Annual Report
for the year ended December 31, 2016

Play Holdings 2 S.à r.l.

January 31, 2017

PLAY

TABLE OF CONTENTS

INTRODUCTION

Play Holdings 2 S.à r.l.

This is the Report of Play Holdings 2 S.à r.l. (the "**Parent**"), 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg, the parent company of P4 Sp. z o.o. ("**Play**", "**P4**" or the "**Company**").

The Parent is a guarantor of the following notes:

(a) €725,000,000 $5^{1}/_{4}$% Fixed Rate Senior Secured Notes due 2019 and PLN 130,000,000 Floating Rate Senior Secured Notes due 2019 issued by Play Finance 2 S.A. (the "**Senior Secured Notes**"); and

(b) €270,000,000 $6^{1}/_{2}$% Senior Notes due 2019 issued by Play Finance 1 S.A. (the "**Senior Notes**").

The following Report is a report as required by Section 4.03 of the indenture that governs the Senior Secured Notes and Section 4.03 of the indenture that governs the Senior Notes.

Play Topco S.A.

The Parent is a wholly owned subsidiary of Play Topco S.A. (the "**PIK Notes Issuer**"), 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg, issuer of €415,000,000 $7^{3}/_{4}$% / $8^{1}/_{2}$% Senior PIK Toggle Notes due 2020 (the "**Senior PIK Toggle Notes**").

The Parent is not a guarantor of the Senior PIK Toggle Notes.

The following Report is a report as required by Section 4.03 of the indenture that governs the Senior PIK Toggle Notes. A brief description of the material differences in the financial condition and results of operations between the PIK Notes Issuer and the Parent and a statement of the PIK Notes Issuer's total debt, EBITDA and cash interest expense on a consolidated basis, as required by Section 4.03(a)(2)(e) of the indenture that governs the Senior PIK Toggle Notes, is included in Annex A to this report.

INDUSTRY, MARKET AND SUBSCRIBER DATA

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

- The Statistical Office of the European Communities ("**Eurostat**"); unless otherwise indicated, historical GDP, historical real GDP growth rate and harmonized unemployment and inflation rate refer to data retrieved from the Eurostat website. Real GDP growth rate forecast refers to the *Autumn 2016 European Economic Forecast*, published on November 9, 2016;

- The Central Statistical Office of Poland (the "**CSO**"), Poland's chief government executive agency charged with collecting and publishing statistics related to Poland's economy, population and society, at both national and local levels;

- The Polish Office of Electronic Communications (the "**UKE**"), the Polish regulatory authority for the telecommunications and postal services markets focusing on, among other things, stimulating competition, consumer protection, developing new offerings and technologies, reducing prices and increasing availability of services in Poland;

- The National Bank of Poland (the "**NBP**"), the central bank of Poland;

- The European Commission (the "**EC**"), the EU's executive body, which publishes the Digital Agenda Scoreboard; unless otherwise indicated, the EC's data should be read as references to the EC's thematic portal, European Commission Information Society; and

- SMARTSCOPE S.C. ("**Smartscope**"), the company, which provides with marketing research, customer satisfaction research, organisational 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 or 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.

While we are not aware of any misstatements regarding the industry data presented herein, our estimates involve certain assumptions, risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk Factors" in the Offering Memorandum of the Initial Notes dated January 24, 2014 and Additional Notes dated March 12, 2015 and updated due to the best knowledge as at the day of this Report. 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.

Key Performance Indicators

The subscriber data included in this Report, including ARPU, ARPU outbound, unit SAC, unit SRC, 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.

Term	*Usage by Play*
Terms related to subscribers	
subscriber	We define a subscriber as any customer that we provide services to until such subscriber is deactivated. We report the number of subscribers as the number of SIM cards which are registered on our network and have not been disconnected.
contract subscribers	We define contract subscribers as subscribers who enter into a contract with us and who have not been deactivated or migrated to a prepaid tariff plan. Contract subscribers include: individual postpaid, business postpaid, mobile broadband postpaid and MIX subscribers (pursuant to which the subscriber purchases a prepaid tariff plan with a subsidized handset against a contractual obligation to make a specific number and value of top-ups at least once a month until the subscriber's contract expires). After the expiration of a contract, the SIM is still reported as contract-based until the subscriber decides to migrate to a prepaid tariff plan or to terminate its contract. Our reported figures for contract subscribers include a number of SIM cards that have been issued pursuant to family calling plans.
active contract subscribers	We define active contract subscribers as subscribers who enter into a contract with us and who have not been deactivated or migrated to a prepaid tariff plan. Contract subscribers include: individual postpaid, business postpaid, mobile broadband postpaid and MIX subscribers (pursuant to which the subscriber purchases a prepaid tariff plan with a subsidized handset against a contractual obligation to make a specific number and value of top-ups at least once a month until the subscriber's contract expires). After the expiration of a contract, the SIM is still reported as contract-based until the subscriber decides to migrate to a prepaid tariff plan or to terminate its contract. Our reported figures for active contract subscribers **do not** include inactive (not used within the last 90 calendar days) technical SIMs and inactive SIM cards which are used in 'Play Elastyczny' promotion.

Term	*Usage by Play*
technical SIM	We define technical SIM as an additional SIM card issued to tariffs which include two or more subscribers. Technical SIM can be used by subscribers only for data transfer. The key functionality of the technical SIM card, from the Company's perspective, is to consolidate all family members SIM cards and support the billing structure. A technical SIM which is not used by a subscriber for data transfer becomes inactive. Technical SIMs 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: • 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.

Term	*Usage by Play*
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). 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	
ARPU ("average revenue per user")	We define ARPU as service revenue recognized in accordance with IFRS 15 and divided by the average active subscriber base in a given period. ARPU is calculated on a monthly basis, therefore ARPU for over a one-month period (*e.g.*, quarterly or annual) is calculated as the sum of service revenue divided by the number of months and further divided by the average active subscriber base for a given period. See "*Presentation of Financial Information—Changes in Accounting Policies*" for a discussion of the early adoption of IFRS 15. In our definition of ARPU, service revenue includes usage revenue (*i.e.*, monthly fees, payments above commitment, one-time payments for minutes, SMS or data bundles, *etc.*) and charges for incoming traffic (interconnection revenue). We do not take into account roaming services rendered to subscribers of other international networks and transit of traffic services. Unless otherwise stated, we calculate ARPU net of any VAT payable.

Term	Usage by Play
data usage per subscriber...............	We define data usage per subscriber as total billed data transfer from and to our mobile subscribers divided by the average subscriber base (with the average subscriber base for these purposes being the sum of active prepaid subscribers and active contract subscribers) in a given period. Data usage per subscriber is calculated on a monthly basis, therefore data usage per subscriber for over a one-month period (*e.g.*, quarterly or annual) is calculated as a sum of data transfer from and to our mobile subscribers over the period divided by the number of months and further divided by the average subscriber base for a given period.
Terms related to costs	
subscriber acquisition costs	We define subscriber acquisition costs as the sum of contract subscriber acquisition costs and prepaid subscriber acquisition costs. We define contract subscriber acquisition costs as total costs relating to new contract subscribers acquired (or migrated from being prepaid tariff plans to contract tariff plans) in a given period, including: (i) in the case of contracts sold with devices such as handsets, device subsidies equal to cost of goods sold less the amount we receive from the subscriber as payment for the device; (ii) commission costs paid to dealers and our own sales force and (iii) other SAC costs (primarily SIM cards). We define prepaid subscriber acquisition costs as the total costs relating to the acquisition of new prepaid subscribers in a given period, which mainly consist of the costs of SIM cards and the costs of rebates for distributors of prepaid starter packs.
unit SAC...	We define unit SAC as subscriber acquisition costs divided by the total gross additions in a given period.
unit SAC cash	We define unit SAC cash as the sum of the following acquisition costs: in case of contracts sold with devices such as handsets, device subsidies equal to the cost of goods sold less the amount we receive from the subscriber as payment for the device, on the day of signing the contract; commission costs paid to dealers and our own sales force; costs of SIM cards and the costs of rebates for distributors of prepaid starter packs, divided by the total gross additions in a given period.
unit contract SAC	We define unit contract SAC as contract subscriber acquisition costs divided by the total number of contract gross additions in a given period.
unit contract SAC cash	We define unit contract SAC cash as the sum of the following contract acquisition costs: in the case of contracts sold with devices such as handsets, device subsidies equal to cost of goods sold less the amount we receive from the subscriber as payment for the device, on the day of signing the contract; commission costs paid to dealers and our own sales force and the costs of SIM cards, divided by the total number of contract gross additions in a given period.
unit prepaid SAC.............................	We define unit prepaid SAC as prepaid subscriber acquisition costs divided by the total number of prepaid gross additions in a given period.
unit prepaid SAC cash	We define unit prepaid SAC cash as sum of prepaid acquisition costs in a given period (i.e. costs of SIM cards and costs of rebates for distributors of prepaid starter packs), divided by the total number of prepaid gross additions in a given period.

Term	*Usage by Play*
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.

DEFINITIONS

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

"Additional Notes"	The €125 million in aggregate principal amount of Fixed Rate Senior Secured Notes due 2019 issued on March 19, 2015 pursuant to the Senior Secured Notes Indenture.
"Bank Zachodni WBK Revolving Credit Facility"	Revolving credit line agreement between the Group and Bank Zachodni WBK S.A.
"CEE"	Central and Eastern Europe, excluding Russia, and comprising Estonia, Latvia, Lithuania, Poland, Czech Republic, Slovakia, Hungary, Romania, Bulgaria, Albania, Slovenia, Croatia, Bosnia-Herzegovina, Serbia, Montenegro and Macedonia.
"Collateral"	The collateral securing the Senior Secured Notes and the Senior Notes.
"Company", "Play" or "P4"	P4 sp. z o.o., with its registered office in Warsaw, 7 Taśmowa street, registered in the register of entrepreneurs of the National Court Register kept by the Regional Court for the Capital City of Warsaw, XII Commercial Department of the National Court Register, under number KRS 0000217207.
"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.
"Fixed Rate Senior Secured Notes"	The EUR 725,000,000 $5^1/_4$% Fixed Rate Senior Secured Notes due 2019 comprising the Initial Fixed Rate Senior Secured Notes and Additional Notes.
"Floating Rate Senior Secured Notes"	The PLN 130,000,000 Floating Rate Senior Secured Notes due 2019 issued on January 31, 2014.
"Group," "we," "us," "our" or "ourselves"	Refers to, for the period prior to the consummation of the Refinancing and Recapitalization, Play and its consolidated subsidiaries and, after the Refinancing and Recapitalization, the Parent 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.
"HoldCo 3"	Play Holdings 3 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. On May 9, 2016 Play Holdings 3 S.à r.l. was merged with Play Holdings 2 S.à r.l. ("the Parent").
"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'.
"Initial Fixed Rate Senior Secured Notes"	The EUR 600,000,000 $5^1/_4$% Fixed Rate Senior Secured Notes due 2019 issued on January 31, 2014.
"Initial Notes"	Collectively the Initial Fixed Rate Senior Secured Notes, Floating Rate Senior Secured Notes and Senior Notes.
"Issuers"	The Senior Secured Notes Issuer and the Senior Notes Issuer.

"Millennium Revolving Credit Facility" .... Revolving credit line agreement between the Group and Bank Millennium S.A.

"Note Guarantees" or "Guarantees"........................... Collectively, guarantees of the Senior Secured Notes (also referred to as the "**Senior Secured Note Guarantees**") and the guarantees of the Senior Notes (also referred to as the "**Senior Note Guarantees**"), or individually, as the context requires.

"Note Guarantor" or "Guarantor" .. Collectively, the providers of the Guarantees, or individually, as the context requires.

"Notes" .... Collectively, the Senior Secured Notes and the Senior Notes.

"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).

"Overdraft Facility" .... The overdraft facility in an aggregate principal amount of PLN 150 million made available by Bank Zachodni WBK S.A.

"Glenmore" .... Glenmore Investments Sp. z o.o., with its registered office at Taśmowa 7, 02-677 Warsaw, and registered in the register of entrepreneurs of the National Court Register kept by the Regional Court for the Capital City of Warsaw, XIII Commercial Department of the National Court Register, under number KRS 429787. On September 30, 2015 Glenmore has merged with P4 Sp. z o.o (the surviving company).

"Parent"...................................... Play Holdings 2 S.à r.l., a private limited liability company (*société à responsabilité limitée*) company organized under the laws of Luxembourg, having its registered office at 5, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg.

"PIK Notes Issuer"....................... Play Topco S.A., a public limited liability company (*société anonyme*) organized under the laws of Luxembourg, having its registered office at 5, rue Guillaume Kroll, L-1882 Luxembourg, Grand Duchy of Luxembourg.

"PIK Notes Issuer Group" .... Play Topco S.A. and its consolidated subsidiaries.

"Play 3GNS"................................ Play 3GNS Spółka z ograniczoną odpowiedzialnością spółka komandytowa, with its registered office at Taśmowa 7, 02-677 Warsaw, and registered in the register of entrepreneurs of the National Court Register kept by the Regional Court for the Capital City of Warsaw, XIII Commercial Department of the National Court Register, under number KRS 0000335214.

"PLN" or "zloty"........................... Polish zloty, the lawful currency of Poland.

"Refinancing and Recapitalization" Refers collectively to the issue on January 31, 2014 of the Initial Notes, the entry into the Revolving Credit Facility and the application of proceeds therefrom to the repayment of existing indebtedness under the payments of certain amounts to shareholders of the Parent and payment of fees and expenses related to the such transactions.

"Report"...................................... The present report "Annual Report for the year ended December 31, 2016"

"Revolving Credit Facility"............ PLN 400,000,000 multi-currency revolving credit facility provided pursuant to an agreement dated January 24, 2014 between, amongst others, P4 Sp. z o.o. as the company, Play Holdings 2 S.à r.l. as the parent, the subsidiaries of Play Holdings 2 S.à r.l. listed therein as borrowers and guarantors, Bank Zachodni WBK S.A. and Alior Bank S.A. as mandated lead arrangers, the financial institutions listed therein as lenders, Bank Zachodni WBK S.A. as agent and Citibank N.A., London Branch as security agent

"Security Agent" .... Citibank N.A. London Branch.

"Security Documents"	The security documents which comprise the Collateral.
"Senior Note Guarantors".............	Collectively, the Parent, HoldCo 3, the Company, the Senior Secured Notes Issuer and Play 3GNS.
"Senior Notes"	The EUR 270,000,000 $6^1/_2$% senior notes due 2019 issued on January 31, 2014.
"Senior Notes Indenture"	The indenture governing the Senior Notes dated as of January 31, 2014, among, *inter alios*, the Senior Notes Issuer, the Senior Note Guarantors, the Senior Notes Trustee and the Security Agent.
"Senior Notes Issuer"	Play Finance 1 S.A., a public limited liability company (*société anonyme*) organized under the laws of Luxembourg, having its registered office at 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg.
"Senior Notes Trustee"	Citibank, N.A., London Branch, as trustee for the holders of the Senior Notes.
"Senior PIK Toggle Notes"	The $7^3/_4$% / $8^1/_2$% Senior PIK Toggle Notes due 2020 issued on August 6, 2014 by the PIK Notes Issuer.
"Senior PIK Toggle Notes Indenture"	The indenture governing the Senior PIK Toggle Notes dated as of August 6, 2014, among, *inter alios*, the PIK Notes Issuer and Senior PIK Toggle Notes Trustee.
"Senior PIK Toggle Notes Trustee"	Citibank, N.A., London Branch, as trustee for the holders of the Senior PIK Toggle Notes.
"Senior Secured Notes"	The Fixed Rate Senior Secured Notes and the Floating Rate Senior Secured Notes.
"Senior Secured Note Guarantors"	Collectively, the Parent, HoldCo 3, the Company, the Senior Notes Issuer and Play 3GNS.
"Senior Secured Notes Indenture"	The indenture governing the Notes dated January 31, 2014 among, *inter alios*, the Issuer, the Guarantors, the Trustee and the Security Agent, as supplemented on May 27, 2014 and March 10, 2015.
"Senior Secured Notes Issuer"	Play Finance 2 S.A., a public limited liability company (*société anonyme*) company organized under the laws of Luxembourg, having its registered office at 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg.
"Senior Secured Notes Trustee" ...	Citibank, N.A., London Branch, as trustee for the holders of the Senior Secured Notes.
"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." or "United States"	United States of America.
"U.S. dollars," "USD," "dollars" or "$"	U.S. dollars, the lawful currency of the United States of America.
"U.S. GAAP"	Generally accepted accounting principles in the United States.
"U.S. Securities Act"	The United States Securities Act of 1933, as amended.
"WIBOR"	The Warsaw Interbank Offered Rate is the average interest rate estimated by leading banks in Warsaw that the average leading bank would be charged if borrowing from other banks. Unless specified otherwise, refers to WIBOR 3M i.e. for loans for a three-month period

PRESENTATION OF FINANCIAL INFORMATION

General

The financial information presented in our consolidated financial results which are contained herein has been prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16 - as presented in the audited consolidated financial statements that the Group has issued for the years ended December 31, 2016, December 31, 2015 and December 31, 2014.

For further information please see Note 2.2 to our consolidated financial statements included elsewhere in this Report and "*Presentation of Financial Information —Changes in Accounting Policies*".

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

IFRS with early adoption of IFRS 15 and IFRS 16 differ in various significant respects from U.S. GAAP. In making an investment decision, you should rely upon your own examination of the terms of the applicable offerings in the Offering Memorandum of the Initial Notes dated January 24, 2014 (as a holder of the Initial Notes), in the Offering Memorandum of the Additional Notes dated March 12, 2015 (as a holder of the Additional Notes), the Offering Memorandum of the Senior PIK Toggle Notes dated July 30, 2014 (as a holder of the Senior PIK Toggle Notes) and the financial information contained in this Report. You should consult your own professional advisors for an understanding of the differences between IFRS with early adoption of IFRS 15 and IFRS 16, on one hand, and U.S. GAAP, on the other hand, and how those differences could affect the financial information contained in this Report.

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

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

The financial information in this Report is presented in zloty.

Non-IFRS Measures

We have included certain non-IFRS financial measures in this Report, including EBITDA, Adjusted EBITDA and Adjusted EBITDA margin.

Under our presentation:

- "EBITDA" means operating profit for the period plus depreciation and amortization.
- "Adjusted EBITDA" means EBITDA plus costs of advisory services provided by shareholders, plus cost/(income) resulting from valuation of retention programs and costs of special bonuses, plus certain one off items.
- "Adjusted EBITDA margin" means Adjusted EBITDA divided by operating revenues.

While amounts included in EBITDA and Adjusted EBITDA are derived from our consolidated financial statements, EBITDA and Adjusted EBITDA are not financial measures calculated in accordance with IFRS (or any form of IFRS, including with the adoption of IFRS 15 and IFRS 16).

EBITDA and Adjusted EBITDA have limitations as analytical tools. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect our cash expenditures, or future requirements, for capital expenditures or contractual commitments;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, our working capital needs;

- EBITDA and Adjusted EBITDA do not reflect the significant interest expense, income taxes, or the cash requirements necessary to service interest or principal payments, on our debts;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and EBITDA and Adjusted EBITDA do not reflect any cash requirements for such replacements;
- EBITDA and Adjusted EBITDA 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 and Adjusted EBITDA differently than we do, limiting its usefulness as a comparative measure.

We present EBITDA and Adjusted EBITDA as we believe they will be useful to investors and analysts in reviewing our performance and comparing our results to other operators. However, neither EBITDA nor Adjusted EBITDA are IFRS measures and you are encouraged to evaluate any adjustments to IFRS measures yourself and the reasons we consider them appropriate for supplemental analysis. Because of these limitations, as well as further limitations discussed above, the non-IFRS measures presented should not be considered in isolation or as a substitute for performance measures calculated in accordance with IFRS with early adoption of IFRS 15 and IFRS 16. We compensate for these limitations by relying primarily on our IFRS results and using non-IFRS measures only supplementally.

For the purposes of this Report, we define LHA Adjusted EBITDA as the sum of Adjusted EBITDA for the quarter ended September 30, 2016 *and* Adjusted EBITDA for the quarter ended December 31, 2016 multiplied by two.

Changes in Accounting Policies

The Group adopted early 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 consolidated financial statements included elsewhere in this Report and the financial data as included in the consolidated 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 16 and the consolidated financial statements included elsewhere in this Report 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 that the early adoption of IFRS 15 principles allows for a more streamlined approach to onboarding new customers, and also provides a better basis for comparison of business performance in the future, by applying the same accounting policy to all customer contracts. The application of the current revenue standard, IAS 18, results in a degree of variability in timing of revenue recognition depending on the sales model (subsidy versus installment). For contracts with the same cash flow pattern, higher portion of revenue is allocated to the handset and thus recognized upfront in the installment model than in the subsidy model. Thus, telecommunication companies have over time replaced the subsidy sales model with the installment sales model. A range of the extent of transition of the respective customer bases from one sales model to another, differs across telecommunication companies. The installment contract sales model, which is now widely used, results in a disconnect between the phasing of the accounting recognition of revenue and the timing of cash flows, as a significant portion of customers' total contractual obligation is recognized as revenue upfront (handset component), whilst the cash is received on a monthly basis over the life of the contract.

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

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

IFRS 15 Adjustments

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

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

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

Previously, we capitalized the subscriber acquisition and retention costs ("**SAC**") relating to postpaid contracts and "mix" contracts in the month of service activation. Components of SAC included:

- subsidy granted to end customer to price of handset or other device, *i.e.*, cost of sales of handset or other device less price charged to end customer,
- commission on sale,
- dispatch cost directly attributable to a contract.

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

Under IFRS 15 we solely capitalize the costs of commissions paid to acquire or retain subscribers who enter into a post-paid or mix contract. Capitalized costs of commissions constitute "contract cost" asset and are depreciated on a straight-line basis in the operating expenses in the "contract costs, net" line.

IFRS 16 Adjustments

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

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

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

For further information regarding the specific IFRS 15 and IFRS 16 elements which are adjusted and the relevant line items, please see Note 2.2 to our consolidated financial statements included elsewhere in this Report.

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 EBITDA there is an increase attributed to higher handset revenue partially offset by lower service revenue, whereas overhead costs increase due to the greater bad debt recognition required against the significant handset receivables recognized on the balance sheet when the handset revenue is recognized upfront.

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

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

IFRS 16

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

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

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

FORWARD-LOOKING STATEMENTS

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 Issuers caution you that forward-looking statements are not guarantees of future performance and are based on numerous assumptions and that our actual results of operations, including our financial condition and liquidity and the development of the industries in which we operate, may differ materially from (and be more negative than) those made in, or suggested by, the forward-looking statements contained in this Report. You should not place undue reliance on these forward-looking statements.

