets**

	Carry-forward of unused tax losses	Provisions and deferred income	Contract liabilities	Fixed and intangible assets	Inventories	Liabilities	Other items	<b>Total</b>
<b>As at January 1, 2015</b>	<b>47,846</b>	<b>60,781</b>	<b>14,714</b>	<b>281,078</b>	<b>10,781</b>	<b>235,182</b>	<b>1,718</b>	<b>652,100</b>
credited / (charged) to the income statement	(35,971)	(26,888)	2,364	(6,718)	(2,257)	38,419	(1,538)	(32,589)
<b>As at December 31, 2015</b>	<b>11,875</b>	<b>33,893</b>	<b>17,078</b>	<b>274,360</b>	<b>8,524</b>	<b>273,601</b>	<b>180</b>	<b>619,511</b>
credited / (charged) to the income statement	(11,637)	(8,454)	1,870	(84,586)	(8,524)	47,260	(142)	(64,213)
<b>As at December 31, 2016</b>	<b>238</b>	<b>25,439</b>	<b>18,948</b>	<b>189,774</b>	<b>-</b>	<b>320,861</b>	<b>38</b>	<b>555,298</b>
credited / (charged) to the income statement	12,955	3,472	(2,426)	(88,995)	-	(69,444)	50	(144,388)
<b>As at December 31, 2017</b>	<b>13,193</b>	<b>28,911</b>	<b>16,522</b>	<b>100,779</b>	<b>-</b>	<b>251,417</b>	<b>88</b>	<b>410,910</b>

**Deferred tax liabilities**

	Fixed and intangible assets	Right-of-use assets	Contract costs	Prepaid expenses	Contract assets	Receivables	Inventories	Liabilities	Other items	<b>Total</b>
<b>As at January 1, 2015</b>	<b>(9,391)</b>	<b>(121,233)</b>	<b>(48,852)</b>	<b>(1,639)</b>	<b>(168,338)</b>	<b>(4,611)</b>	<b>(3,610)</b>	<b>(11,811)</b>	<b>(1,140)</b>	<b>(370,625)</b>
credited / (charged) to the income statement	(1,799)	(8,459)	(10,037)	293	(21,829)	(27,830)	(4,256)	9,812	(671)	(64,776)
<b>As at December 31, 2015</b>	<b>(11,190)</b>	<b>(129,692)</b>	<b>(58,889)</b>	<b>(1,346)</b>	<b>(190,167)</b>	<b>(32,441)</b>	<b>(7,866)</b>	<b>(1,999)</b>	<b>(1,811)</b>	<b>(435,401)</b>
credited / (charged) to the income statement	(422)	(883)	(7,740)	3	589	17,751	7,497	(102)	(2,458)	14,235
<b>As at December 31, 2016</b>	<b>(11,612)</b>	<b>(130,575)</b>	<b>(66,629)</b>	<b>(1,343)</b>	<b>(189,578)</b>	<b>(14,690)</b>	<b>(369)</b>	<b>(2,101)</b>	<b>(4,269)</b>	<b>(421,166)</b>
credited / (charged) to the income statement	2,760	(22,240)	(1,961)	(84)	(70,135)	(16,757)	(1,184)	(509)	3,265	(106,845)
<b>As at December 31, 2017</b>	<b>(8,852)</b>	<b>(152,815)</b>	<b>(68,590)</b>	<b>(1,427)</b>	<b>(259,713)</b>	<b>(31,447)</b>	<b>(1,553)</b>	<b>(2,610)</b>	<b>(1,004)</b>	<b>(528,011)</b>

### 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 shares which will potentially be issued under the PIP and VDP4 retention programs as Award shares – please see Note 19. As at December 31, 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 December 31, 2017, amounts to nil.

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
<b>Net profit</b>	387,346	711,988	550,278
<u>Weighted average number of shares (in thousands)</u>			
Beginning of period	250,538	250,538	250,538
- issue of initial shares	250,000	250,000	250,000
- VDP4 shares issued without consideration	538	538	538
Issue of PIP shares	1,367	-	-
<b>Weighted average number of shares (basic equals diluted)</b>	<b>251,906</b>	<b>250,538</b>	<b>250,538</b>
Earnings per share (in PLN) (basic equals diluted)	1.54	2.84	2.20

### 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 and interest accrued on cash is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

	December 31, 2017	December 31, 2016	December 31, 2015
Cash and cash equivalents in statement of financial position	628,725	340,994	1,556,801
Interest accrued on cash	(217)	-	-
<b>Cash and cash equivalents in statement of cash flows</b>	<b>628,508</b>	<b>340,994</b>	<b>1,556,801</b>