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

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

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

These risks and others described under “Risk Factors” are not exhaustive. We urge you to read the section of this Report entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the sections entitled “Risk Factors” and “Business” in the Offering Memorandum of the Initial Notes dated January 24, 2014 (relevant for holders of the Senior Secured Notes or the Senior Notes), in the Offering Memorandum of the Additional Notes dated March 12, 2015 (relevant for holders of the Senior Secured Notes) and the Offering Memorandum of the Senior PIK Toggle Notes dated July 30, 2014 (relevant for holders of the Senior PIK Toggle Notes) 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.

RECENT DEVELOPMENTS

The Group has not identified any events after December 31, 2016 other than those described above that should be disclosed in this Report.

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, 2016 and year ended December 31, 2015 have been derived from our consolidated financial statements included elsewhere in this Report.

The consolidated financial statements for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, were prepared on a basis consistent with the audited consolidated financial statements for the years ended December 31, 2015, December 31, 2014 and December 31, 2013, prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16 and include, in our opinion, all adjustments necessary for the fair presentation of the financial information contained in those statements. We have adopted IFRS 15 and IFRS 16 early, which has resulted in changes in accounting policies. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies, Estimates and Judgments*."

Unless otherwise indicated, the financial information in this Report is presented in Polish zloty. For your convenience, we have translated certain zloty amounts for the year ended December 31, 2016, in this Report into euro. The average exchange rate for the convenience translations is PLN 4.4240 per €1.00, which was the National Bank of Poland's exchange rate per euro as of December 31, 2016. You should not view such translations as a representation that such zloty amounts actually represent such euro amounts, or could be or could have been converted into euro at the rate indicated or at any other rate.

Consolidated Statement of Comprehensive Income

	Year ended December 31, 2014 (PLN in millions)	Year ended December 31, 2015 (PLN in millions)	Year ended December 31, 2016 (PLN in millions)	Year ended December 31, 2016 (EUR in millions)
Operating revenue	**4,589.7**	**5,436.5**	**6,117.6**	**1,382.8**
Service revenue	3,398.4	4,059.5	4,492.8	1,015.6
Sales of goods and other revenue	1,191.2	1,377.0	1,624.7	367.3
Operating expenses	**(3,794.1)**	**(4,373.1)**	**(4,753.5)**	**(1,074.5)**
Interconnection, roaming and other services costs	(1,098.5)	(1,330.6)	(1,495.8)	(338.1)
Contract costs, net	(318.3)	(376.3)	(398.9)	(90.2)
Cost of goods sold	(984.8)	(1,181.2)	(1,366.2)	(308.8)
General and administrative expenses	(852.4)	(887.7)	(858.5)	(194.1)
Depreciation and amortization	(540.1)	(597.3)	(634.1)	(143.3)
Other operating income	64.2	78.5	70.7	16.0
Other operating costs	(86.3)	(76.1)	(144.4)	(32.7)
Operating profit	**773.5**	**1,065.9**	**1,290.3**	**291.6**
Finance income	74.7	7.6	135.0	30.5
Finance costs	(432.6)	(368.0)	(499.1)	(112.8)
Profit before income tax	**415.6**	**705.5**	**926.1**	**209.3**
Income tax benefit/(charge)	83.3	(155.2)	(214.1)	(48.4)
Net profit for the period	**498.9**	**550.3**	**712.0**	**160.9**
Other comprehensive income for the period	**-**	**-**	**-**	**-**
Total comprehensive income for the period	**498.9**	**550.3**	**712.0**	**160.9**

Consolidated Statement of Financial Position

	December 31, 2014 (PLN in millions)	December 31, 2015 (PLN in millions)	December 31, 2016 (PLN in millions)
ASSETS			
Non-current assets			
Property, plant and equipment	860.4	907.7	1,089.4
Right-of-use assets	719.3	767.9	745.5
Intangible assets	1,261.6	1,126.8	2,628.8
Assets under construction	285.5	393.5	540.4
Contract costs	257.1	309.9	350.7
Long term finance receivables	-	153.4	341.0
Other long term receivables	14.3	11.1	12.2
Finance assets at fair value through profit or loss	57.6	19.2	134.2
Deferred tax asset	281.5	184.1	134.4
Non-current assets	**3,737.3**	**3,873.9**	**5,976.7**
Current assets			
Inventories	194.9	212.2	149.7
Trade and other receivables	716.0	876.9	1,260.2
Contract assets	886.0	1,000.9	997.8
Current income tax receivables	0.6	-	-
Prepaid expenses	34.7	41.8	21.2
Cash and cash equivalents	498.0	1,556.8	341.0
Current assets	**2,330.2**	**3,688.6**	**2,769.9**
TOTAL ASSETS	**6,067.5**	**7,562.4**	**8,746.6**
EQUITY AND LIABILITIES			
Capital and reserves attributable to shareholders of the Company			
Share capital	0.1	0.1	0.1
Share premium	5,636.0	5,644.2	5,644.2
Retained losses	(5,563.9)	(5,013.6)	(4,301.6)
Total equity	**72.2**	**630.6**	**1,342.6**
Non-current liabilities			
Long-term finance liabilities	4,383.2	4,996.6	5,176.4
Long-term provisions	53.5	46.5	47.5
Long-term retention programs liabilities	95.7	163.0	150.1
Deferred tax liability	-	0.0	0.3
Other non-current liabilities	12.7	11.4	10.9
Non-current liabilities	**4,545.1**	**5,217.5**	**5,385.2**
Current liabilities			
Short-term finance liabilities	278.5	277.2	277.2
Trade and other payables	836.1	976.9	1,177.6
Contract liabilities	21.3	22.3	44.9
Current income tax payable	8.1	61.3	173.8
Accruals	61.2	68.5	54.4
Short-term provisions	1.7	1.0	1.0
Short-term retention programs liabilities	14.1	22.3	17.7
Deferred income	229.1	284.6	272.2
Current liabilities	**1,450.2**	**1,714.2**	**2,018.8**
TOTAL LIABILITIES AND EQUITY	**6,067.5**	**7,562.4**	**8,746.6**

Consolidated Statement of Cash Flows

	Year ended December 31, 2014 (PLN in millions)	Year ended December 31, 2015 (PLN in millions)	Year ended December 31, 2016 (PLN in millions)
Profit before income tax	**415.6**	**705.5**	**926.1**
Depreciation and amortization	540.1	597.3	634.1
Changes in contract costs (net)	(58.4)	(52.8)	(40.7)
Interest expense (net)	327.4	302.7	316.9
(Gain)/Loss on valuation of finance assets	(50.7)	38.4	(115.0)
Foreign exchange losses	87.9	19.3	162.2
Gain on disposal of non-current assets	(3.5)	(3.9)	(8.8)
Impairment of non-current assets	(1.7)	1.7	6.3
Change in provisions and retention programs liabilities	33.9	61.2	(17.1)
Changes in working capital and other	65.5	(26.3)	(249.9)
Change in contract assets	(167.2)	(114.9)	3.1
Change in contract liabilities	2.5	1.0	22.6
Cash provided by operating activities	**1,191.3**	**1,529.1**	**1,639.7**
Interest received	1.9	0.1	0.1
Income tax paid	(10.5)	(4.2)	(52.2)
Transfers from restricted cash (operating)	-	0.2	-
Net cash provided by operating activities	**1,182.7**	**1,525.1**	**1,587.5**
Proceeds from sale of non-current assets	7.6	7.8	5.5
Proceeds from loans given	0.0	0.1	-
Purchase of fixed assets and intangibles and prepayments for assets under construction	(456.9)	(436.8)	(2,195.9)
Loans given	(0.1)	-	(17.9)
Purchase of debt securities (Notes issued by Play Topco S.A.)	-	(144.0)	(141.1)
Transfer to other finance assets	(720.3)	-	-
Transfer from other finance assets	705.2	-	-
Net cash used in investing activities	**(464.3)**	**(572.9)**	**(2,349.3)**
Proceeds from finance liabilities	3,816.0	543.8	385.0
Distribution of share premium	(1,416.1)	-	-
Repayment of finance liabilities and relating finance costs	(2,927.9)	(437.0)	(839.2)
Transfers from restricted cash	134.7	-	-
Other proceeds from financing activities	22.5	-	-
Other payments relating to financing activities	(22.4)	-	-
Net cash provided by/(used in) financing activities	**(393.2)**	**106.8**	**(454.2)**
Net change in cash and cash equivalents	**325.1**	**1,059.1**	**(1,215.9)**
Effect of exchange rate change on cash and cash equivalents	0.1	(0.1)	0.1
Cash and cash equivalents at the beginning of the period	**172.6**	**497.8**	**1,556.8**
Cash and cash equivalents at the end of the period	**497.8**	**1,556.8**	**341.0**

Other Operating, Financial and Pro Forma Financial Information

	Year ended December 31, 2014 (PLN in millions)	Year ended December 31, 2015 (PLN in millions)	Year ended December 31, 2016 (PLN in millions)	Year ended December 31, 2016 (EUR in millions)
Adjusted EBITDA(1)	1,435.8	1,785.7	2,035.3	460.1
Adjusted EBITDA margin (%)(1)	31.3	32.8	33.3	33.3
Total cash capital expenditures(2)	449.2	429.0	2,190.4	495.1
of which *frequency reservation* acquisition costs(3)	-	-	1,704.4	385.3
Operating cash flows(4)	986.6	1,356.7	1,549.3	350.2
Free cash flow before financing and non-recurring items(5)	803.2	1,138.2	1,196.1	270.4

(1) EBITDA, Adjusted EBITDA and Adjusted EBITDA margin are supplemental measures of our financial and operating performance used by us that are not required by, or prepared in accordance with IFRS. These measures are prepared by us because we believe they provide a view of our recurring operating performance that is unaffected by our capital structure and allow us to readily view operating trends and identify strategies to improve operating performance as well as 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. You are encouraged to evaluate these adjustments and the reasons we consider them appropriate for supplemental analysis. In evaluating these measures, you should be aware that in the future we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of these measures should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items. Our use of each of these measures is as follows:

- We define EBITDA as operating profit for the period *plus* depreciation and amortization.
- We define Adjusted EBITDA as EBITDA *plus* costs of advisory services provided by shareholders, cost/(income) resulting from valuation of retention programs and certain one-off items.
- We define Adjusted EBITDA margin as Adjusted EBITDA divided by operating revenue in the applicable period.

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 to rely on a single financial measure. See "*Presentation of Financial Information—Non-IFRS Measures*" for an explanation of certain limitations to the use of these measures.

(2) "Total cash capital expenditure" 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 reservation in the 800 MHz and 2600 MHz spectra 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 auction and was finally accounted for the price of the frequency reservation.

(4) Operating cash flow is defined as Adjusted EBITDA less total cash capital expenditure excluding frequency reservation acquisition costs.

(5) For a reconciliation of free cash flow before financing and non-recurring items to Adjusted EBITDA, see "*Free Cash Flow Reconciliation*."

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, 2014 (PLN in millions)	Year ended December 31, 2015 (PLN in millions)	Year ended December 31, 2016 (PLN in millions)	Year ended December 31, 2016 (EUR in millions)
Operating profit	**773.5**	**1,065.9**	**1,290.3**	**291.6**
Add depreciation and amortization	540.1	597.3	634.1	143.3
EBITDA	**1,313.6**	**1,663.1**	**1,924.3**	**435.0**
Costs of advisory services provided by shareholders[(a)]	21.2	27.7	35.9	8.1
Valuation of retention programs and costs of special bonuses[(b)]	83.8	93.1	7.2	1.6
Other one off operating costs[(c)]	17.2	1.8	67.9	15.3
Adjusted EBITDA	**1,435.8**	**1,785.7**	**2,035.3**	**460.1**

(a) Costs of advisory services provided by shareholders are costs in relation to advisory services agreements entered into by the Group with shareholders.

(b) We revalue our employee retention programs periodically based on the triggers affecting the program and the amounts which may be required to be paid to beneficiaries under such programs. This charge/benefit is added back to our Adjusted EBITDA.

(c) Other one-off operating cost 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 an unfavorable court ruling; (iii) an impairment allowance for other non-current assets in the amount of PLN 4.6 million; (iv) a non-cash adjustment of prior years' deferred income balances of PLN 7.7 million; (v) one-off costs of strategic projects out of usual scope of our business of PLN 12.0 million; and (vi) one-off other operating costs of PLN 10.5 million comprised mostly of costs of prepaid registration process to comply with new regulations.

Other one-off operating cost for the year ended December 31, 2015 comprised: (i) income from a reversal of provision for a potential liability towards 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; and (ii) one-off operating costs relating to legal and advisory services expenses of PLN 3.3 million and other operating costs of PLN 9.1 million.

Other one-off operating costs for the year ended December 31, 2014 comprised: (i) finance and legal services relating to the Refinancing and Recapitalization as well as Group restructuring of PLN 3.9 million, (ii) one-off civil law activities tax of PLN 14.2 million on sale of 19.96% shares in P4 Sp. z o.o. from Play Holdings 2 S. à r. l. to Glenmore Investments Sp. z o.o. (now merged with P4); (iii) income resulting from decrease of provision for a potential liability towards UOKiK of PLN 4.8 million and (iv) income from reversal of impairment of non-current assets of PLN 2.7 million, a non-cash write-off of our prior year receivables balance of PLN 3.8 million and a non-cash correction of prior year consolidation adjustments of PLN 2.8 million.

EBITDA and Adjusted EBITDA reconciliation for the three-month periods ended September 30, 2016 and December 31, 2016:

	Three-month period ended September 30, 2016 (PLN in millions)	Three-month period ended December 31, 2016 (PLN in millions)
Operating profit	**314.4**	**360.8**
Depreciation and amortization	173.6	162.4
EBITDA	**488.1**	**523.2**
Costs of advisory services provided by shareholders	7.8	12.1
Valuation of retention programs and costs of special bonuses	15.6	6.1
Other one off operating costs	5.7	19.2
Adjusted EBITDA	**517.1**	**560.6**

For the purposes of this Report, we define LHA Adjusted EBITDA as the sum of Adjusted EBITDA of PLN 517.1 million for the three-month period ended September 30, 2016 *and* Adjusted EBITDA of PLN 560.6 million for the three-month period ended December 31, 2016, multiplied by two. LHA Adjusted EBITDA amounted to PLN 2,155.4 million.

Free Cash Flow Reconciliation

The following table presents a reconciliation of Adjusted EBITDA to free cash flow before financing and non-recurring items for the periods presented:

	Year ended December 31, 2014 (PLN in millions)	**Year ended December 31, 2015 (PLN in millions)**	**Year ended December 31, 2016 (PLN in millions)**
Adjusted EBITDA	**1,435.8**	**1,785.7**	**2,035.3**
Non-cash items and changes in provisions(1)	(18.2)	(16.9)	(6.7)
Change in working capital(2)	68.5	(30.9)	(279.3)
(Increase)/decrease of inventories	(37.9)	(17.3)	62.5
Increase of receivables	(30.5)	(160.7)	(402.2)
(Increase)/decrease of prepaid expenses	(21.6)	(7.1)	6.5
Increase of payables excluding investment payables	152.5	94.3	89.5
Increase/(decrease) of accruals	(4.4)	7.3	(14.1)
Increase/(decrease) of deferred income	10.4	50.8	(20.1)
(Increase)/decrease of long term receivables	(1.3)	3.2	(1.0)
Increase/(decrease) of other non-current liabilities	1.3	(1.4)	(0.5)
Changes in contract costs (net)	(58.4)	(52.8)	(40.7)
Changes in contract assets	(167.2)	(114.9)	3.1
Changes in contract liabilities	2.5	1.0	22.6
Cash capital expenditures(3)	(449.2)	(429.0)	(485.9)
Income tax paid	(10.5)	(4.2)	(52.2)
Transfers from restricted cash (operating)	-	0.2	-
Free cash flow before financing and non-recurring items	**803.2**	**1,138.2**	**1,196.1**
Spectrum purchase	-	-	(1,704.4)
Advisory services fee paid out	(21.2)	(26.0)	(32.6)
Retention programs and special bonuses paid out	(56.3)	(27.2)	(24.7)
Proceeds from finance liabilities	3,816.0	543.8	385.0
Repayment of finance liabilities and relating finance costs	(2,912.7)	(425.9)	(839.2)
Foreign exchange gains(4)	6.7	0.1	-
Transfers from restricted cash	134.7	-	-
Transfer to other finance assets (Escrow account)	(720.3)	-	-
Transfer from other finance assets (Escrow account)	705.2	-	-
Distribution of share premium	(1,416.1)	-	-
Civil law activities tax paid	(14.2)	-	-
Early termination fee(5)	-	-	(37.1)
Loans given	(0.1)	-	(17.9)
Proceeds from loans granted	0.0	0.1	-
Purchase of debt securities (Notes issued by Play Topco)	-	(144.0)	(141.1)
Other proceeds from financing activities	22.5	-	-
Other payments relating to financing activities	(22.4)	-	-
Net increase/(decrease) in cash and cash equivalents	**325.1**	**1,059.1**	**(1,215.9)**
Effect of exchange rate change on cash and cash equivalents	0.1	(0.1)	0.1
Beginning of period cash and equivalents(6)	172.6	497.8	1,556.8
End of period cash and equivalents(6)	497.8	1,556.8	341.0

(1) Comprising (i) non-cash items: gains on disposal of non-current assets and impairment of non-current assets and (ii) change in provisions other than provisions for one-off items.

(2) Excluding change in accruals for special bonuses and change in trade payables relating to advisory services provided by shareholders.

(3) For a definition of total cash capital expenditures, see footnote (2) under the table “Other Operating, Financial and Pro Forma Financial Information”.

(4) Related to realized foreign exchange gains/losses on restricted cash management and on currency purchases for repayment of finance liabilities, as well as unrealized foreign exchange gains/losses on valuation of cash and cash equivalents.

(5) Payment for early termination fee related to one of Group’s commercial agreements (for which the cost in the amount of PLN 20.4 million was recorded in the current year and the remaining cost was accrued for in prior years).

(6) As presented in the cash flow statement (net of bank overdrafts and excluding restricted cash).

Capitalization

As of December 31, 2016

	PLN in millions	EUR in millions[1]	xLHA Adjusted EBITDA[2]
Cash and cash equivalents	341.0	77.1	0.16x
Leases	842.7	190.5	0.39x
Other debt	2.7	0.6	0.00x
Senior Secured Notes	3,408.2	770.4	1.58x
of which EUR fixed rate Notes[3]	*3,277.1*	*740.8*	*1.52x*
of which PLN floating rate Notes[3]	*131.1*	*29.6*	*0.06x*
Secured debt	4,253.6	961.5	1.97x
Net secured debt	**3,912.6**	**884.4**	**1.82x**
Senior Unsecured Notes[3]	1,226.6	277.3	0.57x
Total debt	5,480.2	1,238.7	2.54x
Net debt	**5,139.2**	**1,161.7**	**2.38x**

(1) Currency exchange rate as of December 31, 2016 1 EUR = 4.424 PLN;

(2) LHA Adjusted EBITDA as of December 31, 2016 of PLN 2,155.4 million;

(3) Including accrued interest: EUR 600 million $5^1/_4$% Fixed Rate Senior Secured Notes due 2019 – PLN 57.7 million / EUR 13.0 million of accrued interest; EUR 125 million $5^1/_4$% Fixed Rate Senior Secured Notes due 2020 – PLN 12.0 million / EUR 2.7 million of accrued interest; PLN 130 million Floating Rate Senior Secured Notes due 2019 – PLN 1.1 million of accrued interest; EUR 270 million $6^1/_2$% Senior Notes due 2019 – PLN 32.1 million / EUR 7.3 million of accrued interest.

Summary of Key Performance Indicators[1]

	Three months ended December 31,		Year ended December 31,	
	2015	2016	2015	2016
Reported subscribers (thousands)	**14,150.2**	**14,414.5**	**14,150.2**	**14,414.5**
Contract	7,069.6	8,366.4	7,069.6	8,366.4
Prepaid	7,080.6	6,048.1	7,080.6	6,048.1
Net additions (thousands)	**602.1**	**-224.7**	**1,261**	**489.0**
Contract	352.9	367.4	906.3	929.4
Prepaid	249.2	-592.1	355.0	-440.4
Churn (%)[2]	**3.0%**	**3.4%**	**3.3%**	**3.4%**
Contract	0.6%	0.6%	0.6%	0.7%
Prepaid	5.3%	6.9%	5.8%	6.4%
ARPU (PLN)[2][3]	**31.5**	**32.0**	**31.7**	**31.3**
Contract	40.3	39.4	41.0	39.1
Prepaid[3]	17.3	17.2	17.3	17.1
Data usage per subscriber (MB)[2]	**2,140.7**	**3,335.2**	**1,742.5**	**2,773.2**
Contract	2,783.4	4,039.5	2,391.0	3,493.6
Prepaid	1,115.9	1,941.0	738.5	1,468.5
unit SAC cash (PLN)				
Contract	360.1	321.7	332.9	354.1
Prepaid	3.4	3.4	7.8	6.1
unit SRC cash (PLN)	**380.8**	**339.1**	**314.3**	**363.6**
unit SAC (PLN)				
Contract	285.0	266.2	294.3	264.5
Prepaid	3.4	3.4	7.8	6.1
unit SRC (PLN)	**271.0**	**281.9**	**274.7**	**261.2**

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

(2) We present our churn, ARPU and data usage per subscriber on an average monthly basis.

(3) In this Report, prepaid ARPU is presented for active subscribers only.

RISK FACTORS

An investment in the Notes involves significant risks, including the risks described below and elsewhere in this Report, such as those set forth under the caption "Forward-Looking Statements." You should consider carefully the factors described below in addition to the remainder of this Report before purchasing the Notes. The risks and uncertainties we describe below are not the only ones we face. Additional risks and uncertainties of which we are not aware or that we currently believe are immaterial may also have a material adverse effect on our business, financial condition, results of operations and prospects. If any of the events described in the risk factors below occurs, it could have a material adverse effect on our business, financial condition, results of operations and prospects could be materially adversely affected, which in turn could have a material adverse effect on the Issuers' ability to pay all or part of the interest or principal on the Notes. This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in the forward-looking statements as a result of various factors, including the risks described below and elsewhere in this Report.

Risks Related to Our Business

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

We offer our mobile voice, non-voice and mobile broadband offerings and services to consumers and business subscribers 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.

The Polish economy may be adversely affected in a number of ways by weakening economic conditions and turmoil in the global financial markets. 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 2012, 2013, 2014 and 2015 Poland's real GDP changed by approximately 1.6%, 1.3%, 3.3% and 3.9% respectively. With a forecast announced by Eurostat in autumn 2016 of real GDP growth of 3.1% in 2016 and 3.4% in 2017, Poland is poised to continue to grow at a faster rate than the estimated EU average real GDP growth rates of 1.7% in 2016 and 1.5% in 2017. Irrespective of forecasts, global markets and the 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 still 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. 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 highly volatile, and continuing instability in global markets, including the ongoing turmoil in Europe related to sovereign debt issues and the stability of the euro, has contributed to a global economic downturn. 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 EU, 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.

***The Polish mobile telecommunications industry is highly competitive*.**

We face strong competition for subscribers from established competitors, including, in particular, the other mobile telecommunications operators, Plus, Orange and T-Mobile, which along with the Group, as of December 31, 2016, based on CSO most recent analysis regarding SIM cards, together held approximately 99% of reported subscriber market share in the Polish market. Based on CSO announcements regarding number of subscribers as of December 31, 2016, we had a market share of approximately 26.3%. As of publication date of this Report only Orange's FY 2016 results were available. Hence Orange's market share was approximately 29.2% and Plus's (which includes internet subscribers of Cyfrowy Polsat) together with T-Mobile's market share was approximately less than 45%. Market shares in Plus and T-mobile annual reports might be slightly different as these are not publicly available as of the day of publication of this Report. 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 margins to reduce and/or increase our marketing and promotional expenses, each of which may cause our revenues 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 the Cyfrowy Polsat Group (which is ultimately controlled and majority owned by the same individual as Plus), to create an integrated multimedia group in Poland offering television, broadband Internet and mobile telephone services in Poland. Orange has also recently started to build out a fiber network in Poland which allows it to offer quadruple play offerings of television, fiber internet, fixed-line and mobile telephone and internet services. The Plus/Cyfrowy Polsat Group and Orange, as well as few cable TV companies, are able to offer combined services (television, broadband Internet and mobile telephone and internet services in the case of the merged Plus/Cyfrowy Polsat Group 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 solely on the mobile telecommunications market. Nevertheless we continue to compete by introducing, in August 2016, Play NOW which is an online video service offering access to live channels, catch up content and additional functionalities on smartphones, tablets, PCs and via Google Chromecast on TV screen. In 2011, Orange and T-Mobile also established a joint venture company 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 a more efficient and cost-effective network 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 for business. 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 announced that the company plans to start offering mobile phone contracts.

If we were to lose subscribers due to consumers taking up the bundled offers of our competitors mentioned above, our churn would increase and our revenues would decline.

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 mobile-only data users with voice and messaging services, typically at a substantially lower cost than traditional voice and messaging services. 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. 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 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 54.7 million reported SIM cards which resulted in a total penetration rate of 142.2% as of December 31, 2016 (140.9% as of December 31, 2012 and 146.8% as of December 31, 2013, 149.6% as of December 31, 2014 and 146.2% 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, continue to convince subscribers to switch from competing operators to our services and to limit rates of subscriber churn. Although we have 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 or winning new 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.

In addition, the mobile telecommunications industry is characterized by frequent developments in offerings, as well as by 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 costs may increase, which could decrease our profitability. 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 telecommunication services to certain 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 telecommunication 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.

All these agreements are for indefinite periods and two year notice periods for termination. However it is 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. 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.

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, namely 4G LTE (which has grown substantially to cover 92% of the population as of December 31, 2016, allowing for faster data transmission and lower unit cost per GB transferred traffic), to become increasingly important in our market.

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 2,600 MHz frequency band.

If one or more of our competitors will be awarded any frequencies in any mobile spectrum, and we are not awarded any spectrum, we could lose subscribers or fail to attract new subscribers, which would impact subscriber churn, or incur substantial 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 change 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.

Finally, 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.

In June 2016, we were granted a reservation to the 800 MHz and in January 2016 to the 2600 MHz frequency. As a result of the award, 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) and the telecommunication networks of certain communes in Poland. We expect that compliance with the frequency reservation requirements will increase our capital expenditures.

In addition, we are currently in the expansion phase of our 4G LTE network in relation to which we still have material investment obligations 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. 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, which may result in fines, which could be substantial, and/or revocation of our reservation. Such claims may have a material adverse effect on our business, financial condition and results of operations.

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. We expect to finance the costs associated with such 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.

If widespread demand for our 4G LTE technology in Poland does not develop as we expect or at all for reasons such as competing technologies or the 4G LTE offerings by our competitors, our future growth and profitability may be materially and adversely affected.

Our future growth and profitability will depend to a large extent on our ability to successfully roll-out and sell our mobile broadband services using 4G LTE technology. We commenced the roll-out of 4G LTE in 13 major Polish cities in November 2013, which has grown substantially to cover 92% of the population as of December 31, 2016. We believe that we will be able to grow revenue and increase profitability with increased usage by our subscribers of this new technology. We cannot, however, guarantee sufficient demand for our 4G LTE technology in Poland. If demand for such services is not widespread in Poland, we may not be able to generate the revenue that we expect from 4G LTE and our growth prospects from increased use of 4G LTE technology may suffer. In addition, while we were the second MNO to launch the 4G LTE technology in Poland, the other two MNOs, T-Mobile and Orange, have begun the build-out of their respective 4G LTE networks in Poland and have begun to offer 4G LTE coverage, which will increase competition in that market. As a result, there can be no certainty that the revenues generated from our 4G LTE technology will be sufficient to cover the associated construction and development costs, or that it will be able to meet its financial targets for the roll-out, or that, due to a miscalculation in the demand for such services, such investments will not result in excess capacity or otherwise become unprofitable.

Further, while our management believes the investment obligations in relation to our 1800 MHz spectrum have been met, we are also required to continue our investments in order for us to achieve our strategy in relation to the 4G LTE network. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital resources.”

Demand for 4G LTE services may also be affected if alternative technologies offer equivalent or better services, or similar services for a lower price. In the future, if there is investment in Poland of fixed-line infrastructure, we may face competition from fixed-line services, including fixed-line broadband. The low level of urbanization in Poland currently provides mobile telecommunications operators with a strong competitive advantage in the broadband and fixed-voice market given the high costs of providing fixed- line access in rural areas which could be illustrated by the fact that only circa 29% of households have access to the fixed-line broadband network telecommunications infrastructure, which is among the lowest levels among EU member states and much below the EU28 average, according to the UKE Report for the year 2015 (issued in June 2016). However, the E’s “Digital Agenda for Europe” is focused on increased broadband access in all EU member states, and provides that member states should make investments to support this increased access. In the event this leads to increased investment in Poland’s fixed-line infrastructure, this will benefit other operators and may lead to an increased use of fixed-line services (in particular fixed-line broadband) which may decrease our ability to grow our mobile broadband business, may lead to us losing subscribers and may lead to a decrease in services we can offer on our 4G LTE network. If any of these events were to occur, it 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, 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 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 and 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 obtain 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 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 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 telecommunication 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 have a judicial precedents character and verdicts in other cases do not need to be coherent, they might be used as a guideline in lower level of 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, 2016, we had 858 dedicated “PLAY” branded stores, approximately 76% of which were operated by dealers.

While our dealer distribution network is quite diverse and we aim to provide that all of our agreements with dealers include exclusivity provisions and allow us a right of first refusal in the event the dealer terminates their arrangements with us, our business may be adversely affected if we were to lose a number of major dealers due to financial difficulties or if they decide not to continue their co-operation with us, as this would increase our costs of operations, and if we cannot replace the future revenues expected by having a similar arrangement with another dealer in the same location (to the same extent or at all), 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, services, equipment and content over whom we have no direct operational or financial control. If any of these third party providers fail to maintain their networks, offerings or services properly or fail to respond 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 particular, Huawei, who has provided a significant portion of our network equipment. Continued cooperation with Huawei, or other equipment suppliers, is important for us to maintain our operations without disruption. As Huawei have 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 legacy network assets, and any failure to obtain telecommunications equipment from Huawei may affect our network and have the effects described above.

We also rely on agreements with suppliers of handsets and modems (including Samsung, LG, Sony, Nokia, HTC, Huawei and Apple) and providers of IT services (including Comverse). 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 services. If any of the third parties that we rely on become unable to or refuse to provide to us the 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 you that our suppliers will continue to provide us with equipment and services at attractive prices or that we will be able to obtain such equipment 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 equipment and supplies, 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. 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.

In addition, the tender process and the process by which we were granted our 1800 MHz frequency and our recently awarded 800 MHz and 2600 MHz frequency reservations are being 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.

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 and results of operations.

We are continually involved in disputes and legal proceedings, including disputes and legal proceedings initiated by regulatory, competition 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 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. 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.

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 and results of operations.

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.

Some of 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, roaming costs and the cost of certain leases of office space and sites are denominated in foreign currencies, particularly in euro. A depreciation of the zloty against the euro would increase these costs. More importantly, a significant portion of our finance costs, including under the Senior Secured Notes, the Senior Notes, Revolving Credit Facility and any cash pay obligations under the Senior PIK Toggle Notes, are or will be denominated in euro (other than with respect to the Floating Rate Senior Secured Notes and any amounts drawn in zloty under the bank agreements, which will be denominated in zloty). Our currency risk is regularly monitored by our senior management who decide if they will take actions, such as entering into derivatives, to protect against currency risk. We do not have, and, as of the date of this Report, do not intend to enter into, currency derivatives to manage this risk and so we will not be protected from increases in the value of the euro relative to the zloty. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Qualitative and Quantitative Information on Market Risks."

Drawings under the Revolving Credit Facility Agreement and the Floating Rate Senior Secured Notes bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

Drawings under the Revolving Credit Facility Agreement bear interest at floating rates of interest tied to WIBOR *plus* a spread of 2% per annum (subject to a step down by reference to our Consolidated Leverage Ratio (as defined in the Revolving Credit Facility)), and drawings under the Floating Rate Senior Secured Notes bear interest at a floating rate. These interest rates could rise significantly in the future. Although we have the ability to enter into certain hedging arrangements designed to fix a portion of these rates in the future, there can be no assurance that we will do so, 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.

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 EU and Polish authorities to impose stricter regulations on the construction of the components of our network, such as Base Transceiver Stations ("**BTS**") 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 the 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.

We are subject to inflation risks that may adversely affect our earnings.

Inflation in Poland is volatile, being a rate of 0.2%, of deflation in 2016, deflation at the level of 0.9% in 2015, 0.0% in 2014, inflation at the level of 0.9% in 2013, inflation at the level of 3.7% in 2012 and inflation at the level of 4.3% in 2011. Based in Eurostat analysis inflation is projected to turn positive in 2017 and 2018 (1.3% and 1.8% respectively). Consequently, we may be impacted by inflation-linked increases in salaries, wages, benefits, network site and store rentals and other administrative costs. As a result, our operating expenses may increase faster than associated revenues, which could have a material adverse effect on our cash flows, financial condition and results of operations. On the other hand, if the Polish economy enters into deflation, there could be a number of negative consequences for consumers and businesses in Poland. For instance, in a deflationary environment, consumers may decide to postpone purchases of goods and services, including those provided by us, expecting that in the future prices will be lower. This could have material negative impact on the results of our operations and our financial performance.

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 mobile telecommunications operators in the mobile telecommunications industry with respect to e.g. valuation methods, presentation, critical assumptions, estimates and judgements. In addition, we have adopted early IFRS 15 "Revenue from Contracts with Customers" effective for annual periods beginning on or after January 1, 2018, and IFRS 16 "Leases" effective for annual periods beginning on or after January 1, 2019 (published in January 2016 and not yet endorsed by the EU). For further information please see Note 2.2 to our consolidated financial statements included elsewhere in this Report and "*Presentation of Financial Information — Changes in Accounting Policies*". You are therefore cautioned that our results may not be comparable to those of other companies in the industry.

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

The Polish tax system is characterized by instability, tax regulations are frequently amended. The instability stems not only from changes in law but also from the reliance by tax regulators on court interpretations, which are also subject to potential changes and reversals. The lack of reference to well-established regulations results in lack of clarity and consistency in the regulations which creates uncertainties and conflicts. These frequent changes in tax regulations have had and may in the future have negative effects on our business, financial condition and results. Further, the lack of stability in the Polish tax regulations may hinder our ability to effectively plan for the future and to implement our business plan. 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 tax authorities and additional tax assessments with penalty interest and penalties may be imposed within 5 years from the end of the year in which a tax is due.

There is a risk of assessment of additional income in relation to the contribution in kind of Play trademarks by us to our former subsidiary, Play Brand Management Limited

In 2012, we made an in-kind contribution of our trademarks to our former Cypriot subsidiary, Play Brand Management Limited, in the amount of approximately PLN 728 million. Part of the in-kind contribution (approximately PLN 364 million) was transferred to the registered share capital of Play Brand Management Limited and the remaining amount to its supplementary capital (share premium). We considered which amount should be treated as its taxable revenues and whether it would be (i) the nominal value of the Play Brand Management Limited shares which were received in exchange for the in-kind contribution or (ii) the fair market value of the in-kind contribution. We received legal opinions and determined that the taxable revenues would be the nominal value of the Play Brand Management Limited shares which were received in exchange for the in-kind contribution.

Judgments given on similar cases in the Polish administrative courts are not clear as to whether, in the case of an in-kind contribution on the side of the contributor, the taxable revenues should be calculated as the nominal value of the shares or the fair market value of the in-kind contribution. The tax authorities may therefore challenge our approach and may assess the taxable revenues as being the fair market value of the in-kind contribution. As a result, the tax authorities could assess our additional income as equal to the difference between those two amounts. If the Polish tax authorities were to make a determination against us, it would result in the increase in our taxable income in 2012 in an amount of approximately PLN 364 million. However, this would not result in additional income tax charges, as it would be offset by higher utilization of tax losses from previous years.

The transfer of such substantial assets may also trigger VAT risks, particularly because the approach of tax authorities and administrative courts to such transactions has not been uniform.

On May 26, 2014, all of the intellectual property assets held by Play Brand Management Limited were transferred to Play 3GNS, which holds them on substantially the same terms as those upon which Play Brand Management Limited had held them, and the license agreement made with Play Brand Management Limited was terminated. Subsequently, on May 27, 2014, we entered into a full and non-exclusive license agreement with Play 3GNS in order to be able to use the trademarks owned by Play 3GNS. On December 10, 2014 we merged Play Brand Management Limited with the Company. Due to the significant value of the in-kind contribution of trademarks to Play Brand Management Limited and their subsequent transfer to Play 3GNS, the relatively short period of time between these transactions, and the fact that the Company is the limited partner in Play 3GNS with the right to a majority share of the profits of the partnership, we believe that the tax risks mentioned above may still apply, as well as similar risks related to these transactions and the subsequent merger.

In 2016, a tax audit was initiated by the [Polish] tax authorities with respect to our 2013 financial year. In 2017 the tax audit has been extended by the Tax Authorities with respect to 2012 financial year. As of the date of thisReport, the Polish tax authorities have not formally challenged any tax settlements. The tax audits is still ongoing as of the date of this Report.

Our application of an 8% VAT rate applied to TV services provided by us may be challenged

In August 2016, we launched on-line TV offers and applied an 8% VAT rate to such TV services based on a positive tax ruling which we obtained. As a result, some of our offers for customer are split between regular telecommunications services (subject to 23% VAT rate) and on-line TV (subject to an 8% VAT rate). We made efforts to properly allocate the customer subscription fee between these two streams. However, we cannot exclude the possibility that the Polish tax authorities will challenge the split in favor of standard-rated telecommunication services or attempt to classify TV services rendered by us as different than those described in our tax ruling application. If such risks materialize, the Polish tax authorities might assess a VAT underpayment in addition to a penalty interest assessed at 8% per year. In addition, starting 2017, an additional 30% penalty interest could also be assessed with regards to tax arears identified by the Polish tax authorities

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 telecommunication access, make available to public specified information relating to the provision of telecommunication access, as well as with respect to technical specifications for telecommunication 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 telecommunication 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 (Dz. U. of 2016, item 1489) (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 UOKiK President, 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.

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 consumer protection laws.

The UOKiK President is empowered under The Polish Act on the Protection of Competition and Consumers of February 16, 2007 (Dz. U. of 2007, No 50, Item 331, as amended) ("**Competition Act**") to conduct proceedings regarding anticompetitive practices, 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), 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 both, the restriction of competition and infringement of the collective interests of consumers. On April 11, 2014, the UOKiK President initiated a general and preliminary fact-finding process 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. This case was finally abandoned but we may not preclude that cooperation between operators with that respect will not be examined in the future

The activity of UOKiK with respect to telecommunications significantly increased within the last years. UOKiK questions the market practices of operators which has been accepted in the past including 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 pre-paid offer after lapse of validity period of subscriber's account.

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 act that allows for "collective claims," which is a type of a class action where a group of people 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, 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. 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 reservation decision terms as well as relevant laws and other regulations established by the UKE President and the minister responsible for telecommunications. Failure to comply with such reservation decision terms 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 frequency 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 reservation for the use of frequencies, or of the obligation to pay charges for the frequency reservations; (vii) the entity that obtained the reservation does not perform the obligations referred to in the reservation for reasons attributable to that entity; or (viii) the use of frequency covered by the frequency 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 for the annulment of 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 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 cancellation of our 1800 MHz frequency reservation until the proceedings mentioned above are finalized. 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. The results of such proceedings 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 EU (both at the retail and wholesale level). In particular, in 2017, Roam-Like-At-Home regulation comes into force lowering retail pricing to the home country level. At the same time wholesale rates might be regulated on a level which in some cases may cause service margin loss. Finally, there are 2 security measures which may eliminate such losses – Fair Use Policy which limits regulated roaming services consumption (on the home price level prices) and Sustainability which allows request to local NRA for additional surcharge implementation in case international roaming service margin reach -3% of losses.

Furthermore, in 2007, the European Regulation (EC) No 717/2007 of the European Parliament and the Council of June 27, 2007 on roaming on public mobile telephone networks within the European Community (the “Community”) amending Directive 2002/21/EC came into effect, as well as, in 2009, Regulation (EC) No 544/2009 of the European Parliament and of the Council of 18 June 2009 was introduced amending Regulation (EC) No 717/2007 on roaming on public mobile telephone networks within the Community, both provided for a steady reduction in mobile retail and wholesale prices for voice calls, SMS and data. On June 13, 2012, however, the aforementioned Regulation (EC) No 544/2009 was repealed by Regulation (EU) No. 531/2012 of the European Parliament and of the Council of June 13, 2012 on roaming on public mobile communications networks within the EU. Pursuant to the latter regulation, the maximum retail prices and average wholesale prices for roaming mobile services (calls, data transmission, SMS) decreased on July 1, 2013, and decreased further on July 1, 2014. Additionally, a “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. Reduction of prices of mobile roaming services, as well as operation of the LBO (if any) may have a material adverse effect on our business, financial conditions. On June 15, 2016, the EC issued a proposal for a regulation amending Regulation (EU) No 531/2012 as regards rules for wholesale roaming markets. Currently, there is a preparation for Wholesale Regulation which is necessary condition for Roam Like At Home introduction - trialogue negotiations between European Commission, Parliament and Council is concluded with regulated wholesale roaming DATA charges at €7.75 per gigabyte from June 15, decreasing to €6 as of January 1, 2018. The fees will slide to €4.50 per gigabyte in 2019, €3.50 in 2020, €3 in 2021 and then to €2.50 in 2022. Voice (originated) calls wholesale rates are agreed at €0.032 per minute and SMS (originated) at €0.01 per message. The trialogue negotiations are to be voted by EP in March 2017 and enter into force no later than June 15, 2017 which is regulatory deadline for Roam Like At Home implementation across EU.

Risks Related to our Financial Profile

The tax treatment of the January 31, 2014 offerings of Senior Secured Notes and the Senior Notes is uncertain.

While the issuers of the Senior Secured Notes and the Senior Notes (the “**January 2014 Offerings**”) have sought to ensure the offerings are tax efficient, there can be no assurance that the relevant tax authorities will assess the transactions in the manner expected by the issuers. No tax rulings have been obtained in relation to the offerings of the Senior Secured Notes and the Senior Notes; and it is not anticipated that any such tax rulings will be obtained. If the transactions do not otherwise prove to be tax neutral, if any entity within the Group is determined to have received deemed income or if certain payments contemplated in relation to the January 2014 Offerings do not prove to be tax deductible or will be subject to additional withholding taxes, the finance costs, taxable income and tax obligations of the Group may increase, and we may not be able to take certain steps to increase the tax efficiency of the Group. Any material tax obligations or effects caused by the consummation of the January 2014 Offerings and adverse determinations by the relevant tax authorities may have a material adverse effect on our business, financial condition and results of operations.

Our substantial leverage and debt service obligations could have a material adverse effect on our business and prevent us from fulfilling our obligations with respect to the Notes and the Note Guarantees.

As of December 31, 2016, the Parent and its subsidiaries had total financial indebtedness of PLN 7,023 million, while PLN 400 million would be available for drawing under the Revolving Credit Facility, PLN 150 million would be available for drawning under the Bank Zachodni WBK Revolving Credit Facility and PLN 50 million would be available for drawing under the Millennium Revolving Credit Facility.

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

- making it difficult for us to satisfy our obligations with respect to the Notes;
- making us vulnerable 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, subscriber acquisition costs 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; and
- 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, including the Notes.

In addition, despite our substantial leverage, we may still be able to incur more debt under the Senior Secured Notes Indenture and the Senior Notes Indenture, which could further exacerbate the risk described above. The terms of each of the Senior Secured Notes Indenture and the Senior Notes Indenture will permit us to incur substantial additional indebtedness, including in respect of certain other secured debt that shares in the Collateral on a first-priority basis (in the case of Senior Notes) or *pari passu* or super priority basis (in the case of Senior Secured Notes). In addition, the Senior Secured Notes Indenture and the Senior Notes Indenture will allow our non-guarantor subsidiaries to incur additional debt that would be structurally senior to the Notes and will not prevent us from incurring liabilities that do not constitute “Indebtedness” as defined thereunder.

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.

Each of the Senior Secured Notes Indenture and the Senior Notes Indenture will restrict, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- enter into certain sale and leaseback transactions;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of the Senior Secured Notes Issuer and/or the Senior Notes Issuer;

- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to such entity;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair the security interest for the benefit of the holders of the relevant Notes.