### 33. Changes in working capital and other presented in statement of cash flows

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
(Increase)/decrease of inventories	(9,593)	62,524	(17,274)
(Increase)/decrease of receivables	162,786	(389,430)	(160,693)
(Increase)/decrease of prepaid expenses	(2,291)	6,532	(7,130)
Increase/(decrease) of payables excluding investment payables	33,842	98,538	94,173
Increase/(decrease) of accruals	5,090	(14,110)	7,313
Increase/(decrease) of deferred income	13,807	360	44,005
(Increase)/decrease of long-term receivables	(1,671)	(1,030)	3,202
Increase/(decrease) of other non-current liabilities	(748)	(506)	(1,351)
	<b>201,222</b>	<b>(237,122)</b>	<b>(37,755)</b>

### 34. Commitments

#### 34.1 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.

#### 34.2 1800 MHz license requirements

The 1800 MHz frequency reservation decision granted to the Group on June 14, 2013 outlined a set of regulatory requirements towards the Group. 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 had to be pursued in rural or suburban areas or towns with population less than 100 thousand people. Additionally, the Group 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.

#### 34.3 800 MHz license requirements

The 800 MHz frequency reservation decision granted to the Group on January 25, 2016 and replaced by decision granted to the Group on June 23, 2016 outlines a set of regulatory requirements towards the Group. 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, the Group had to commence provision of services which utilize 800 MHz frequencies no later than in 12 months from the date of the frequency reservation.

#### 34.4 2600 MHz license requirements

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

## **35. Contingencies and legal proceedings**

### **35.1 Tax contingent liabilities**

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. In some cases, it is difficult to predict the ultimate outcome.

Currently, there are two ongoing tax audits in the Group being conducted with respect to corporate income tax settlements of P4 for the financial year ended December 31, 2013 (initiated in 2016) and for the financial year ended December 31, 2012 (initiated in 2017). The Group has been informed that the 2013 audit should be completed by April 3, 2018, whereas the 2012 audit should finish by March 26, 2018, please note that these deadlines are likely to be further extended (this is a common practice of the Polish tax authorities). The tax authorities investigate in particular: (i) intra-group transitions and settlements, with special emphasis on the settlements between P4 and former subsidiary, subsequently merged with P4, Play Brand Management Limited and (ii) trademarks-related settlements. Moreover, the tax authorities have requested documents concerning different types of related party transactions (e.g., transfer pricing documentation, fee calculations, and other similar documentation). So far, no formal or informal findings have been communicated or notified to the Group. We cannot exclude the risk that the tax authorities will apply a different approach from the one adopted by the Group.

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 connection with application of GAAR.

### **35.2 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. On September 14, 2017, the President of UKE commenced the proceedings to determine the exact amount of Play Group's contribution for the year 2009. On September 20, 2017, the President of UKE issued the decision determining the exact amount of Play Group's contribution for 2008, which was PLN 33 thousand. On October 23, 2017, the President of UKE commenced the proceedings to determine the exact amount of Play Group's contribution for the year 2010. On January 16, 2018, the President of UKE issued the decision determining the exact amount of Play Group's contribution for 2009, which was PLN 1,902 thousand. On February 6, 2018, the President of UKE issued the decision determining the exact amount of Play Group's contribution for 2010, which was PLN 2,450 thousand. Decision relating to Play Group's contribution to universal service for the year 2011 is expected in the second quarter of 2018. 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 year 2011.

### **35.3 Legal and regulatory proceedings**

In April 2013 Sferia S.A., Polkomtel Sp. z o.o. and Polska Izba Radiodyfuzji 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 the Group 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 the Group 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. The Group assesses the risk of the unfavorable change of judgement of District Court in Warsaw as low.

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 were appealed

against at the Supreme Administrative Court by Polkomtel and T-Mobile. 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. The Group has recognized provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts, which are probable 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. For the total amount of provisions, including the provisions for pending legal cases, please see Note 18.