All of these limitations will be subject to significant exceptions and qualifications. See "Description of Senior Secured Notes—Certain Covenants" and "Description of Senior Notes—Certain Covenants" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015. Despite these exceptions and qualifications, the covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, we will be subject to the affirmative and negative covenants contained in the Revolving Credit Facility Agreement. A breach of any of those covenants or restrictions could result in an event of default under the Revolving Credit Facility Agreement. Upon the occurrence of any event of default under the Revolving Credit Facility 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 Agreement and elect to declare all amounts outstanding under the Revolving Credit Facility, together with accrued interest, immediately due and payable. In addition, a default under the Revolving Credit Facility Agreement could lead to an event of default and acceleration under other debt instruments that contain cross default or cross acceleration provisions, including the Senior Secured Notes Indenture and the Senior Notes Indenture. If our creditors, including the creditors under the Revolving Credit Facility, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the Senior Secured Notes or the Senior Notes, in full or in part. 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.

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 the Revolving Credit Facility Agreement and our obligations under the Senior Secured Notes and the Senior Notes, 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 on January 31, 2018, the Senior Secured Notes on January 31, 2019 and Senior Notes on August 31, 2019. If at the maturity of these loans, the Senior Secured Notes, the Senior Notes or any other debt which we may incur, if 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, including the Revolving Credit Facility, the Senior Secured Notes, the Senior Notes and the Notes, 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 Revolving Credit Facility Agreement, the Senior Secured Notes Indenture and the Senior Notes Indenture may limit our ability to pursue any of these measures.

Drawings under the Revolving Credit Facility Agreement, the Millennium Revolving Credit Facility, the Bank Zachodni WBK Revolving Credit Facility and the Floating Rate Senior Secured Notes will bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow.

Drawings under the Revolving Credit Facility Agreement will bear interest at floating rates of interest tied to WIBOR *plus* a spread of 2% per annum (subject to a step down by reference to our Consolidated Leverage Ratio (as defined in the Revolving Credit Facility)), and drawings under the Millennium Revolving Credit Facility, the Bank Zachodni WBK Revolving Credit Facility and the Floating Rate Senior Secured Notes will bear interest at a floating rate. These interest rates could rise significantly in the future. Although we have the ability to enter into certain hedging arrangements designed to fix a portion of these rates in the future, there can be no assurance that we will do so, 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.

Risks Related to the Senior Secured Notes

Creditors under the Revolving Credit Facility, any credit facility that refinances or replaces the Revolving Credit Facility and certain hedging obligations are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale in priority to the Senior Secured Notes. Holders of the Senior Secured Notes will not control decisions regarding the Collateral in certain circumstances.

The Senior Secured Notes and the Senior Secured Note Guarantees will be secured initially on a first-priority basis by the same Collateral securing the obligations under the Revolving Credit Facility Agreement, any credit facility that refinances or replaces the Revolving Credit Facility and certain hedging liabilities. In addition, under the terms of the Senior Secured Notes Indenture, subject to certain restrictions, we will be permitted to incur significant additional indebtedness and other obligations that may be secured by the same Collateral on a *pari passu* basis, including other credit facilities and certain hedging liabilities.

Pursuant to the Intercreditor Agreement, creditors under the Revolving Credit Facility Agreement, any credit facility that refinances or replaces the Revolving Credit Facility (subject to the incurrence of additional indebtedness permitted by the Senior Secured Notes Indenture) and certain hedging liabilities are entitled to be repaid with the proceeds of the Collateral sold in any enforcement sale or certain distressed disposals in priority to the Senior Secured Notes. As such, in the event of a foreclosure of the Collateral, you may not be able to recover on the Collateral if the then outstanding claims under the Revolving Credit Facility Agreement, any such credit facility and such hedging obligations are greater than the proceeds realized. Any proceeds from an enforcement sale of the Collateral by any creditor will, after all obligations under the Revolving Credit Facility Agreement, any such credit facility and such hedging obligations have been discharged from such recoveries, be applied pro rata in repayment of the Senior Secured Notes and any other obligations secured by the Collateral which are permitted to rank *pari passu* with the Senior Secured Notes.

The Intercreditor Agreement provides that a common Security Agent, who will also serve as the security agent for the lenders under the Revolving Credit Facility Agreement, our hedging obligations and any additional debt or other obligations secured by the Collateral permitted to be incurred under the Senior Secured Notes Indenture and the Senior Notes Indenture, will act only as provided for in the Intercreditor Agreement. The Intercreditor Agreement regulates the ability of the Senior Secured Notes Trustee or the holders of the Senior Secured Notes to instruct the Security Agent to take enforcement action. The Security Agent is not required to take enforcement action unless instructed to do so by an Instructing Group (as defined further in "Description of Certain Financing Arrangements—Intercreditor Agreement—Enforcement decisions") that consists of, prior to the Secured Debt Discharge Date (as defined in the Intercreditor Agreement) (i) creditors holding more than $66^2/_3$% of the Indebtedness and commitments under the Revolving Credit Facility Agreement and certain priority hedging obligations (the "**Majority Super Senior Creditors**") and (ii) the holders of the aggregate principal amount of the then outstanding Senior Secured Notes and creditors in respect of indebtedness ranking *pari passu* with the Senior Secured Notes (the "**Senior Secured Credit Participations**") which aggregate more than 50% of the total senior secured credit participations at that time (the "**Senior Secured Notes/*Pari Passu* Required Holders**") (in each case acting through their respective creditor representatives) and after the Secured Debt Discharge Date but prior to the Senior Debt Discharge Date (as defined in the Intercreditor Agreement), the Senior Notes/Additional Unsecured Debt Required Holders (as defined in the Intercreditor Agreement), or, to the extent permitted to enforce or to require the enforcement of the Shared Collateral (as defined below) in accordance with the Intercreditor Agreement, the Senior Notes/Additional Unsecured Debt Required Holders may give instructions to the Security Agent as to the enforcement of the Shared Security as they see fit (provided that any such instructions are consistent with the security enforcement principles). The Security Agent will comply with the instructions of the Senior Secured Notes/*Pari Passu* Required Holders, provided that if (i) the Senior Secured Notes/*Pari*

Passu Required Holders have not taken any enforcement action within three months of the first proposed enforcement instructions (including instructions not to take enforcement steps) being delivered or (ii) the liabilities owing to the lenders under the Revolving Credit Facility Agreement and the creditors in respect of certain priority hedging obligations have not been fully discharged in cash within six months of the first proposed enforcement instructions (including instructions not to take enforcement steps) being delivered, then the instructions of the Majority Super Senior Creditors will prevail.

Following the transaction security having become enforceable, a creditor representative acting on behalf of the Majority Super Senior Creditors or the Senior Secured Notes/*Pari Passu* Required Holders may at any time provide immediate enforcement instructions to the Security Agent if the Majority Super Senior Creditors or the Senior Secured Notes/*Pari Passu* Required Holders determine in good faith that to delay the taking of any enforcement action could reasonably be expected to have a material adverse effect on the Security Agent's ability to enforce any transaction security or the realization of enforcement proceeds. In such circumstances, the Security Agent shall act only with respect to the relevant asset or debtor that is the subject of such determination, in accordance with the first such notice of such determination and instructions as to enforcement (and in each case, any such instructions by such Instructing Group must be in accordance with certain security enforcement principles) received by the Security Agent.

If at any time an insolvency event has occurred with respect to any debtor (other than an insolvency event which is the direct result of any action taken by the Security Agent acting on the instructions of the Majority Super Senior Creditors or the Senior Secured Notes/*Pari Passu* Required Holders), the Security Agent shall act, to the extent the credit facility agent elects to provide such instructions, in accordance with the instructions received from the credit facility agent; provided that in the event the Security Agent has received Proposed Enforcement Instructions from the creditor representative for the Senior Secured Notes/*Pari Passu* Required Holders and has commenced relevant enforcement action pursuant to such instructions, the Security Agent shall continue to act in accordance with the instructions of the creditor representative for the Senior Secured Notes/*Pari Passu* Required Holders until such time the credit facility agent issues enforcement instructions to the Security Agent and such instructions shall override and supersede any such prior instructions given by the creditor representative for the Senior Secured Notes/*Pari Passu* Required Holders.

To the extent we incur additional indebtedness that is secured on a *pari passu* basis with the Senior Secured Notes, the voting interest of holders of Senior Secured Notes in an instructing group will be diluted commensurate with the amount of indebtedness we incur.

The lenders under the Revolving Credit Facility Agreement and the creditors in respect of certain priority hedging obligations may have interests that are different from the interests of holders of the Senior Secured Notes and they may, subject to the terms of the Intercreditor Agreement, elect to pursue their remedies under the Security Documents at a time when it would be disadvantageous for the holders of the Senior Secured Notes to do so. In addition, in an enforcement action, under certain circumstances, the liabilities relating to the Senior Secured Notes, the claims under the Senior Secured Proceeds Bonds, claims under the Senior Secured Note Guarantees and the liens over any other assets of such entities securing the Senior Secured Notes and the Senior Secured Note Guarantees may be released. See "Description of Senior Secured Notes—Note Guarantees—Release of the Note Guarantees" and "Description of Senior Secured Notes—Security—Release" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015.

Delays in enforcement could decrease or eliminate recovery values. In addition, the holders of the Senior Secured Notes will not have any independent power to enforce, or have recourse to, any of the Security Documents or to exercise any rights or powers arising under the Security Documents, except through the Security Agent as provided in the Intercreditor Agreement. By accepting the Senior Secured Notes, you will be deemed to have agreed to these restrictions. As a result of these restrictions, holders of the Senior Secured Notes will have limited remedies and recourse against the Senior Secured Notes Issuer and the Senior Secured Note Guarantors in the event of a default.

The Collateral may not be sufficient to secure the obligations under the Senior Secured Notes.

The Senior Secured Notes and the Senior Secured Notes Guarantees will be secured by security interests in the Collateral described in this Report, which Collateral also secures the obligations under the Revolving Credit Facility Agreement, certain hedging obligations any credit facility that refinances or replaces the Revolving Credit Facility (on a *pari passu* basis), and, with respect to the pledge over the issued and outstanding capital stock of each of the Senior Notes Issuer, the Company, the Parent and HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent) and the Senior Notes Proceeds Bonds (the "**Shared Collateral**"), the Senior Notes (on a junior priority basis). The Collateral may also secure additional debt or other obligations ranking *pari passu* with the Senior Secured Notes to the extent permitted by the terms of the Senior Secured Notes Indenture, the Senior Notes Indenture and the Intercreditor Agreement. As such, in the event of a foreclosure of the

Collateral, you may not be able to recover on the Collateral if the then outstanding claims under the Revolving Credit Facility, such credit facility and such hedging obligations are greater than the proceeds realized. Any proceeds from an enforcement sale of the Collateral by any creditor will, after all obligations under the Revolving Credit Facility, or such other credit facility and such hedging obligations have been discharged from such recoveries, be applied pro rata in repayment of the Senior Secured Notes and any other debt or obligations secured by the Collateral on a *pari passu* basis.

No appraisals have been prepared by or on our behalf in connection with the issuance of the Senior Secured Notes. The fair market value of the Collateral and the amount able to be realized upon an enforcement of such Collateral will depend upon many factors, including, amongst others, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers, whether or not our business is sold as a going concern, the jurisdiction in which the enforcement action or sale is completed, the ability to readily liquidate the Collateral and the fair market value and condition of the Collateral. The book value of the Collateral should not be relied on as a measure of realizable value for such assets. All or a portion of the Collateral may be illiquid and may have no readily ascertainable market value. Likewise, we cannot assure you that there will be a market for the sale of the Collateral or, if such a market exists, that there will not be a substantial delay in our liquidation. In addition, the share pledges or charges of an entity may be of no value if that entity is subject to an insolvency or bankruptcy proceeding.

To the extent that security interests and other rights granted to other parties encumber assets owned by the Senior Secured Notes Issuer or Senior Secured Note Guarantors, those parties have or may exercise rights and remedies with respect to the property subject to their security interests or other rights that could adversely affect the value of that Collateral and the ability of the Security Agent, the Trustee or holders of the Senior Secured Notes to realize the value of or enforce that Collateral. If the proceeds of any sale of Collateral are not sufficient to repay all amounts due on the Senior Secured Notes, holders of the Senior Secured Notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only an unsecured claim (assuming that the relevant Senior Secured Note Guarantee has not been released) against the Senior Secured Notes Issuer's and the relevant Senior Secured Note Guarantors' remaining assets. Each of these factors or any challenge to the validity of the Collateral or the Intercreditor Agreement could reduce the proceeds realized upon enforcement of the Collateral.

The Indenture will permit the granting of certain liens other than those in favor of the holders of the Senior Secured Notes on the Collateral. To the extent that holders of other secured debt or third parties enjoy liens, including statutory liens, such holders or third parties may have rights and remedies with respect to the Collateral that, if exercised, could reduce the proceeds available to satisfy our obligations under the Senior Secured Notes. Moreover, if we issue additional Senior Secured Notes under the Senior Secured Notes Indenture, holders of such additional Senior Secured Notes would benefit from the same Collateral as the holders of the relevant Senior Secured Notes, thereby diluting your ability to benefit from the Collateral for the Senior Secured Notes.

Risks Related to the Senior Notes

Claims of our senior secured creditors will have priority with respect to their security over the claims of holders of the Senior Notes, to the extent of the value of the assets securing such indebtedness.

Holders of the Senior Notes may not be able to recover on the Shared Collateral that are pledged or assigned for the benefit of the holders of the Senior Notes because the creditors under the Revolving Credit Facility, the holders of Senior Secured Notes, certain hedging obligations and certain other senior debt or obligations permitted to be incurred and secured over the Collateral on a senior basis to the Senior Notes under the Senior Notes Indenture) will have a prior claim on all proceeds realized from any enforcement of such Shared Collateral and any enforcement sale with respect to such Shared Collateral and the Senior Notes will need to share any remaining proceeds from such enforcement with any other secured creditor. In addition the Senior Secured Notes Indenture and the Revolving Credit Facility and the Senior Notes Indenture permit future senior debt to be, secured by Liens over property and assets that do not secure the Senior Notes. Therefore, the Senior Notes will be effectively subordinated to the Senior Secured Notes, the Revolving Credit Facility and future senior debt or obligations to the extent of the value of the property and assets securing such indebtedness (other than the Shared Collateral).

If the proceeds realized from the enforcement of Collateral exceed the amount owed under the Revolving Credit Facility, the Senior Secured Notes and such other senior debt or obligations, any excess amount of such proceeds will be paid to the Trustee on behalf of itself and the registered holder of the Senior Notes for the benefit of the holders of the Senior Notes (as beneficiary of junior-priority interests, in the case of Shared Collateral, and as an unsecured creditor, in the case of all other property and assets). If there are no excess proceeds, or if the amount of such excess proceeds is less than the aggregate amount of the obligations under the Senior Notes and any other indebtedness permitted under the Senior Notes Indenture and the Intercreditor Agreement to share in the Shared Collateral with the Senior Notes on a *pari passu* basis, the holders of Senior Notes will not fully recover (if at all) under such Shared Collateral. In addition, with respect to all other property and assets, the holders of the Senior Notes would have only an unsecured claim against the Senior Notes Issuer's and the relevant Guarantors' remaining assets.

As of December 31, 2015, we had an aggregate principal amount of PLN 3,330 million of indebtedness secured by liens which rank in priority to the liens securing the Senior Notes, and up to PLN 400 million was available for additional borrowings under the committed and undrawn Revolving Credit Facility and PLN 50 million was available for drawing under the Millennium Revolving Credit Facility and PLN 150 million was available for drawing under the Bank Zachodni WBK Revolving Credit Facility. We may also issue further indebtedness which will be entitled to rank *pari passu* with or senior to the Senior Notes in right and priority of payment and which will be entitled to share in the Collateral with the Senior Notes on a *pari passu* or senior-priority basis. In the event that any such debt is issued, your creditor voting rights will be diluted proportionately to the amount of indebtedness incurred.

The rights to enforce remedies with respect to the Collateral securing the Senior Notes and the Senior Note Guarantees are limited as long as any senior debt is outstanding.

The Senior Notes Indenture, the Intercreditor Agreement and the Security Documents provide that, the obligations under the Revolving Credit Facility, the Senior Secured Notes and certain hedging obligations are secured by a first-priority security interests over the Shared Collateral, and the holders of the Senior Notes will only receive proceeds from the enforcement of the Shared Collateral after the lenders under the Revolving Credit Facility and the holders of the Senior Secured Notes have been repaid in full. The Intercreditor Agreement restricts the ability of the Trustee or the holders of the Senior Notes to instruct the Security Agent to take enforcement action. The circumstances in which the holders of the Senior Notes may instruct the Security Agent to take enforcement action in respect of the security interests over the Collateral are significantly limited. Generally, pursuant to the Intercreditor Agreement, the holders of first-priority security interests in the Shared Collateral will be entitled to control virtually all decisions relating to the exercise of remedies with respect to these security interests, will be able to block enforcement of such security interests, will be able to release the security interests over Shared Collateral in certain circumstances and will receive any proceeds from the enforcement of those security interests before amounts will be available to the holders of the Senior Notes. The Intercreditor Agreement provides that a common security agent will serve as the Security Agent for the secured parties under the Revolving Credit Facility, the Senior Secured Notes, certain hedging obligations and any other senior debt permitted to be incurred under the Senior Notes Indenture and secured by security interests over the Shared Collateral and the Senior Notes, and will (subject to certain limited exceptions) act with respect to such Collateral only at the direction of the relevant Instructing Group. In general, the rights of the Security Agent (acting on its own behalf or on behalf of the holders of the Senior Notes) to take enforcement action under the Security Documents with respect to the Shared Collateral are subject to certain standstill provisions and payment blockage and other limitations on enforcement. The holders of the Senior Notes will not be able to independently pursue the remedies of a secured creditor under the Security Documents or until the expiration of the applicable standstill period (being a period of up to 179 days) and for so long as any amounts under the Revolving Credit Facility, the Senior Secured Notes, certain hedging obligations and such other senior debt or obligations remain outstanding.

In addition, in the circumstances in which the holders of the Senior Notes would be entitled to issue enforcement instructions to the Security Agent, (1) creditors in respect of indebtedness whose security interest in the Shared Collateral ranks senior to the Senior Notes have the right (a) to issue overriding enforcement instructions (if entitled to give instructions to the Security Agent at the relevant time) and/or (b) to issue enforcement instructions in relation to any Collateral that does not also secure the Senior Notes or in respect Collateral that is not (directly or indirectly) affected by the enforcement instructions issued by the holders of the Senior Notes and (2) any enforcement instructions issued on behalf of the holders of the Senior Notes must comply with certain security enforcement principles.

The creditors of such senior debt or obligations may have interests that are different from the interests of holders of the Senior Notes, and they may elect to pursue their remedies under the Security Documents at a time when it would be disadvantageous for the holders of the Senior Notes to do so. This may affect the ability of holders of the Senior Notes to recover under the Shared Collateral if the proceeds from the Collateral, after having satisfied obligations under such senior debt or obligations, are less than the aggregate amount outstanding under the Senior Notes and any other indebtedness permitted under the Senior Notes Indenture and the Intercreditor Agreement to share in the Shared Collateral with the Senior Notes on a *pari passu* basis.

In addition, if the creditors of such senior debt or obligations direct the sale of the shares of a Group company through an enforcement of their first-priority security interests, in accordance with the terms of the Intercreditor Agreement, the Senior Notes Guarantees and the liens over any other assets securing the Senior Notes and each Senior Notes Guarantee may (subject to certain conditions) be released.

***Each of the Senior Notes Guarantees and the Senior Notes Proceeds Bonds will be subordinated to the existing and future senior indebtedness of the relevant Senior Note Guarantors*.**

The Senior Notes Guarantees and the Senior Notes Proceeds Bonds will be the senior subordinated obligations of the relevant Senior Note Guarantors and:

- be subordinated in right of payment to all existing and future senior indebtedness of such Senior Note Guarantor (including such Senior Note Guarantors' guarantee of the Senior Secured Notes, the Revolving Credit Facility and certain hedging obligations);
- rank *pari passu* in right of payment with any existing and future senior subordinated indebtedness of that Senior Note Guarantor;
- rank senior in right of payment to any existing and future obligations of that Guarantor that is expressly subordinated to the relevant Senior Note Guarantee and/or the Senior Notes Proceeds Bonds, as the case may be;
- benefit from the security as set forth under "Description of Senior Notes—Security" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015; and
- be effectively subordinated to any existing and future indebtedness of that Senior Note Guarantor that is secured by liens senior to the liens securing that Senior Note Guarantor's guarantee or Senior Notes Proceeds Bonds, as the case may be, or secured with property or assets that do not secure that Guarantor's guarantee, or Senior Notes Proceeds Bonds, as the case may be, to the extent of the value of the property or assets securing such indebtedness.

In addition, no enforcement action with respect to the Senior Note Guarantees or the Shared Collateral may be taken until the earlier of (subject to certain limited exceptions): (i) any enforcement action being taken with respect to debt ranking senior to the Senior Notes (provided the Senior Notes Trustee and holders of the Senior Notes will be limited to taking the same action); (ii) with respect to any enforcement action on a Guarantor, the occurrence of an insolvency event with respect to such Guarantor; (iii) the occurrence of a default on the Senior Notes outstanding after a period of up to 179 days from the date the agent or Senior Secured Notes Trustee with respect to senior debt received written notice of such default; (iv) a default has occurred resulting from a failure to pay principal on the Notes at maturity; or (v) the date on which the credit facility agent, the Trustee for the Senior Secured Notes and the representative for other *pari passu* secured debt (if any) has given its consent to the proposed action.

Upon any distribution to the creditors of a Senior Note Guarantor in a liquidation, administration, bankruptcy, moratorium of payments, dissolution or other winding-up of such Senior Note Guarantor, the holders of indebtedness of such Senior Note Guarantor ranking senior to the Senior Note Guarantee and/or the Senior Notes Proceeds Bonds (as applicable) of such Senior Note Guarantor will be entitled to be paid in full before any payment may be made with respect to such Senior Note Guarantor's Senior Note Guarantee or Senior Notes Proceeds Bonds, as the case may be. As a result, holders of the Senior Notes may receive less, ratably, than the holders of debt of the Senior Note Guarantors ranking senior to the Senior Note Guarantee or the Senior Notes Proceeds Bonds, including the lenders under the Revolving Credit Facility Agreement, holders of the Senior Secured Notes, certain hedging obligations and other indebtedness that is allowed to rank *pari passu* with them.

Risks Related to Our Structure

Payments by certain Guarantors in respect of their Note Guarantees may be subject to withholding tax.

Amounts paid by the Guarantors in respect of their Note Guarantees may, under the current laws and regulations of their respective jurisdictions, be subject to withholding tax, and such taxes may be material. In the event such withholding tax is imposed, the Guarantors will (subject to certain exceptions) be required to pay additional amounts so that the net amounts received after such withholding tax are the same as would have been received had no such withholding tax been imposed. In particular, an exception potentially applies where a holder or beneficial owner of the Notes fails to comply with any reasonable written request of the relevant Issuer (made at least 60 days before any such withholding tax would be payable) to satisfy certification, identification, information or other reporting requirements that are a precondition to exemption from, or reduction in, the rate of such withholding tax. See "Taxation—Polish Taxation," "Description of Senior Notes—Additional Amounts" and "Description of Senior Secured Notes—Additional Amounts" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015.

The Senior Secured Notes Issuer and the Senior Notes Issuer is a finance subsidiary that is dependent upon cash flow from subsidiaries to meet its obligations on the relevant Notes. In addition, the Senior Secured Notes Indenture includes additional restrictions on the ability of the Parent and its restricted subsidiaries (other than the Senior Notes Issuer) to make any investments or distributions from, or to transfer any of its properties or assets, to the Senior Notes Issuer, and the Senior Notes issuer to receive and retain such investments, distributions, property or assets, other than under certain limited circumstances.

The Senior Secured Notes Issuer and the Senior Notes Issuer is a finance subsidiary with limited assets that has no subsidiaries and a limited ability to generate revenues. The only significant assets of the Senior Secured Notes Issuer are the Senior Secured Proceeds Bonds, and the only significant assets of the Senior Notes Issuer are the Senior Notes Proceeds Bonds. As such, the Senior Secured Notes Issuer will be dependent upon payments from the Company under the Senior Secured Notes Proceeds Bonds as well as the aforementioned intercompany loans, payments and other distributions to make any payments due on the Senior Secured Notes and the Senior Notes, respectively. Furthermore, the Senior Secured Notes Indenture and the Senior Notes Indenture will prohibit issuer from engaging in any activities other than certain limited activities. In addition, the Senior Secured Notes Indenture includes limitations on the ability of the Parent and its restricted subsidiaries (other than the Senior Notes Issuer) to make, any investments or distributions to, or transfer of any property or assets to, the Senior Notes Issuer, and for the Senior Notes Issuer to receive or retain such investments, distributions, property or assets, other than any amounts required to make payments on the Senior Notes Proceeds Bonds or towards the servicing, purchase, redemption or refinancing of any indebtedness permitted under the Senior Secured Notes Indenture and the Senior Notes Indenture, as well as certain "Permitted Senior Notes Issuer Payments" (as defined in the Senior Secured Notes Indenture). In addition, the Senior Secured Notes Indenture restricts the ability of the Parent and its restricted subsidiaries (other than the Senior Notes Issuer) to receive or retain any payment with respect to the Senior Notes Proceeds Bonds, unless otherwise permitted under the Senior Secured Notes Indenture and the Intercreditor Agreement.

If, as a result, the relevant Issuer is not able to make payments on the relevant Notes, holders of such Notes would have to rely on claims for payment under the relevant Note Guarantees and enforcement of the security interest over the relevant Collateral, which are subject to the risks and limitations described herein. Any of the situations described above could adversely affect the ability of the relevant Issuer to service its obligations in respect of the relevant Notes.

There are circumstances other than repayment or discharge of the Notes under which the Collateral securing the relevant Notes and the relevant Note Guarantees will be released automatically, without your consent or the consent of the relevant Trustee.

Under various circumstances, the Collateral securing the Notes and the Note Guarantees will be released automatically, including:

- in connection with any sale, assignment, transfer, conveyance or other disposition of such property or assets constituting Collateral (other than a lien on the equity interests of the Company or a parent of the Company) (i) to a Person that is not (either before or after giving effect to such transaction) the Parent or a restricted subsidiary of the Parent, if the sale or other disposition does not violate the "Asset Sale" provisions of the relevant Indenture or (ii) if such assets become subject to an equivalent lien in favor of the Security Agent for the benefit of the holders of the relevant Notes concurrent with such sale, assignment, transfer, conveyance or other disposition; provided that such sale, assignment, transfer, conveyance or other disposition of such property or assets is permitted by the relevant Indenture;

- in the case of a subsidiary Guarantor (other than the Company and any parent of the Company) that is released from its Note Guarantee pursuant to the terms of the relevant Indenture, the release of the property and assets of such Guarantor;

- if the Parent designates any restricted subsidiary (other than the relevant Issuer, the Company or any parent of the Company) to be an unrestricted subsidiary in accordance with the applicable provisions of the relevant Indenture, the release of the property and assets of such restricted subsidiary;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the relevant Indenture;
- pursuant to the Intercreditor Agreement as described under "Description of Certain Financing Arrangements—Intercreditor Agreement;"
- upon the full and final payment of the relevant Notes and performance of all obligations of the relevant Issuer and the Guarantors under the relevant Indenture and the Notes;
- in accordance with the "Amendments and Waivers" provisions of the relevant Indenture; and
- in accordance with the "No Impairment of Security Interest" provisions of the relevant Indenture.

Even though the holders of the Senior Secured Notes share in the Collateral securing the Senior Secured Notes ratably with the lenders under the Revolving Credit Facility, under certain circumstances, the creditors under the Revolving Credit Facility Agreement and certain of our hedging arrangements will control enforcement actions with respect to the Collateral through the Security Agent, whether or not the holders of the Senior Secured Notes agree or disagree with those actions. See "Description of Certain Financing Arrangements—The Intercreditor Agreement—Enforcement instructions."

Under various circumstances, the Note Guarantees will be released automatically, including, without limitation:

- in connection with any sale or other disposition of all or substantially all of the assets of that Guarantor (other than the Parent) to a person that is not (either before or after giving effect to such transaction) HoldCo 1 or its restricted subsidiaries, if the sale or other disposition does not violate the "Asset Sale" provisions of the relevant Indenture;
- in connection with any sale or other disposition of capital stock of that Guarantor (or capital stock of its parent (other than the Parent, the Company or any parent of the Company)) to a Person that is not (either before or after giving effect to such transaction) the Parent or one of its restricted subsidiaries, if the sale or other disposition does not violate the "Asset Sale" provisions of the relevant Indenture and the relevant Guarantor ceases to be a restricted subsidiary as a result of the sale or other disposition;
- if the Parent designates any restricted subsidiary that is a Guarantor to be an unrestricted subsidiary in accordance with the applicable provisions of the relevant Indenture;
- pursuant to the Intercreditor Agreement or any additional intercreditor agreement;
- upon legal defeasance, covenant defeasance or satisfaction and discharge of the relevant Indenture;
- upon the full and final payment of the Notes and performance of all obligations of the relevant Issuer and the Guarantors under the relevant Indenture and Notes;
- in accordance with the "Amendments and Waivers" provisions of the relevant Indenture, as a result of a transaction permitted by the "Merger, Consolidation or Sale of Assets" covenant of the relevant Indenture; and
- with respect to an additional Note Guarantee given under the covenant captioned "Additional Guarantees" provision of the relevant Indenture upon release of the guarantee that gave rise to the requirement to issue such additional guarantee so long as no default or event of default would arise as a result thereof and no other Indebtedness that would give rise to an obligation to give an additional Note Guarantee is at that time guaranteed by the relevant Guarantor.

In addition, the Note Guarantees and security interests will be subject to release upon a distressed disposal as contemplated under the Intercreditor Agreement. However, unless consented to, the Intercreditor Agreement provides that the Security Agent shall not, in an enforcement scenario, exercise its rights to release the Senior Notes Guarantees or security interests in the Shared Collateral unless the relevant sale or disposal is made:

- for consideration all or substantially all of which is in the form of cash;

- concurrently with the unconditional discharge or release of the indebtedness of the disposed entities to certain other creditors, including the creditors under the Revolving Credit Facility Agreement and holders of the Senior Secured Notes (provided that in the case of a sale, the representatives of the super senior and senior secured creditors determine that such creditors will recover more than if the claim was discharged or released); and

- pursuant to a public auction, or (if not by way of public auction), following the issue of a fairness opinion with respect to the amount received in connection with such sale from an independent investment bank or internationally recognized accounting firm selected by the Security Agent.

See "Description of Senior Secured Notes" and "Description of Senior Notes" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015.

The Senior Secured Notes, the Senior Notes, and each of the Note Guarantees will each be structurally subordinated to the liabilities and preference shares (if any) of our non-Guarantor subsidiaries.

Generally, claims of creditors of a non-Guarantor subsidiary, including trade creditors, and claims of preference shareholders (if any) of the subsidiary, will have priority with respect to the assets and earnings of the subsidiary over the claims of creditors of its parent entity, including claims by holders of the relevant Notes under the relevant Note Guarantees. In the event of any foreclosure, dissolution, winding-up, liquidation, reorganization, administration or other bankruptcy or insolvency proceeding of any of our non-Guarantor subsidiaries, holders of their indebtedness and their trade creditors will generally be entitled to payment of their claims from the assets of those subsidiaries before any assets are made available for distribution to its parent entity. As such, the Senior Secured Notes, the Senior Notes and each Note Guarantee will each be structurally subordinated to the creditors (including trade creditors) and preference shareholders (if any) of our non-Guarantor subsidiaries.

It may be difficult to realize the value of the Collateral securing the Notes.

The Collateral securing the Senior Secured Notes and the Senior Notes (as applicable) will be subject to any and all exceptions, defects, encumbrances, liens and other imperfections permitted under the Senior Secured Notes Indenture and the Senior Notes Indenture and/or the Intercreditor Agreement and accepted by other creditors that have the benefit of first-priority security interests in the Collateral securing the Notes from time to time, whether on or after the date the Notes are first issued. The existence of any such exceptions, defects, encumbrances, liens and other imperfections could adversely affect the value of the Collateral securing the Notes, as well as the ability of the Security Agent to realize or foreclose on such Collateral. Furthermore, the first-priority ranking of security interests securing the Senior Secured Notes can be affected by a variety of factors, including, among others, the timely satisfaction of perfection requirements, statutory liens or characterization under the laws of certain jurisdictions.

The security interests will be subject to practical problems generally associated with the realization of security interests in Collateral. For example, the Security Agent may need to obtain the consent of a third party to enforce a security interest. We cannot assure you that the Security Agent will be able to obtain any such contents. We also cannot assure you that the consents of any third parties will be given when required to facilitate a sale of, or foreclosure on, such assets. Accordingly, the Security Agent may not have the ability to sell or foreclose upon those assets, and the value of the Collateral may significantly decrease.

In addition, our business requires a variety of permits and reservations. The continued operation of properties that comprise part of the Collateral and that depend on the maintenance of such permits and reservations may be prohibited or restricted. For instance, under Polish law, the seizure of title to the telecommunications reservations and sale thereof by the Security Agent under the asset pledge agreement relating to the assets of the Company may require consent of the UKE President. The entity applying for the transfer of the such reservation must comply with the statutory requirements imposed on telecommunication operators. In addition, the seizure of title to the pledged shares in a company, where such company owns a real property located in Poland or is a perpetual usufructuary of such real property located in Poland may, in certain circumstances require permission of the minister of internal affairs issued in accordance with the act on acquisition of real property by foreigners.

Our business is subject to regulations and permitting requirements and may be adversely affected if we are unable to comply with existing regulations and requirements or if changes in applicable regulations or requirements occur. In the event of foreclosure, the grant of permits and reservations may be revoked, the transfer of such permits and reservations or the transfer of leases may be prohibited or may require us to incur significant cost and expense. If the regulatory approvals or contractual consents required for such transfers are not obtained, are delayed or are economically prevented or such permits are revoked, the foreclosure may be delayed, a temporary or lasting shutdown of operations may result, and the value of the Collateral may be significantly decreased.

The Issuers and the Guarantors will have control over the Collateral securing the Notes, and the sale of particular assets could reduce the pool of assets securing the Notes.

The Security Documents will allow the Issuers and the Guarantors to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the Notes. So long as no default or event of default under either Indenture would result therefrom, the Issuers and the Guarantors may, among other things, without any release or consent by the Security Agent, conduct ordinary course activities with respect to the Collateral, such as selling, factoring, abandoning or otherwise disposing of Collateral and making ordinary course cash payments, including repayments of indebtedness.

Your rights in the Collateral may be adversely affected by the failure to perfect security interests in the Collateral.

Under certain applicable law, a security interest in certain tangible and intangible assets can only be properly perfected, and its priority retained, through certain actions undertaken by the secured party and/or the grantor of the security including registration with a relevant court or other authority. The security interests on the Collateral, securing the Notes may not be perfected with respect to the claims of the Notes if we, or the Security Agent, fail or are unable to take the actions required to perfect any of these security interests. In addition, certain applicable law requires that certain property and rights acquired after the grant of a general security interest. For instance, under Polish law, registered pledges become validly established in favor of the Security Agent once the pledges are registered in the register of pledges maintained by the pertinent court and share pledges and financial pledges become effective against a provider of the security or debtor upon notification and under Luxembourg law, a share pledge is enforceable and perfected subject to being duly registered in the shareholder register.

The security interests in the Collateral will be granted to the Security Agent rather than directly to the holders of the relevant Notes. The Security Agent also has the benefit of a direct covenant to pay, or "parallel debt," from each debtor who is a party to the Intercreditor Agreement, including each Guarantor. The ability of the Security Agent to enforce security interests over the Collateral may be restricted by applicable local laws.

The security interests in the Collateral that will secure our obligations under the relevant Notes and the obligations of the Guarantors under the relevant Notes Guarantees will not be granted directly to the holders of such Notes but will be granted only in favor of the Security Agent. The Senior Secured Notes Indenture and the Senior Notes Indenture will provide (along with the Intercreditor Agreement) that only the Security Agent has the right to enforce the Security Documents. As a consequence, holders of the Notes will not have direct security interests and will not be entitled to take enforcement action in respect of the Collateral securing the relevant Notes, except through the Security Agent, who will take instructions from the Instructing Group solely in accordance with, and subject to the terms of, the Intercreditor Agreement.

The ability of the Security Agent to enforce the security interests is subject to mandatory provisions of the laws of each jurisdiction in which security over the collateral is taken. There is some uncertainty under the laws of certain jurisdictions, including the laws of Poland, as to whether trusts, including the security trust created pursuant to the Intercreditor Agreement, will be recognized and enforceable. To address this uncertainty about the enforceability of such trusts, under Polish law, a direct covenant to pay (the "**Parallel Debt**") has been granted to the Security Agent by each debtor under the Intercreditor Agreement, including each Guarantor of the Notes. The Parallel Debt provision allows the Security Agent to act in its own name in its capacity as a creditor. The Parallel Debt is an obligation under the Intercreditor Agreement to pay to the Security Agent amounts equal to any amounts owing from time to time by that debtor to any secured party under the debt documents, including the relevant Notes and the Senior Secured Notes Indenture and the Senior Notes Indenture (the "**Principal Obligations**"). The Parallel Debt is a separate obligation of each respective debtor to the Security Agent and independent from the corresponding Principal Obligations. The Parallel Debt provisions constitute a secured obligation for the purposes of each Security Document securing the Notes and the other indebtedness secured subject to the Intercreditor Agreement. Any payment in respect of the Principal Obligations shall discharge the corresponding Parallel Debt and any payment in respect of the Parallel Debt shall discharge the corresponding Principal Obligations. In respect of the security interests granted to the Security Agent (including to secure the Parallel Debt), the relevant Trustee and the holders of the relevant Notes do not have direct security and are not entitled to take enforcement actions in respect of such security, except through the Security Agent. As a result, the holders of Notes bear some risks associated with the security trust and

Parallel Debt structure. There also is no assurance that such Parallel Debt structure will be effective before all courts as there is no (or very limited) judicial or other guidance as to its effectiveness in each relevant jurisdiction.

The appointment of a foreign security agent will be recognized under Luxembourg law, (i) to the extent that the designation is valid under the law governing such appointment and (ii) subject to possible restrictions depending on the nature of the security interests. Generally, pursuant to paragraph 2(4) of the Luxembourg Act dated August 5, 2005, as amended, concerning financial collateral arrangements (the "**Luxembourg Collateral Law**"), a security (financial collateral) may be provided in favor of a person acting on behalf of the collateral taker, a fiduciary or a trustee in order to secure the claims of third party beneficiaries, whether present or future, provided that these third party beneficiaries are determined or may be determined. Without prejudice to their obligations *vis-à-vis* third party beneficiaries of the security, persons acting on behalf of beneficiaries of the security, the fiduciary or the trustee benefit from the same rights as those of the direct beneficiaries of the security aimed at by such law.

Polish and/or Luxembourg Courts or bankruptcy administrators may not give effect to the subordination provisions in the Intercreditor Agreement.

It is not clear whether Polish courts and/or a bankruptcy estate administrator (*zarządca*) and/or court receiver (*nadzorca sądowy*) and/or a bankruptcy trustee (*syndyk*) (unless otherwise specifically stated, hereinafter the term "bankruptcy estate administrator" shall include each one of *zarządca*, *nadzorca sądowy* and/or *syndyk*) will give effect to intercreditor agreements and/or subordination agreements. There is a risk that in the course of insolvency proceedings claims of all unsecured creditors will be discharged on a pari passu basis, irrespectively of any intercreditor agreements and/or subordination agreements, and the creditors who are the parties to such agreements may have to enforce their rights thereunder only outside of the insolvency proceedings (e.g., by claiming the return of particular amounts from other creditors who are the parties to intercreditor agreements and/or subordination agreements). Further, Polish law does not recognize the concept of trusts and any trust arrangements will not be recognized and will not be capable of being enforced under Polish law.

In addition, with respect to the validity and enforceability under Luxembourg law of subordination provisions, Luxembourg counsels are of the view that the Luxembourg courts would, in order to assess the validity and enforceability of contractual subordination provisions, in principle turn to Luxembourg legal doctrine that apparently admits the validity and enforceability of a provision whereby a party agrees to subordinate its claim to that of another creditor, but may not be enforceable against third parties which are not party to the relevant agreement. The treatment of turnover provisions in intercreditor arrangements in Luxembourg law has not been tested. It is possible that a turnover provision (to which a Luxembourg entity is a party) will be characterized as a mere contractual mechanism (unless it takes the form of a Luxembourg security right effective in the insolvency of a junior creditor). Where a junior creditor has been paid in priority over a senior creditor, it is uncertain whether a senior creditor can claw back these amounts in the bankruptcy of a junior creditor.

Enforcing your rights as a holder of the Notes and the Note Guarantees or the Collateral across multiple jurisdictions may prove difficult.

The Issuers are incorporated under the laws of Luxembourg. The Guarantors are organized under the laws of Poland, Luxembourg. The Collateral will include security interests granted under the laws of these jurisdictions. In particular, the Company is incorporated under the laws of Poland, its owners, which are the pledgors of the capital stock of P4, are incorporated under the laws of Luxembourg. In the event of bankruptcy, insolvency, administration or similar event, proceedings could be initiated in any of these jurisdictions. Your rights under the Notes, the Note Guarantees and the Collateral are likely to be subject to insolvency and administrative laws of several jurisdictions and there can be no assurance that you will be able to effectively enforce your rights in such complex proceedings. In addition, the multijurisdictional nature of enforcement over the Collateral may limit the realizable value of the Collateral.

The insolvency, administration and other laws of the jurisdiction of organization of the Issuers and the Guarantors may be materially different from, or conflict with, each other and with the laws of the United States, including in the areas of rights of creditors, priority of governmental and other creditors, ability to obtain post-petition interest, the duration of proceeding and preference periods. The application of these laws, and any conflict between them, could call into question whether, and to what extent, the laws of any particular jurisdiction should apply, adversely affect your ability to enforce your rights under the guarantees and the security documents in these jurisdictions or limit any amounts that you may receive.

The granting of the security interests in connection with the issuance of the Notes, or the incurrence of permitted debt in the future, may create or restart hardening periods, i.e., the periods of time following the granting of security interests during which such security interests may be challenged in accordance with the laws applicable in certain jurisdictions.

The granting of the security interests in connection with the issuance of the Notes, or the incurrence of permitted debt in the future, may create or restart hardening periods, *i.e.*, the periods of time following the granting of security interests during which such security interests may be challenged in accordance with the laws of Poland.

The granting of security interests to secure the Notes and the Note Guarantees may create hardening periods for such security interests in each of the above mentioned jurisdictions. The granting of shared security interests to secure future indebtedness permitted to be secured on the Collateral may restart or reopen such hardening periods in particular, because the Senior Secured Notes Indenture and the Senior Notes Indenture permit the release and retaking of security granted in favor of the relevant Notes in certain circumstances, including in connection with the incurrence of future indebtedness. The applicable hardening period for these new security interests can run from the moment each new security interest has been granted or perfected. At each time, if the security interest granted or recreated were to be enforced before the end of the respective hardening period applicable in such jurisdiction, it may be declared void or ineffective and/or it may not be possible to enforce it.

The same considerations may also apply following the issuance of the Notes in connection with the accession of further subsidiaries as Guarantors and the granting of security interest over their relevant assets and equity interests for the benefit of holders of the relevant Notes.

Each Note Guarantee and security interest will be subject to certain limitations on enforcement and may be limited by applicable law or subject to certain defenses that may limit its validity and enforceability.

Each Note Guarantee will provide the relevant holders of the Notes with a direct claim against the relevant Guarantor. In addition, the Senior Notes Issuer, the Senior Secured Notes Issuer and the other Guarantors will secure the payment of the Senior Secured Notes on a senior basis by granting security under the relevant Security Documents. The Senior Notes will be secured on a junior basis by a security over the Shared Collateral. However, each Indenture will provide that each Note Guarantee and each security interest granted under a Security Document will be limited to the maximum amount that can be guaranteed/secured by the relevant Guarantor without rendering the relevant Note Guarantee/security interest voidable or otherwise ineffective under Polish and Luxembourg law, and enforcement of each Note Guarantee/Security Document would be subject to certain generally available defenses. These laws and defenses include those that relate to corporate benefit, fraudulent conveyance or transfer, voidable preference, financial assistance, corporate purpose, capital maintenance or similar laws, regulations or defenses affecting the rights of creditors generally.

Although laws differ among various jurisdictions, in general, under fraudulent conveyance and other laws, a court could subordinate or void the Note Guarantees or the security interest granted under the Security Documents and, if payment had already been made under a Note Guarantee or enforcement proceeds applied under a Security Document, require that the recipient return the payment to the relevant Guarantor, if the court found that:

- the amount paid or payable under the relevant Note Guarantee or the enforcement proceeds under the relevant Security Document was in excess of the maximum amount permitted under applicable law;
- the relevant Note Guarantee or security interest under a Security Document was incurred with actual intent to hinder, delay or defraud creditors or shareholders of the Guarantor or, in certain jurisdictions, even when the recipient was simply aware that the Guarantor was insolvent when it granted the relevant Note Guarantee or security interest;
- the Guarantor did not receive fair consideration or reasonably equivalent value for the relevant Note Guarantee/security interest and the Guarantor was: (i) insolvent or rendered insolvent because of the relevant Note Guarantee; (ii) undercapitalized or became undercapitalized because of the relevant Note Guarantee/Security Document; or (iii) intended to incur, or believed that it would incur, indebtedness beyond its ability to pay at maturity; or
- the relevant Note Guarantees/Security Documents were held to exceed the corporate objects of the Guarantor or not to be in the best interests or for the corporate benefit of the Guarantor.