### 36. Related party transactions

	December 31, 2017	December 31, 2016	December 31, 2015
Loans given	-	18,634	-
Long-term receivables - debt securities	-	322,641	153,441
Trade receivables	8,743	59	286
Other long-term receivables	-	25	-
Trade and other payables	35,176	4,928	1,678
	<b>Year ended</b>	<b>Year ended</b>	<b>Year ended</b>
	<b>December 31, 2017</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Other revenue	372	-	-
Management fees	(48,606)	(35,898)	(27,677)
General and administrative expenses	(70)	(118)	-
Other operating income	3,368	390	239
Recharge of operating costs	8,398	45	100
Interest income	113,663	19,845	7,242

Costs of management fees for the years ended December 31, 2016 and December 31, 2015 comprised: costs in relation to regular advisory services agreements entered into by the Group with Novator Partners LLP and Olympia Development S.A. (entities related via former sole shareholder - Play Holdings 1 S. à r. l.), and for the year ended December 31, 2017: costs in relation to regular advisory services agreements entered into by the Group with Novator Partners LLP and Tollerton Investments Limited (owner of 27.65% shares in the Company as of December 31, 2017) 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. The additional IPO advisory services agreement with Novator Partners LLP and Tollerton Investments Limited is still in place but will not generate more costs for the Group except for potential foreign exchange differences on the outstanding trade and other payables balance. The outstanding trade and other payables balance as at December 31, 2017 results mainly from the fact that settlement of payables resulting from the IPO advisory services agreement was due in two instalments – the first was payable within 6 months from the IPO and the second is payable within 12 months from the IPO.

Interest income was earned on the notes issued by Impera Holdings S.A. (former indirect shareholder of the Company). In the year ended December 31, 2017 the A Series Notes issued by Impera Holdings S.A. were redeemed against the Company's share premium. For more information regarding interest, repayment, purchase or redemption of intercompany notes please see Note 8.

Other operating income and recharge of operating costs as well as trade receivable balance result primarily from certain commercial agreements with Folx S.A. (formerly Beta S.A.) and BeamUp Payments S.A. (formerly Pejer S.A.), portfolio companies which are beneficially owned by Olympia Development S.A. and Telco Holdings S. à r. l. (owner of 27.32% shares in the Company as of December 31, 2017). Folx S.A. focuses on the provision of telecommunication services while BeamUp Payments S.A. focuses on the rendering of financial payment services.

Certain former employees of Play are now employed by Folx S.A. and BeamUp Payments S.A. The Group has entered into transactions of certain asset sales as well as a recharge of operating costs previously incurred by the Group to Folx S.A. and BeamUp Payments S.A. The Group has also entered into a wholesale telecommunications services agreement with Folx S.A.

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

### 37. 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 year ended December 31, 2017 amounted to PLN 34,951 thousand (PLN 8,690 thousand for the year ended December 31, 2016 and PLN 9,950 thousand for the year ended December 31, 2015).

Cost of remuneration of members of Supervisory Board of P4 incurred during the year ended December 31, 2017 amounted to PLN 1,663 thousand (for the year ended December 31, 2016 PLN 2,518 thousand and for the year ended December 31, 2015 PLN 2,349 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 in the amount of PLN 233,606 thousand for the year ended December 31, 2017, income of PLN 3,380 thousand for the year ended December 31, 2016 and cost of PLN 74,939 thousand for the year ended December 31, 2015. Relating costs and income are included in general and administrative expenses in the consolidated statement of comprehensive income.

During the year ended December 31, 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. Auditor's fees

	Year ended December 31, 2017	Year ended December 31, 2016	Year ended December 31, 2015
Audit fees	820	709	457
Other attesting fees	1,828	267	645
Tax related fees	186	251	343
Other fees	182	155	399
	<b>3,016</b>	<b>1,382</b>	<b>1,844</b>

### 39. Events after the reporting period

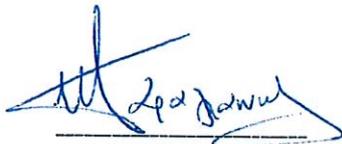
On January 15, 2018, the Group entered into a set of agreements with Virgin Mobile Polska sp. z o.o. ("VMP") and its shareholders as well as with the group of leading investors in VMP. VMP is the largest Polish MVNO with 412.000 customers as of the end of 2016. These agreements give the Group, among others, a call option to acquire all shares in VMP during 2020 at the price calculated according to an agreed valuation methodology based on VMP's one time annual revenue adjusted by certain elements. The investors in VMP undertook to procure that all shares in VMP are sold to the Group in case the Group exercises the call option. In addition, the agreements define terms of future cooperation between the Group and VMP, continuing the successful relationship from the inception of VMP, with increased committed revenues by approximately PLN 25 million up to total of approximately PLN 84

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million to the Group for the years 2018-2021. The Group believes these agreements will enhance the Group 's leadership in the Polish mobile market.

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



Name: Ioannis Karagiannis  
Title: Class B director



Name: Serdar Çetin  
Title: Class C director