These or similar laws may also apply to any future guarantee granted by any of our subsidiaries pursuant to the Senior Secured Notes Indenture and the Senior Notes Indenture.

We cannot assure you which standard a court would apply in determining whether a Guarantor was "insolvent" at the relevant time or that, regardless of the method of the valuation, a court would not determine that a Guarantor was insolvent on that date, or that a court would not determine, regardless of whether or not a Guarantor was insolvent on the date its Note Guarantee was issued, that payments to holders of the Notes constituted preferences, fraudulent transfers or conveyances on other grounds.

While the liability of each Guarantor under its Note Guarantee and Security Document will be contractually limited as described above, there can be no assurances as to what standard a court will apply in making a determination of the maximum liability of each Guarantor. There is a possibility that the entire Note Guarantee may be set aside, in which case the entire liability may be extinguished. If a court decided that a Note Guarantee was a preference, fraudulent transfer or conveyance and voided such Note Guarantee, or held it unenforceable for any other reason, you may cease to have any claim in respect of the relevant Guarantor and would be a creditor solely of the Issuer and, if applicable, of any other Guarantor under the relevant Note Guarantee that has not been declared void. In the event that any Note Guarantee is invalid or unenforceable, in whole or in part, or to the extent the agreed limitation of the Note Guarantee obligations apply, the Notes would be effectively subordinated to all liabilities of the applicable Guarantor, and if we cannot satisfy our obligations under the relevant Notes or any Guarantee is found to be a preference, fraudulent transfer or conveyance or is otherwise set aside, we cannot assure you that we can ever repay in full any amounts outstanding under the relevant Notes.

Your rights as a creditor may not be the same under Polish or Luxembourg insolvency laws as under U.S. or other insolvency laws and may preclude you from recovering payments due on the Notes.

The Issuers, the Parent, HoldCo 1 and HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent) are organized under the laws of Luxembourg. Some of the Guarantors and providers of security are incorporated under the laws of Poland. Insolvency proceedings with respect to each of these companies could be required to proceed under the laws of the jurisdiction in which its "center of main interests," as defined in The Council of the European Union Regulation No. 1346/2000 on Insolvency Proceedings, is situated at the time insolvency proceedings are commenced. Although there is a rebuttable presumption that the "center of main interests" will be in the jurisdiction where its registered office is situated, this presumption is not conclusive. Accordingly, insolvency proceedings with respect to these companies may proceed under, and be governed by, Luxembourg or Polish insolvency laws or potentially by the insolvency laws of another jurisdiction if the center of main interests of those companies is determined to be in such other jurisdiction at the relevant time. The insolvency laws of such jurisdictions may not be as favorable to your interests as those of the United States or another jurisdiction with which you may be familiar.

We may not have the ability to raise the funds necessary to finance an offer to repurchase the Senior Secured Notes and the Senior Notes upon the occurrence of certain events constituting a change of control as required by each Indenture.

Upon the occurrence of certain events constituting a "change of control," the Senior Secured Notes Issuer would be required to offer to repurchase all outstanding Senior Secured Notes and the Senior Notes Issuer will be required to offer to repurchase all outstanding Senior Notes, in each case, at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase *plus* accrued and unpaid interest to the date of purchase. If a change of control were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the relevant Issuer to pay the purchase price of the outstanding Senior Secured Notes or the Senior Notes or that the restrictions in the Revolving Credit Facility Agreement, the Senior Secured Notes Indenture, the Senior Notes Indenture, the Intercreditor Agreement or our other than existing contractual obligations would allow us to make such required repurchases. A change of control may result in an event of default under, or acceleration of, the Revolving Credit Facility Agreement and other indebtedness. The repurchase of the Senior Secured Notes and the Senior Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The ability of either the Senior Notes Issuer and the Senior Secured Notes Issuer to receive cash from its subsidiaries to allow them to pay cash to the holders of the Senior Notes or the Senior Secured Notes, respectively, following the occurrence of a change of control, may be limited by our then existing financial resources. Sufficient funds may not be available when necessary to make any required repurchases. In addition, certain events that may constitute a change of control under the Revolving Credit Facility may not constitute a "change of control" under the Senior Secured Notes Indenture and the Senior Notes Indenture. If an event constituting a change of control occurs at a time when we are prohibited from providing funds to any of the Issuers for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to the purchase of the Notes or may attempt to refinance the borrowings that contain such prohibition. If consent to repay such borrowings is not obtained, the Issuers will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third party financing to make an offer to repurchase the Senior Secured Notes and the Senior Notes, upon a change of control. We cannot assure you that we would be able to obtain such financing. Any failure by the relevant Issuer to offer to purchase the Senior Secured Notes or the Senior Notes, as applicable, would constitute a default under each of the Senior Secured Notes Indenture and the Senior Notes Indenture, respectively, which would, in turn, constitute a default under the Revolving Credit Facility Agreement and certain other indebtedness. See "Description of Senior Secured Notes—Change of Control" and "Description of Senior Notes—Change of Control" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015.

The change of control provision contained in the Senior Secured Notes Indenture and the Senior Notes Indenture may not necessarily afford you protection in the event of certain important corporate events, including a reorganization, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "Change of Control" as defined in the relevant Indenture. Except as described under "Description of Senior Secured Notes—Change of Control" and "Description of Senior Notes—Change of Control" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015, each Indenture will not contain provisions that would require the relevant Issuer to offer to repurchase or redeem the Notes in the event of a reorganization, restructuring, merger, recapitalization or similar transaction.

In addition, the occurrence of certain events that might otherwise constitute a "change of control" will be deemed not to be a change of control if at the time our consolidated leverage ratio is less than certain specified levels. See "Description of Senior Secured Notes—Change of Control," "Description of Senior Notes—Change of Control," "Description of Senior Secured Notes—Certain Definitions—Specified Change of Control Event," and "Description of Senior Notes—Certain Definitions—Specified Change of Control Event" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015.

The definition of "Change of Control" in each Indenture will include a disposition of "all or substantially all" of the assets of the Parent and its restricted subsidiaries, taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase "all or substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of "all or substantially all" of all of the assets of the Parent and its restricted subsidiaries, taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuers are required to make an offer to repurchase the relevant Notes.

You may be unable to recover in civil proceedings for U.S. securities laws violations.

The Issuers and the Guarantors are organized under the laws of Luxembourg and Poland and do not have any assets in the United States. It is anticipated that some or all of the directors and executive officers of the Issuers will not be residents of the United States, and all of the directors and executive offers of the Guarantors are not be residents of the United States, and that all or a majority of the assets of the Issuers and the Guarantors will be located outside of the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Issuers, the Guarantors or their directors and executive officers, or to enforce any judgments obtained in U.S. courts, predicated upon the civil liability provisions of U.S. securities laws. In addition, the Issuers and the Guarantors cannot assure you that the civil liabilities provided for in U.S. federal securities laws will be enforceable in Luxembourg or Poland, as applicable.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for either the Senior Secured Notes or the Senior Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although the Notes are admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange ("**Euro MTF**"), we cannot assure you that either the Senior Secured Notes or the Senior Notes will remain listed. Although no assurance is made as to the liquidity of either the Senior Secured Notes or the Senior Notes as a result of the admission to trading on the Euro MTF, the delisting (whether or not for an alternative admission to listing on another stock exchange) of the relevant Notes, from the Luxembourg Stock Exchange may have a material effect on a holder's ability to resell the relevant Notes, as applicable, in the secondary market.

In addition, each Indenture will allow us to issue additional notes in the future which could adversely impact the liquidity of the relevant Notes.

Investors may face foreign exchange risks by investing in the Notes.

The Fixed Rate Senior Secured Notes and the Senior Notes will each be denominated and payable in euro and the Floating Rate Senior Secured Notes will be denominated in zloty. If investors measure their investment returns by reference to a currency other than euro or zloty, as applicable, an investment in the Notes will entail foreign exchange related risks due to, among other factors, possible significant changes in the value of the euro or the zloty, as applicable relative to the currency by reference to which investors measure the return on their investments because of economic, political and other factors over which we have no control. Depreciation of the euro or the zloty, as applicable against the currency by reference to which investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which the investors measure the return on their investments. Investments in the Notes denominated in a currency other than US dollars by US investors may also have important tax consequences as a result of foreign exchange gains or losses, if any.

Conversion of the Polish zloty to the euro may affect your investment in the Floating Rate Senior Secured Notes.

Although the Polish government has not established a firm timeline to adopt the euro to replace the zloty, it has indicated that in the future it may adopt the euro as the currency of Poland. Investors in the Floating Rate Senior Secured Notes are advised that if the euro is adopted in Poland, the euro would replace the zloty as the legal currency in Poland and would result in the effective redenomination of the Floating Rate Senior Secured Notes into euro. We cannot assure you that the official exchange rate at which the Floating Rate Senior Secured Notes will be redenominated will accurately reflect the value of the zloty as compared to the euro or that such rate will not be less than the rate prevailing at the time of issuance of the Floating Rate Senior Secured Notes. In addition, the market yield on a zloty-denominated note may be higher or lower than the yield would have been had the note initially been denominated in euro. There can be no assurance that the euro, if adopted by Poland, will maintain its value relative to other currencies. If the euro is adopted in Poland, and if the value of the euro were to decline relative to other currencies, the value of the Floating Rate Senior Secured Notes (as redenominated into euro) would necessarily decline relative to such currencies.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed herein and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the relevant Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of such Notes.

The transfer of the Notes is restricted, which may adversely affect their liquidity and the price at which they may be sold.

The Notes and the Note Guarantees have not been registered under, and we are not obliged to register the Notes or the Note Guarantees under, the U.S. Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. See "Notice to Investors" in the Offering Memorandum of the Senior Secured Notes and Senior Notes dated January 24, 2014 and March 12, 2015. We have not agreed to or otherwise undertaken to register any of the Senior Secured Notes, the Senior Notes or the Note Guarantees, and do not have any intention to do so.

Payments on the Notes may be subject to withholding tax pursuant to the Foreign Account Tax Compliance Act

The relevant Notes issuer and any non-U.S. financial institutions through which payments on the Notes are made may be required to withhold tax at a rate of 30 per cent. on all, or a portion of, payments made after December 31, 2016, in respect of any Notes materially modified on or after the date that is six months after the date on which Treasury Regulations that define the term "foreign passthru payment" are filed with the Federal Register (such date, the "**Grandfathering Date**"), pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986 ("**FATCA**"). Treasury regulations defining the term "foreign passthru payment" have not yet been filed with the Federal Register. This withholding tax may be triggered if (i) the relevant Notes Issuer or any non U.S. financial institution through which payments on the Notes are made is a foreign financial institution ("**FFI**") required to provide certain information regarding its account holders under FATCA and (ii)(A) an investor does not provide information sufficient for the relevant FFI to determine whether the investor is subject to such withholding, (B) an investor does not consent, where necessary, to have its information disclosed to the IRS or the relevant tax authority or (C) an investor that is an FFI or any FFI through which payment on such Notes is made that has not entered into an agreement with the U.S. Internal Revenue Service to provide the IRS with certain information with respect to its account holders and investors or that is not otherwise exempt from FATCA withholding.

The United States and a number of other jurisdictions have announced their intention to negotiate intergovernmental agreements to facilitate the implementation of FATCA (each an "**IGA**"). Pursuant to the "Model 1" IGA released by the United States, an FFI in a Model 1 IGA jurisdiction that is subject to the due diligence and reporting requirements of the Model 1 IGA (a "**Reporting FI**") would nevertheless generally not currently be required to withhold under FATCA or an IGA (or any law implementing an IGA) from payments it makes. The United States and Luxembourg have entered into an agreement (the U.S. Luxembourg IGA) based largely on the Model 1 IGA.

If the Issuer is treated as a Reporting FI pursuant to the U.S. Luxembourg IGA, it does not anticipate being obligated to deduct any withholding taxes under FATCA on payments it makes. There can be no assurance, however, that the Issuer will be treated as a Reporting FI, or that it would not be required to deduct any withholding taxes under FATCA from payments it makes in the future. If an amount in respect of withholding tax were to be deducted or withheld from interest, principal or other payments on the Notes as a result of FATCA or an IGA, none of the Issuer, any paying agent or any other person would, pursuant to the Indenture, be required to pay additional amounts as a result of the deduction or withholding of such tax. As a result, investors may receive less interest or principal than expected. Holders of the Notes should consult their own tax advisors on how these rules may apply to payments they receive under the Notes.

Risks Related to the Group's Ownership

The interests of the Group's shareholders may conflict with your interests.

As a result of their ownership of shares and their representation on the supervisory board of Play and the management board of Play (the "**Supervisory Board**" and the "**Management Board**" respectively), Tollerton and Telco Holdings have and will continue to have, directly or indirectly, the ability to influence day-to-day corporate polices, the power to affect the Group's legal and capital structure, the ability to elect and change the Group's management, to approve other changes to the Group's operations, to control the outcome of matters requiring action by shareholders, and to effectively control many other major decisions regarding our operations. Day-to-day management is undertaken by the current senior management who are not dependent on shareholder support, though any conflicts between senior management and the shareholders could adversely affect the Group and its operations. The shareholders' interests in the matters they are involved in, and other circumstances, may conflict with your interests as holders of the Notes and may conflict with potential transactions the Group may wish to undertake, and there can be no assurances that the interests of either of the shareholders will be consistent with the interests of the holders of the Notes, the Group or that the shareholders will exercise their rights for the benefit of all shareholders. See "Certain Relationships and Related Party Transactions—Management and Other Fees."

The Senior Secured Notes Issuer and Senior Notes Issuer are incorporated in Luxembourg, and Luxembourg law differs from U.S. law and may afford less protection to holders of the Senior Secured Notes and Senior Notes.

Holders of the Senior Secured Notes or the Senior Notes may have more difficulty protecting their interests than would noteholders of a corporation incorporated in a jurisdiction of the United States. As a Luxembourg company, the Senior Secured Notes Issuer and the Senior Notes Issuer are incorporated under and subject to the Luxembourg law on commercial companies of August 10, 1915 (as amended) (the "**Luxembourg Companies Law**") and other provisions of Luxembourg law. The Luxembourg Companies Law differs in some material respects from laws generally applicable to U.S. corporations and noteholders, including the provisions relating to dividend distributions, interested directors, mergers, amalgamations and acquisitions, takeovers, security holder lawsuits and indemnification of directors.

Under Luxembourg law, the duties of directors and managers of a company are generally owed to the company only. Noteholders generally do not have rights to take action against directors or managers of the Luxembourg company, except in limited circumstances. Directors or managers of a Luxembourg company must, in exercising their powers and performing their duties, act in good faith and in the interests of the company as a whole and must exercise due care, skill and diligence. Directors or managers have a duty not to put themselves in a position in which their duties to the company and their personal interests may conflict and also are under a duty to disclose any personal interest in any contract or arrangement with such company or any of its subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS AS OF DECEMBER 31, 2016

The following discussion and analysis of our financial condition and results of operations is based on the consolidated statement of financial position, consolidated statement of comprehensive income and consolidated statement of cash flows as of and for the year ended December 31, 2016 and December 31, 2015 which have been derived from the consolidated financial statements of the Group as of and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, which are reproduced elsewhere in this Report. See "Presentation of Financial Information" in this Report. This section should be read in conjunction with the above mentioned 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 below in "—Critical Accounting Policies, Estimates and Judgments." In this Management's Discussion and Analysis of Financial Condition and Results of Operations, unless otherwise stated, "we," "us" or "our" refers to the Group.

The financial statements have been prepared in accordance with IFRS with early adoption of IFRS 15 and IFRS 16, which differ in certain significant respects from U.S. GAAP. In making an investment decision investors must rely upon their own examination of the Group, the terms and conditions of the Notes and the financial information included herein. Investors should consult their own professional advisors in order to gain an understanding of the differences between U.S. GAAP and IFRS with early adoption of IFRS 15 and IFRS 16 and how these differences might affect the financial statements and information herein.

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 "Risk Factors" and "Forward-Looking Statements" in this Report, as well as "Risk Factors" in the Offering Memorandum of the Initial Notes dated January 24, 2014 (relevant for holders of the Initial Notes), in the Offering Memorandum of the Additional Notes dated March 12, 2015 (relevant for holders of the Additional Notes) and the Offering Memorandum of the Senior PIK Toggle Notes dated July 30, 2014 (relevant for holders of the Senior PIK Toggle Notes). See "Industry, Market and Subscriber Data" for a discussion of how we define and calculate our KPIs.

Introduction

This Report summarizes consolidated financial and operating data derived from the consolidated financial statements of 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 Holdings 2 S.à r.l. indirectly holds 100% of its principal operating company, P4 Sp. z o.o. ("**P4**", the "**Company**") which began providing mobile telecommunications services on March 16, 2007.

Overview

We are a consumer-focused mobile network operator ("**MNO**") in Poland with approximately 14.4 million subscribers as of December 31, 2016. We have been the clear leader in subscriber net additions in Poland with approximately 50% market share of contract subscriber net additions on average from the inception of the Company till the end of 2016 of the four Polish mobile telecommunications operators as of December 31, 2016, allowing us to achieve an overall market share of 26.3% in terms of reported subscribers as of December 31, 2016. The level of our market share resulted from the decrease of overall number of subscribers reported to Central Statistic Office by all operator (from 56.2 million as of the end of December, 2015 to 54.7 million at the end of December, 2016, an effect of prepaid SIM cards registration under the Anti-terrorism Law). In Mobile Number Portability ("**MNP**") among the MNOs in Poland, we have acquired approximately 50% of all reported subscribers porting mobile numbers from our commercial launch in 2007 through December 31, 2016. 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 0.6% for the year ended December 31, 2016. During the year ended December 31, 2016, we generated total revenues of PLN 6,117.6 million (€1,382.8 million equivalent) and an increase of 12.5% year on year in

PLN terms, while our Adjusted EBITDA for the year ended December 31, 2016 amounted to PLN 2,035.3 million (€460.1 million equivalent), an increase of 14.0% year on year in PLN terms.

We provide mobile voice, messaging, video services (Play NOW) 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, 2016, contract subscribers accounted for 58.0% of our reported subscriber base (a ratio that is in line with the Polish telecommunications market) and 78.0% of our usage revenues for the year ended December 31, 2016.

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 2016, 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 our research in the fourth quarter of 2016, the net promoter score for "PLAY" was 21 and was slightly higher versus previous year.

We market our offerings and services primarily through our nationwide distribution network of 858 dedicated "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 telecommunications network in Poland, throughout which we provide our mobile voice, messaging and data services. Through our own network, we provided coverage to 90.5% of the Polish population as of December 31, 2016, 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, 2016 we provided 4G LTE coverage to 92.1% of the Polish population and 4G LTE Ultra coverage to 78.8% of the Polish population.

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, 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 from 2008 to 2010. Also recently the Polish economy outperformed the EU average, with the real GDP growth of 4.8% in 2011, 1.8% in 2012, 1.7% in 2013, 3.4% in 2014 and 3.9% in 2015 compared to the EU average real GDP growth of 1.7% in 2011, a decline of 0.5% in 2012, no growth in 2013, 1.4% in 2014 and 1.3% in 2015. With a forecast announced by Eurostat in autumn 2016 of real GDP growth of 3.1% in 2016 and 3.4% in 2017, Poland is poised to continue to grow at a faster rate than the estimated EU average real GDP growth rates of 1.8% in 2016 and 1.6% in 2017. According to Eurostat, Poland is the largest economy in CEE with a total GDP of PLN 1,850.6 billion in 2018. As of the date of this Report, Moody's Investors Services rated Poland "A2" with a "Negative" outlook, and Standard & Poor's Financial Services LLC rated Poland "BBB+" with a "Stable" outlook, Fitch credit rating for Poland stands at A- with a "Stable" outlook. As of December 31, 2016, the harmonized unemployment rate in Poland was approximately 5.9% compared to approximately 8.2% 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, EU Regulation 2015/2120 eliminates all roaming charges within the EU as of June 15, 2017. Until such date, EU Regulation 2015/2120 sets 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. Average wholesale prices for roaming mobile services are also currently under review by the European Commission. Moreover, 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 EC. As a new market entrant, we were provided with asymmetric, higher MTRs compared to that applied to our three main competitors. We were allowed to charge these asymmetric MTRs to all other operators, both domestic and international. Under the asymmetric MTR regulations which applied to us from the commercial launch of our operations in 2007 until the end of 2012, we were able to benefit from higher MTRs for calls terminated on our network than for calls terminated on competitor's networks. With effect from January 1, 2013 and later in July 1, 2013 the Polish regulator reduced, in two steps, the MTRs for all operators to the current level 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.

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 (called in this Report as ARPU).

The table below presents comparison of ARPU for Play for historical periods, starting from Q1 2013.

expressed in PLN	2013				2014				2015				2016			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
ARPU	**28.4**	**28.8**	**29.7**	**30.3**	**29.7**	**30.8**	**31.7**	**31.7**	**31.2**	**32.1**	**32.1**	**31.5**	**30.5**	**31.0**	**31.8**	**32.2**
- Contract	39.6	39.1	40.0	41.0	40.8	41.7	42.5	41.7	40.9	41.3	41.5	40.3	39.0	39.0	39.0	39.4
- Prepaid	14.4	15.4	16.2	16.0	15.1	16.3	17.1	17.2	16.6	17.7	17.6	17.4	16.4	17.1	18.1	17.8

expressed in PLN	2013	2014	2015	2016
	FY	FY	FY	FY
ARPU	**29.3**	**31.0**	**31.7**	**31.4**
- Contract	40.0	41.7	41.0	39.1
- Prepaid	15.5	16.4	17.3	17.4

Impact of foreign exchange rate movements

We make significant purchases and incur expenses (including interest payments on debt instruments) 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:

	Year ended December 31,	
	2015	**2016**
Foreign exchange rates		
Zloty per euro (EOP)(1)	4.2615	4.4240
Zloty per euro (average in period)(2)	4.1839	4.3625

(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 store lease agreements;
- fees for international interconnection agreements; and
- payments under certain of our financing arrangements.

A significant increase in the value of the euro relative to the zloty substantially increases our costs and payments under certain of our financing arrangements, since our revenues are primarily zloty denominated, thereby exposing our financial condition to the risk of depreciation of the zloty against the euro. For instance, we had exchange rate losses in the three-month period ended December 31, 2016 of PLN 110.5 million due to the depreciation of the zloty against the euro which raised costs on our financing arrangements. As the Fixed Rate Senior Secured Notes, the Senior Notes and Senior PIK Toggle Notes are denominated in euros, we expect this risk to continue or increase going forward.

We do not have, and, as of the date of this Report, do not intend to enter into any currency derivatives to manage the risk and so we will not hedged against appreciation of euro relative to zloty. However, we have the option to enter into currency derivative transactions under the terms of the Senior Secured Notes Indenture and Senior Notes Indenture.

For more details see "—Qualitative and Quantitative Information on Market Risks—Financial Risks—Currency Risk."

Growth of subscriber base and subscriber retention

According to the CSO, the Polish mobile telecommunications market changed from 57.6 million reported subscribers (a penetration rate of 149.6%) as of December 31, 2014 to 56.2 million reported subscribers (a penetration rate of 146.2%) as of December 31, 2015 and to 54.7 million reported subscribers (a penetration rate of 142.2%) as of December 31, 2016. The overall drop of reported subscribers between 2015 and 2016 in the Polish market resulted from the negative impact of obligation of prepaid SIM cards registration resulting from the Anti terrorism Law.

The number of our reported subscriber base was 12.3 million as of December 31, 2014 (market share of 21.3%), 14.2 million as of December 31, 2015 (market share of 25.2%) and 14.4 million as of December 31, 2016 (market share of 26.3%). The proportion of contract subscribers to total reported subscriber base was 47.3% as of December 31, 2014, 50.0% as of December 31, 2015 and 58.0% as of December 31, 2016.

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 retention, as well as on migrating prepaid subscribers to contract subscribers, which are generally characterized by a more stable revenue profile. In relation to subscriber additions, we have been particularly successful under MNP in attracting new subscribers and we have acquired approximately 50% of all reported subscribers porting mobile numbers since our commercial launch in 2007 through December 31, 2016. In April 2014, we introduced group 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 2016, we also introduced duo offers which are perfect match for our services.

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

Competition

In the periods under review, we faced competition from the other three major mobile network operators, Orange, T-Mobile and Plus, which along with Play, as of December 31, 2016, held over 99% of the reported subscriber market share. According to CSO, the total number of reported mobile subscribers in Poland as of December 31, 2016 amounted to 54.7 million, and Play with its 14.4 million reported subscriber base had approximately 26.3%.

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

We have taken a strategic approach to our network build out through a combination of investment in our network and through national roaming agreements. Through our own network, we provide coverage to 90.5% of the Polish population as of December 31, 2016, while we also provide 2G/3G/4G LTE coverage under long-term national roaming 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 strategy 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 coverage in a specific area.

Following the acquisition of 1800 MHz technology neutral frequency reservation 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. The payment was made on February 5, 2016, using cash, available overdraft facilities and a drawdown from the RCF. On March 8, 2016, we launched the 4G LTE ULTRA (the LTE carrier aggregation) using inter alia a new frequency of 800 and 2600 MHz. The refarming of 2100 from 3G to 4G is ongoing. The speed is expected to increase up to 262 Mbits. In the range of 4G LTE ULTRA we achieved coverage of 78% of the population as of the end December, 2016. On June 23, 2016, President of UKE has issued the second instance decisions on frequency reservations in 800 MHz band. As a result of these decisions P4 received the 5 MHz block ("C" lot – previously obtained by T-Mobile) - P4's earlier Block D (800 MHz) was reallocated to T-Mobile and T-Mobile's Block C reallocated to P4. The technical swap between P4 and T-Mobile has already taken place. We built out our network using new frequencies and as of the end of December 2016, 800 MHz was enabled on 3,114 sites and 2600 MHz on 1,685 sites.

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 initial unit SAC cash and unit SRC cash 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.

Issuance of Additional Notes

On March 19, 2015 we issued €125,000,000 aggregate principal amount of Additional Notes. The Additional Notes were issued as additional notes under the Senior Secured Notes Indenture executed on January 31, 2014, as supplemented on May 27, 2014 and March 10, 2015 pursuant to which the Issuer issued its €600,000,000 aggregate principal amount of $5^1/_4$% Initial Fixed Rate Senior Secured Notes due 2019 and PLN 130,000,000 aggregate principal amount of Floating Rate Senior Secured Notes due 2019. The Additional Notes constitute a further issuance of, and will be treated as a single class with, the Initial Senior Secured Notes for all purposes under the Senior Secured Notes Indenture, including with respect to waivers, amendments, redemptions and offers to purchase, except as otherwise stated in the Indenture.

The issue price of the Additional Notes amounted to 104.25 and the aggregate gross proceeds of the issuance were €130,312,500. We intend to use the net proceeds from the issuance of Additional Notes towards financing our bid in the frequency auctions, as well as in the interim before applying such proceeds to finance bid, we intend to use such proceeds for working capital, and otherwise general corporate purposes.

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, as well as ARPU while our costs are materially affected by our unit SAC and unit SRC.

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

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

Our use or computation of KPIs may not be comparable to the use or computation of similarly titled measures reported by other companies in our industry, by research agencies or 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 subscriber base

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

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

	As of December 31,		
	2015	**2016**	**Change**
Reported subscribers (thousands)	**14,150.2**	**14,414.5**	**1.9%**
Contract	7,069.6	8,366.4	18.3%
Prepaid	7,080.6	6,048.1	(14.6%)

As of December 31, 2016, the total number of our reported subscriber base was approximately 14.4 million, out of which 58.0% were contract subscribers. Our reported subscriber base represents approximately 26.3% of the total number of reported subscribers in the Polish mobile market comparing to 25.2% as of the end of December 2015. This increase of our market share is an effect of the growth of our subscribers base.

On July 25, 2016 we began registration of prepaid SIM cards in compliance with a new anti-terrorism law. The process of registration will be over by the Feruary 1, 2017. Hence, we observe a high volatility of prepaid base. As of the date of this Report we have registered circa 89% of our active prepaid base.

During the periods described herein, we have successfully gained subscriber market share by continuously focusing on our "value-for-money" positioning as opposed to aggressive discounting on price, by effectively promoting our brand and by maintaining what we believe is a best-in-class distribution network.

Our contract subscriber base increased from 7.1 million as of December 31, 2015, to 8.4 million as of December 31, 2016 increasing the share of contract subscribers as a proportion of our total reported subscriber base from 50.0% as of December 31, 2015 to 58.0% as of December 31, 2016 in line with our strategy to increase the number of contract subscribers, who generate higher ARPU on average compared to prepaid subscribers and who provide revenue security through fixed-term contracts.

Net additions and Churn

For the three months ended December 31, 2016, net additions were 224.7 thousands, which represented a decrease of 137.3% relative to comparable period of 2015 and contract net additions were 367.4 thousands, representing an increase of 4.1% relative to comparable period of 2015. In Q4 2016 all MNOs experienced the negative impact of Anti-terrorism Law (registration of all prepaid SIM cards requirement). Hence net addittions of all MNOs dropped on tear-to-year basis.

For the year ended December, 2016, net additions were 264.3 thousands, which represented a decrease of 85.8% relative to comparable period of 2015 and contract net additions were 1,296.8 thousands representing an increase of 3.0% relative to comparable period of 2015. The growth in contract net additions is driven by MultiSIM offers (first introduced in April 2014, "family" plans and continued in 2016 when we introduced "duo" offers whereby groups of two or more individuals can enjoy discounts on mobile telephones, mobile data and other benefits, which have been successful since their introduction). Additionally, in Q4 2016 we experienced impact of Anti-terrorism Law which partially shifted net additions from prepaid to contract.

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

	Three months ended December 31,			**Year ended December 31,**		
	2015	**2016**	**Change**	**2015**	**2016**	**Change**
Net additions (thousands)	**602.1**	**-224.7**	**(137.3%)**	**1,863.4**	**264.3**	**(85.8%)**
Contract	352.9	367.4	4.1%	1,259.1	1,296.8	3.0%
Prepaid	249.2	-592.1	(337.6%)	604.3	-1,032.5	(270.9%)
Churn (%)(1)	**3.0%**	**3.4%**		**3.3%**	**3.4%**	
Contract	0.6%	0.6%		0.6%	0.7%	
Prepaid	5.3%	6.9%		5.8%	6.4%	

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

Average monthly contract churn rate increased slightly to 0.7% in the year ended December 31, 2016 and remained stable at 0.6% in the three-months ended December 31, 2016 comparing to respective previous period. Due to the nature of prepaid offerings, 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

The majority of revenue in the Polish mobile telecommunications market is generated by contract subscribers. ARPU is therefore driven primarily 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, 2016, our ARPU was PLN 32.0, up by 1.6% from a comparable period of 2015.

Contract ARPU for the year ended December 31, 2016 amounted to PLN 39.1, a decrease by 4.6% compared to the year ended December 31, 2015, while prepaid ARPU for the year ended December 31, 2016 amounted to PLN 17.2, a decrease by 1.1% compared to year ended December 31, 2015. A strong year on year growth of prepaid ARPU was driven by higher charges for incoming traffic (interconnection revenue). The overall ARPU in the year ended December 31, 2016 slightly decreased by 1.3% to PLN 31.3.

The following table presents ARPU during the periods under review:

	Three months ended December 31,			Year ended December 31,		
	2015	2016	Change	2015	2016	Change
ARPU (PLN)[(1)]	**31.5**	**32.0**	**1.6%**	**31.7**	**31.3**	**(1.3%)**
Contract	40.3	39.4	(2.3%)	41.0	39.1	(4.6%)
Prepaid	17.3	17.2	(0.6%)	17.3	17.1	(1.1%)

(1) We present our ARPU on an average monthly basis and for active subscribers only (incl. adjustments1.

Data traffic

Data usage per subscriber increased from 1,742.5 MB monthly in the year ended December 31, 2015 to 2,773.2 MB in the year ended December 31, 2016, representing a growth of 59.2%. This growth can be observed for especially prepaid subscribers, and results from increased adoption of 4G LTE smartphones and other devices.

The following table presents a breakdown of data transmission usage:

	Three months ended December 31,			Year ended December 31,		
	2015	2016	Change	2015	2016	Change
Data usage per subscriber (MB)[(1)]	**2,141**	**3,335**	**55.8%**	**1,742.5**	**2,773.2**	**59.2%**
Contract	2,783	4,040	45.1%	2,391.0	3,493.6	46.1%
Prepaid	1,116	1,941	73.9%	738.5	1,468.5	98.8%

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

Unit SAC and unit SRC

As a result of IFRS 15 adoption, 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 present clearly the relevant level of subsidies, sales / retention commissions or other costs related to acquisition and retention activities of the Group.

Our unit SRC cash for the three-month period ended December 31, 2016, amounted to PLN 339.1, a decrease of 11.0%compared to the year three-month period ended December 31, 2015. In the year ended December 31, 2016 our contract SAC cash amounted to PLN 354.1, an increase by 6.4% compared to PLN 332.9 in the year ended December 31, 2015.

In the three months ended December 31, 2016 our unit contract SAC amounted to PLN 266.2, a decrease by 6.6% compared to comparable period of 2015. In the year ended December 31, 2016 our unit contract SAC amounted to PLN 264.5, a decline by 10.1% compared to PLN 294.3 in the year ended December 31, 2015.

We have been able to decrease unit contract SAC while increasing the volume of contract net additions through innovative offerings and rigorous monitoring of acquisition economics.

The increase in unit SAC cash and unit SRC cash results from market competition and customers who are switching to more expensive smartphones.

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

	Three months ended December 31,			**Year ended December 31,**		
	2015	**2016**	**Change**	**2015**	**2016**	**Change**
unit SAC cash (PLN)						
Contract	**360.1**	**321.7**	**(10.7%)**	**332.9**	**354.1**	**6.4%**
Prepaid	**3.4**	**3.4**	**0%**	**7.8**	**6.1**	**(21.8%)**
unit SRC cash (PLN)	**380.8**	**339.1**	**(11.0%)**	**314.3**	**363.6**	**15.7%**
unit SAC (PLN)						
Contract	**285.0**	**266.2**	**(6.6%)**	**294.3**	**264.5**	**(10.1%)**
Prepaid	**3.4**	**3.4**	**-**	**7.8**	**6.1**	**(21.8%)**
unit SRC (PLN)	**271.0**	**281.9**	**4.0%**	**274.7**	**261.2**	**(4.9%)**

Our unit SRC for the year ended December 31, 2016 amounted to PLN 261.2, a decrease by 4.9% compared to the year ended December 31, 2015. Our unit SRC cash for the year ended December 31, 2016 amounted to PLN 363.6, an increase by 15.7% compared to the year ended December 31, 2015.

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 statement of comprehensive income include the following:

Operating revenue

Operating revenue includes the following:

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

Service revenue

Usage revenue is generated mainly from:

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

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

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

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

Sales of goods and other revenues

Sales of goods and other revenues comprise mainly revenues from devices sold to subscribers. Revenues from sales of goods are recognized when control of the assets are transferred to the customer (typically upon delivery). The revenues from devices sold via dealers who act as agents are recognized when the device is delivered to the subscriber. The amount of revenue recognized for mobile devices is adjusted for expected returns, which are estimated based on the historical data. Other revenue comprises primarily revenue from commissions for sale of our partners' offerings through our distribution network.

Operating expenses

- Interconnection costs include costs of termination of voice and non-voice traffic of our customers in other operators' networks under interconnection agreements.
- National roaming costs include costs incurred in connection with the traffic generated by our subscribers hosted in networks of our national roaming partners under our national roaming 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 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. Under the current advisory service agreement (applicable from June 24, 2015), advisory service fees are paid to entities related to our shareholders based on orders volume with an annual cap of EUR 6.1 million. In line with the recently adopted IFRS 16 the Group capitalizes expected future rental payments connected with rentals of telecommunication sites, points of sale, offices etc.
  - 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 reservations and software and other intangible assets and the depreciation of the right-of-use assets. Depreciation and amortization charges are calculated using the straight-line method to allocate the cost of assets to their residual values over their estimated useful lives.

Other operating income and other operating costs

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

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

Finance income and finance costs

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

Finance costs include primarily interest on notes, bank loans and overdrafts (not capitalized as part of non-current 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 of the early redemption options, separated from Fixed Rate Senior Secured Notes and Senior Notes contracts.

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 indefinitely. In Poland tax losses are permitted to be utilized over five years with utilization restricted to 50% of the loss *per annum*.

Results of Operations: Comparison of the Year Ended December 31, 2016 and the Year Ended December 31, 2015

	Year ended December 31, 2015	**Year ended December 31, 2016**	
	(PLN in millions)	**(PLN in millions)**	**Change %**
Operating revenue	**5,436.5**	**6,117.6**	**12.5**
Service revenue	4,059.5	4,492.8	10.7
Sales of goods and other revenue	1,377.0	1,624.7	18.0
Operating expenses	**(4,373.1)**	**(4,753.5)**	**8.7**
Interconnection, roaming and other services costs	(1,330.6)	(1,495.8)	12.4
Contract costs, net	(376.3)	(398.9)	6.0
Cost of goods sold	(1,181.2)	(1,366.2)	15.7
General and administrative expenses	(887.7)	(858.5)	(3.3)
Depreciation and amortization	(597.3)	(634.1)	6.2
Other operating income	78.5	70.7	(10.0)
Other operating costs	(76.1)	(144.4)	89.9
Operating profit	**1,065.9**	**1,290.3**	**21.1**
Finance income	7.6	135.0	1,681.3
Finance costs	(368.0)	(499.1)	35.6
Profit before income tax	**705.5**	**926.1**	**31.3**
Income tax charge	(155.2)	(214.1)	38.0
Net profit for the period	**550.3**	**712.0**	**29.4**
Other comprehensive income for the period	**-**	**-**	**-**
Total comprehensive income for the period	**550.3**	**712.0**	**29.4**

Operating revenue

Operating revenue increased by PLN 681.1 million, or 12.5%, from PLN 5,436.5 million for the year ended December 31, 2015 to PLN 6,117.6 million for the year ended December 31, 2016. This increase resulted from growth in most of revenue categories, 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.

	Year ended December 31, 2015	Year ended December 31, 2016	
	(PLN in millions)	(PLN in millions)	Change %
Service revenue	**4,059.5**	**4,492.8**	**10.7**
Usage revenue	3,180.1	3,432.0	7.9
Retail contract revenue	2,459.0	2,679.1	8.9
Retail prepaid revenue	642.9	640.0	(0.5)
Other revenue	78.2	113.0	44.5
Interconnection revenue	879.4	1,060.8	20.6
Sales of goods and other revenue	**1,377.0**	**1,624.7**	**18.0**
Operating revenue	**5,436.5**	**6,117.6**	**12.5**

Retail contract usage revenue

Revenue from retail contract usage increased by PLN 220.1 million, or 8.9%, from PLN 2,459.0 million for the year ended December 31, 2015 to PLN 2,679.1 million for the year ended December 31, 2016. The increase was primarily due to growth in the reported contract subscriber base of 1.3 million, or 18.3%, from December 31, 2015 to December 31, 2016 due to the continued success of our subscriber acquisition and retention strategy, which was partially offset by the decrease in contract ARPU due to growing share of family offers.

Retail prepaid usage revenue

Revenue from retail prepaid usage decreased by PLN 2.9 million, or 0.5%, from PLN 642.9 million for the year ended December 31, 2015 to PLN 640.0 million for the year ended December 31, 2016. The decrease was primarily due to decrease in the reported prepaid subscriber base of 1.0 million, or 14.6%, from December 31, 2015 to December 31, 2016 due to the prepaid registration process (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – Key Performance Indicators") and constant migration of customers from prepaid to postpaid offers.

Other usage revenue

Other usage revenue increased by PLN 34.8 million, or 44.5%, from PLN 78.2 million for the year ended December 31, 2015 to PLN 113.0 million for the year ended December 31, 2016. This increase resulted from the growth in traffic generated by the customers of our MVNO partners.

Interconnection revenue

Interconnection revenue increased by PLN 181.3 million, or 20.6%, from PLN 879.4 million for the year ended December 31, 2015 to PLN 1,060.8 million for the year ended December 31, 2016 as a result of growing volume of traffic incoming to our network from other network operators and due to the increase in our subscriber base as well as due to the general increase in the traffic per user.

Sales of goods and other revenue

Revenue from sales of goods and other revenue increased by PLN 247.8 million, or 18.0%, from PLN 1,377.0 million for the year ended December 31, 2015 to PLN 1,624.7 million for the year ended December 31, 2016. This increase resulted primarily from the increased sales of devices to newly acquired and retained subscribers.

Operating expenses

Operating expenses increased by PLN 380.5 million, or 8.7%, from PLN 4,373.1 million for the year ended December 31, 2015 to PLN 4,753.5 million for the year ended December 31, 2016. This increase resulted primarily from increases in interconnection, roaming and other services costs and cost of goods sold as well as depreciation and amortization charges partially offset by decrease in general and administrative expenses.

Interconnection, roaming and other services costs

	Year ended December 31, 2015	**Year ended December 31, 2016**	
	(PLN in millions)	**(PLN in millions)**	**Change %**
Interconnection costs	(1,002.4)	(1,154.3)	15.2
National roaming	(160.0)	(176.3)	10.1
Other services costs	(168.2)	(165.3)	(1.7)
Interconnection, roaming and other services costs	**(1,330.6)**	**(1,495.8)**	**12.4**

Interconnection, roaming and other services costs increased by PLN 165.2 million, or 12.4%, from PLN 1,330.6 million for the year ended December 31, 2015 to PLN 1,495.8 million for the year ended December 31, 2016 mainly due to increase of interconnection costs of PLN 151.9 million, or 15.2%, from PLN 1,002.4 million for the year ended December 31, 2015 to PLN 1,154.3 million for the year ended December 31, 2016, which resulted from the growth in the volume of traffic terminated on other networks due to the increase in our subscriber base as well as due to the general increase in the traffic per user.

Contract costs	**Year ended December 31, 2015**	**Year ended December 31, 2016**	
	(PLN in millions)	**(PLN in millions)**	**Change %**
Contract costs incurred	(429.1)	(439.6)	2.5
Contract costs capitalized	395.4	422.0	6.7
Amortization and impairment of contract costs	(342.6)	(381.2)	11.3
Contract costs, net	**(376.3)**	**(398.9)**	**6.0**

Contract costs (consisting of commissions paid to dealers and own salesforce) increased by PLN 22.6 million, or 6.0%, from PLN 376.3 million for the year ended December 31, 2015 to PLN 398.9 million for the year ended December 31, 2016 primarily due to continuous growth of the customer base.

Cost of goods sold

Cost of goods sold increased by PLN 184.9 million, or 15.7%, from PLN 1,181.2 million for the year ended December 31, 2015 to PLN 1,366.2 million for the year ended December 31, 2016, mainly due to the increase in sales of devices to newly acquired and retained subscribers.

General and administrative expenses

	Year ended December 31, 2015	Year ended December 31, 2016	
	(PLN in millions)	(PLN in millions)	Change %
Salaries and social security	(214.6)	(220.3)	2.7
Special bonuses and retention programs	(93.1)	(7.2)	(92.3)
Employee benefits	**(307.7)**	**(227.5)**	**(26.1)**
Network maintenance, leased lines and energy	(111.6)	(119.4)	7.0
Advertising and promotion expenses	(181.0)	(198.1)	9.4
Customer relations costs	(66.6)	(65.7)	(1.3)
Office and points of sale maintenance	(15.9)	(15.7)	(1.3)
IT expenses	(30.1)	(29.5)	(1.9)
People related costs - cars, trainings and other	(19.2)	(18.9)	(1.3)
Finance and legal services	(18.5)	(19.9)	7.4
Advisory services provided by shareholders	(27.7)	(35.9)	29.7
Other external services	(54.9)	(63.9)	16.3
External services	**(525.5)**	**(567.0)**	**7.9**
Taxes and fees	**(54.5)**	**(64.0)**	**17.6**
General and administrative expenses	**(887.7)**	**(858.5)**	**(3.3)**
General and administrative expenses excluding retention programs valuation and special bonuses and advisory services provided by shareholders	**(766.9)**	**(815.5)**	**6.3**

Total general and administrative expenses decreased by PLN 29.1 million, or 3.3%, from PLN 887.7 million for the year ended December 31, 2015 to PLN 858.5 million for the year ended December 31, 2016, mainly due to decreased employee expenses partially offset by increased network maintenance, leased lines and energy costs, advertising and promotion expenses as well as advisory services provided by shareholders.

Excluding the impact of decrease in costs resulting from retention programs valuation and costs of special bonuses of PLN 86.0 million and increase in cost of advisory services provided by shareholders, general and administrative expenses increased by PLN 48.6 million, or 6.3%, from PLN 766.9 million for the year ended December 31, 2015 to PLN 815.5 million for the year ended December 31, 2016, mainly as a result of increased network maintenance, leased lines and energy costs, advertising and promotion expenses as well as other external services.

Salaries and social security

The cost of salaries and social security for the year ended December 31, 2016 increased by PLN 5.7 million, or 2.7%, compared to the year ended December 31, 2015. The increase was primarily due to the higher number of employees resulting from growing scope of Group operations.

External services

External services costs increased by PLN 41.5 million, or 7.9%, from PLN 525.5 million for the year ended December 31, 2015 to PLN 567.0 million for the year ended December 31, 2016. This growth was primarily due to increase in costs of network maintenance, leased lines and energy of PLN 7.8 million resulting from higher network maintenance costs due to increased number of sites, increased spending on advertising of PLN 17.1 million and increase in costs of advisory services provided by shareholders of PLN 8.2 million.

Taxes and fees

The cost of taxes and fees increased by PLN 9.6 million, or 17.6%, from PLN 54.5 million for the year ended December 31, 2015 to PLN 64.0 million for the year ended December 31, 2016, primarily due to higher fees for use of frequencies due to purchase of the frequencies in the 800 MHz and 2600 MHz bands.

Depreciation and amortization

Depreciation and amortization increased by PLN 36.8 million, or 6.2%, from PLN 597.3 million for the year ended December 31, 2015 to PLN 634.1 million for the year ended December 31, 2016. This increase resulted primarily from an increase in the amortization of intangibles of PLN 107.9 million mostly due to amortization charges of 800 MHz and 2600 MHz frequencies partially offset by decrease in depreciation of property, plant and equipment of PLN 68.2 million resulting from reviewed and adjusted fixed assets' residual values and useful lives.

Other Operating Income and Other Operating Costs

Other operating income decreased by PLN 7.8 million, or 10.0%, from PLN 78.5 million for the year ended December 31, 2015 to PLN 70.7 million for the year ended December 31, 2016. Higher other operating income in the year ended December 31, 2015 resulted primarily from income from reversal of one-off provision for potential liability towards UOKiK of PLN 10.7 million which was due to change in the Group's risk assessment concerning the potential liability, as well as higher interest income on cash by PLN 6.4 million due to higher average cash balances maintained.

Other operating costs increased by PLN 68.4 million, or 89.9%, for the same period under review. This increase resulted primarily from a cost of provision for early termination fee related to one of Group's commercial agreements in the amount of PLN 20.4 million and an increase of costs of bad debt of PLN 39.2 million including costs of 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 as well as increased impairment allowance for receivables from installment sales resulting from increased sales volumes in installment mode. Increased installment sales resulted in a significant balance of receivables recognized at the contract inception and corresponding impairment allowance recognized upfront accordingly to expected credit loss model.

Finance Income and Cost

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

	Year ended December 31, 2015 (PLN in millions)	Year ended December 31, 2016 (PLN in millions)	Change %
Interest income	7.6	19.9	163.0
Interest expense	(310.3)	(336.8)	8.5
Exchange rate losses	(19.3)	(162.3)	742.4
Net gain/(loss) on finance assets at fair value through profit or loss	(38.4)	115.0	-
Financial income and costs	**(360.4)**	**(364.1)**	**1.0**

Interest income

Interest income increased by PLN 12.3 million, from PLN 7.6 million for the year ended December 31, 2015 to PLN 19.9 million for the year ended December 31, 2016. This increase resulted mainly from higher amount of interest on notes issued by Play Topco S.A. to the Group due to increased outstanding balance of the notes receivables.

Interest expense

Interest expense increased by PLN 26.5 million, or 8.5%, from PLN 310.3 million for the year ended December 31, 2015 to PLN 336.8 million for the year ended December 31, 2016. Higher interest expense in the year ended December 31, 2016 resulted from higher interests charged on Notes due to higher average indebtedness as well as depreciation of PLN against EUR in the year ended December 31, 2016, compared to appreciation of PLN against EUR in the year ended December 31, 2015.

Exchange rate losses

Exchange rate losses increased from PLN 19.3 million for the year ended December 31, 2015, to PLN 162.3 million for the year ended December 31, 2016. This increase resulted mainly from the valuation of the EUR-denominated debt due to depreciation of PLN against EUR in the year ended December 31, 2016, compared to appreciation of PLN against EUR in the year ended December 31, 2015.

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

The gain or loss on finance assets at fair value through profit or loss resulted from the valuation of early redemption options embedded in the Senior Secured Notes Indenture and Senior Notes Indenture.

Liquidity and Capital Resources

Liquidity

The Group has historically been financed through equity capital (including contributions in kind), cash from operations, borrowings under bank loans and, following the issuance of the Notes, through bonds. The Company has entered into the Revolving Credit Facility Agreement with Alior Bank S.A. as a lender and Bank Zachodni WBK S.A. as a lender and facility agent, which provides for a Revolving Credit Facility in the amount of PLN 400 million, which was fully available as of December 31, 2016. The Group also has a revolving credit line agreements with Bank Millennium S.A. for the amount of PLN 50 million and with Bank Zachodni WBK S.A. for the amount of PLN 150 million, which were fully available as of December 31, 2016.

	Year ended December 31, 2015 (PLN in millions)	Year ended December 31, 2016 (PLN in millions)	Change %
Profit before income tax	**705.5**	**926.1**	**31.3**
Depreciation and amortization	597.3	634.1	6.2
Changes in contract costs (net)	(52.8)	(40.7)	(22.9)
Interest expense (net)	302.7	316.9	4.7
(Gain)/Loss on valuation of finance assets	38.4	(115.0)	-
Foreign exchange losses	19.3	162.2	739.2
Gain on disposal of non-current assets	(3.9)	(8.8)	125.5
Impairment of non-current assets	1.7	6.3	277.1
Change in provisions and retention programs liabilities	61.2	(17.1)	-
Changes in working capital and other	(26.3)	(249.9)	850.7
Change in contract assets	(114.9)	3.1	-
Change in contract liabilities	1.0	22.6	2,216.7
Interest received	0.1	0.1	19.1
Income tax paid	(4.2)	(52.2)	1,140.0
Transfers from restricted cash (operating)	0.2	-	(100.0)
Net cash provided by operating activities	**1,525.1**	**1,587.5**	**4.1**
Proceeds from sale of non-current assets	7.8	5.5	(29.6)
Proceeds from loans given	0.1	-	(100.0)
Purchase of fixed assets and intangibles and prepayments for assets under construction	(436.8)	(2,195.9)	402.7
Loans given	-	(17.9)	-
Purchase of debt securities (Notes issued by Play Topco S.A.)	(144.0)	(141.1)	(2.0)
Net cash used in investing activities	**(572.9)**	**(2,349.3)**	**310.1**
Proceeds from finance liabilities	543.8	385.0	(29.2)
Repayment of finance liabilities and relating finance costs	(437.0)	(839.2)	92.0
Net cash provided by/(used in) financing activities	**106.8**	**(454.2)**	**-**
Net change in cash and cash equivalents	**1,059.1**	**(1,215.9)**	**-**
Effect of exchange rate change on cash and cash equivalents	(0.1)	0.1	-
Cash and cash equivalents at the beginning of the period	**497.8**	**1,556.8**	**212.7**
Cash and cash equivalents at the end of the period[1]	**1,556.8**	**341.0**	**(78.1)**

Net cash provided by operating activities

Net cash provided by operating activities increased by PLN 62.4 million, or 4.1%, from PLN 1,525.1 million for the year ended December 31, 2015 to PLN 1,587.5 million for the year ended December 31, 2016, primarily due to increase in the profit before income tax by PLN 220.7 million from PLN 705.5 million to PLN 926.1 million. The increase in working capital and other for the year ended December 31, 2016 is mainly attributable to the higher value of receivables due to further growth of the contract customer base and increased sales volumes in installment mode.

Net cash used in investing activities

Net cash used in investing activities increased by PLN 1,776.4 million, or 310.1%, from PLN 572.9 million for the year ended December 31, 2015 to PLN 2,349.3 million for the year ended December 31, 2016. This increase primarily reflects the payments to UKE for new frequencies in 800 MHz and 2600 MHz spectra in the amount of PLN 1,704.4 million in the year ended December 31, 2016.

Net cash provided by or used in financing activities

Cash flows from financing activities changed from the net cash inflow of PLN 106.8 million for the year ended December 31, 2015 to the net cash outflow of PLN 454.2 million for the year ended December 31, 2016. This change resulted primarily from increase in repayment of finance liabilities and relating finance costs from PLN 437.0 million for the year ended December 31, 2015 to PLN 839.2 million for the year ended December 31, 2016 mainly due to repayment of Revolving Credit Facility in the amount of PLN 385.0 million. Higher proceeds from finance liabilities for the year ended December 31, 2015 resulted from higher value of the issuance of Additional Fixed Rate Senior Secured in the year ended December 31, 2015 compared to the amount of the Revolving Credit Facility drawn in the year ended December 31, 2016.

Results of Operations: Comparison of the Three-Month Period Ended December 31, 2016 and the Three-Month Period Ended December 31, 2015

	Three-month period ended December 31, 2015	Three-month period ended December 31, 2016	Change %
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Operating revenue	**1,464.8**	**1,620.2**	**10.6**
Service revenue	1,067.7	1,177.1	10.2
Sales of goods and other revenue	397.0	443.1	11.6
Operating expenses	**(1,180.1)**	**(1,254.4)**	**6.3**
Interconnection, roaming and other services costs	(355.0)	(397.5)	12.0
Contract costs, net	(100.2)	(104.5)	4.3
Cost of goods sold	(350.5)	(347.1)	(1.0)
General and administrative expenses	(221.3)	(242.9)	9.8
Depreciation and amortization	(153.1)	(162.4)	6.1
Other operating income	23.0	17.4	(24.2)
Other operating costs	(28.3)	(22.4)	(20.9)
Operating profit	**279.3**	**360.8**	**29.2**
Finance income	3.1	27.9	796.3
Finance costs	(149.5)	(194.6)	30.2
Profit before income tax	**132.9**	**194.1**	**46.1**
Income tax chargé	(33.4)	(44.6)	33.8
Net profit for the period	**99.5**	**149.5**	**50.2**
Other comprehensive income for the period	**-**	**-**	**-**
Total comprehensive income for the period	**99.5**	**149.5**	**50.2**

Operating revenue

Operating revenue increased by PLN 155.4 million, or 10.6%, from PLN 1,464.8 million for the three-month period ended December 31, 2015 to PLN 1,620.2 million for the three-month period ended December 31, 2016. This increase resulted from growth in most of the categories of revenue, primarily in retail contract usage revenue, interconnection revenue and sales of goods and other revenue.

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

	Three-month period ended December 31, 2015	Three-month period ended December 31, 2016	
	Unaudited	Unaudited	Change %
	(PLN in millions)	(PLN in millions)	
Service revenue	**1,067.7**	**1,177.1**	**10.2**
Usage revenue	824.2	890.0	8.0
Retail contract revenue	634.6	701.9	10.6
Retail prepaid revenue	165.6	154.8	(6.5)
Other revenue	24.0	33.4	39.2
Interconnection revenue	243.6	287.1	17.9
Sales of goods and other revenue	**397.0**	**443.1**	**11.6**
Operating revenue	**1,464.8**	**1,620.2**	**10.6**

Retail contract usage revenue

Revenue from retail contract usage increased by PLN 67.3 million, or 10.6%, from PLN 634.6 million for the three-month period ended December 31, 2015 to PLN 701.9 million for the three-month period ended December 31, 2016. The increase was primarily due to growth in the reported contract subscriber base of 1.3 million, or 18.3%, from December 31, 2015 to December 31, 2016 due to the continued success of our subscriber acquisition and retention strategy, which was partially offset by the decrease in contract ARPU due to growing share of family offers.

Retail prepaid usage revenue

Revenue from retail prepaid usage decreased by PLN 10.8 million, or 6.5%, from PLN 165.6 million for the three-month period ended December 31, 2015 to PLN 154.8 million for the three-month period ended December 31, 2016. This decrease resulted primarily from the decrease in the reported prepaid subscriber base of 1.0 million, or 14.6%, due to the prepaid registration process (see "Key Factors Affecting Our Results of Operations and Significant Market Trends – Key Performance Indicators") and constant migration of customers from prepaid to postpaid offers.

Other usage revenue

Other usage revenue increased by PLN 9.4 million, or 39.2%, from PLN 24.0 million for the three-month period ended December 31, 2015 to PLN 33.4 million for the three-month period ended December 31, 2016. This increase resulted primarily from the increase in traffic generated by the customers of our MVNO partners.

Interconnection revenue

Interconnection revenue increased by PLN 43.5 million, or 17.9%, from PLN 243.6 million for the three-month period ended December 31, 2015 to PLN 287.1 million for the three-month period ended December 31, 2016 as a result of growing volume of traffic incoming to our network from other network operators due to the increase in our subscriber base as well as due to the general increase in the traffic per user.

Sales of goods and other revenue

Revenue from sales of goods and other revenue increased by PLN 46.1 million, or 11.6%, from PLN 397.0 million for the three-month period ended December 31, 2015 to PLN 443.1 million for the three-month period ended December 31, 2016. This increase resulted primarily from the increase in sales of devices to newly acquired and retained subscribers.

Operating expenses

Operating expenses increased by PLN 74.3 million, or 6.3%, from PLN 1,180.1 million for the three-month period ended December 31, 2015 to PLN 1,254.4 million for the three-month period ended December 31, 2016. This increase resulted primarily from increase in interconnection, roaming and other services costs, general and administrative expenses as well as depreciation and amortization.

Interconnection, roaming and other services costs

	Three-month period ended December 31, 2015	**Three-month period ended December 31, 2016**	**Change %**
	Unaudited	**Unaudited**	
	(PLN in millions)	**(PLN in millions)**	
Interconnection costs	(270.9)	(306.4)	13.1
National roaming	(42.9)	(47.6)	10.9
Other services costs	(41.2)	(43.5)	5.4
Interconnection, roaming and other services costs	**(355.0)**	**(397.5)**	**12.0**

Interconnection, roaming and other services costs increased by PLN 42.4 million, or 12.0%, from PLN 355.0 million for the three-month period ended December 31, 2015 to PLN 397.5 million for the three-month period ended December 31, 2016 mainly due to increase of interconnection costs of PLN 35.5 million, or 13.1%, from PLN 270.9 million for the three-month period ended December 31, 2015 to PLN 306.4 million for the three-month period ended December 31, 2016, which resulted from the growth in the volume of traffic terminated on other networks due to increase in our contract subscriber base as well as due to the general increase in the traffic per user.

Cost of goods sold

Despite the increase in sales of goods in the three-month period ended December 31, 2016 in comparison to the three-month period ended December 31, 2015, cost of goods sold remained stable due to lower average cost of goods sold.

General and administrative expenses

	Three-month period ended December 31, 2015	Three-month period ended December 31, 2016	Change %
	Unaudited	Unaudited	
	(PLN in millions)	(PLN in millions)	
Salaries and social security	(62.4)	(62.5)	0.2
Special bonuses and retention programs	(15.6)	(6.1)	(61.0)
Employee benefits	**(78.0)**	**(68.6)**	**(12.1)**
Network maintenance, leased lines and energy	(30.3)	(31.7)	4.6
Advertising and promotion expenses	(36.0)	(45.0)	25.1
Customer relations costs	(17.1)	(18.6)	8.6
Office and points of sale maintenance	(3.8)	(4.4)	16.0
IT expenses	(7.3)	(7.6)	3.3
People related costs - cars, trainings and other	(6.1)	(6.4)	4.6
Finance and legal services	(5.8)	(7.3)	24.6
Advisory services provided by shareholders	(6.8)	(12.1)	79.6
Other external services	(16.9)	(26.1)	54.3
External services	**(130.1)**	**(159.1)**	**22.3**
Taxes and fees	**(13.2)**	**(15.2)**	**15.2**
General and administrative expenses	**(221.3)**	**(242.9)**	**9.8**
General and administrative expenses excluding retention programs valuation and special bonuses and advisory services provided by shareholders	**(199.0)**	**(223.5)**	**12.3**

Total general and administrative expenses increased by PLN 21.6 million, or 9.8%, from PLN 221.3 million for the three-month period ended December 31, 2015 to PLN 242.9 million for the three-month period ended December 31, 2016, mainly due to increased advertising and promotion expenses, advisory services provided by shareholders as well as taxes and fees partially offset by decreased employee expenses including special bonuses and effects of valuation of retention programs.

Excluding the impact of decrease in retention programs valuation and costs of special bonuses of PLN 9.5 million and increase in cost of advisory services provided by shareholders of PLN 5.4 million, general and administrative expenses increased by PLN 24.6 million, or 12.3%, from PLN 199.0 million for the three-month period ended December 31, 2015 to PLN 223.5 million for the three-month period ended December 31, 2016, mainly due to increased advertising and promotion expenses as well as taxes and fees.

Salaries and social security

The cost of salaries and social security for the three-month period ended December 31, 2016 amounted to PLN 62.5 million and remained stable in comparison to the three-month period ended December 31, 2015.

External services

External services costs increased by PLN 29.0 million, or 22.3%, from PLN 130.1 million for the three-month period ended December 31, 2015 to PLN 159.1 million for the three-month period ended December 31, 2016. This growth was primarily due to an increase in advertising and promotion expenses of PLN 9.0 million and an increase in advisory services provided by shareholders of PLN 5.4 million.

Taxes and fees

The cost of taxes and fees increased by PLN 2.0 million, or 15.2%, from PLN 13.2 million for the three-month period ended December 31, 2015 to PLN 15.2 million for the three-month period ended December 31, 2016, primarily due to higher fees for the use of frequencies due to the purchase of frequencies in the 800 MHz and 2600 MHz bands.

Depreciation and amortization

Depreciation and amortization increased by PLN 9.4 million, or 6.1%, from PLN 153.1 million for the three-month period ended December 31, 2015 to PLN 162.4 million for the three-month period ended December 31, 2016. This increase resulted primarily from an increase in the amortization of intangibles of PLN 27.9 million mostly due to the amortization charges for the 800 MHz and 2600 MHz frequencies partially offset by a decrease in depreciation of property, plant and equipment of PLN 17.9 million resulting from reviewed and adjusted fixed assets' residual values and useful lives.

Other Operating Income and Other Operating Costs

Other operating income decreased by PLN 5.6 million, or 24.2%, from PLN 23.0 million for the three-month period ended December 31, 2015 to PLN 17.4 million for the three-month period ended December 31, 2016. Lower other operating income in the three-month period ended December 31, 2016 resulted primarily from lower income from early contract termination fees by PLN 2.3 million and decrease in interest income on cash by PLN 3.9 million due to lower interest rates.

Other operating costs decreased by PLN 5.9 million, or 20.9%, for the same period under review. This decrease resulted primarily from the decrease of costs of bad debt of PLN 2.8 million for the three-month period ended December 31, 2016 due to slower increase of trade receivables in the three-month period ended December 31, 2016 than in the three-month period ended December 31, 2015.

Finance Income and Cost

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

	Three-month period ended December 31, 2015	Three-month period ended December 31, 2016	Change %
	Unaudited	**Unaudited**	
	(PLN in millions)	**(PLN in millions)**	
Interest income	3.1	6.5	109.5
Interest expense	(80.4)	(84.1)	4.6
Exchange rate losses	(30.4)	(110.5)	263.2
Net gain/(loss) on finance assets at fair value through profit or loss	(38.7)	21.4	-
Financial income and costs	**(146.3)**	**(166.7)**	**13.9**

Interest income

Interest income increased by PLN 3.4 million from PLN 3.1 million for the three-month period ended December 31, 2015 to PLN 6.5 million for the three-month period ended December 31, 2016. This increase resulted mainly from higher amount of interest on notes issued by Play Topco S.A. to the Group due to increased outstanding balance of the notes receivables.

Interest expense

Interest expense remained stable in the three-month period ended December 31, 2016 in comparison to the three-month period ended December 31, 2015.

Exchange rate losses

Exchange rate losses increased from PLN 30.4 million for the three-month period ended December 31, 2015 to PLN 110.5 million for the three-month period ended December 31, 2016. This increase resulted mainly from the valuation of the EUR-denominated debt due to depreciation of PLN against EUR in the three-month period ended December 31, 2016, compared to the three-month period ended December 31, 2015.

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

The gain or loss on finance assets at fair value through profit resulted from the valuation of early redemption options embedded in the Senior Secured Notes Indenture and Senior Notes Indenture.

Liquidity and Capital Resources

Liquidity

Cash flows

	Three-month period ended December 31, 2015 Unaudited (PLN in millions)	Three-month period ended December 31, 2016 Unaudited (PLN in millions)	Change %
Profit before income tax	**132.9**	**194.1**	**46.1**
Depreciation and amortization	153.1	162.4	6.1
Changes in contract costs (net)	(12.6)	(8.1)	(35.9)
Interest expense (net)	77.3	77.5	0.3
(Gain)/Loss on valuation of finance assets	38.7	(21.4)	-
Foreign exchange losses	32.0	110.5	245.4
Gain on disposal of non-current assets	(1.7)	(1.1)	(37.6)
Impairment of non-current assets	1.1	1.0	(13.9)
Change in provisions and retention programs liabilities	4.9	7.4	51.2
Changes in working capital and other, excluding deposits paid to UKE	16.2	95.4	490.5
Change in contract assets	7.7	(63.5)	-
Change in contract liabilities	2.6	10.0	286.9
Interest received	(0.2)	-	(100.0)
Income tax paid	(0.1)	(0.4)	229.6
Net cash provided by operating activities, excluding deposits paid to UKE	**451.8**	**564.0**	**24.8**
Deposits paid to UKE	442.2	-	(100.0)
Net cash provided by operating activities	**894.0**	**564.0**	**(36.9)**
Proceeds from sale of non-current assets	3.5	0.4	(87.6)
Purchase of fixed assets and intangibles and prepayments for assets under construction	(95.9)	(139.3)	45.3
Net cash used in investing activities	**(92.4)**	**(138.9)**	**50.2**
Repayment of finance liabilities and relating finance costs	(52.4)	(51.8)	(1.3)
Net cash used in financing activities	**(52.4)**	**(51.8)**	**(1.3)**
Net change in cash and cash equivalents	**749.1**	**373.4**	**(50.2)**
Effect of exchange rate change on cash and cash equivalents	(1.6)	(0.0)	(99.2)
Cash and cash equivalents at the beginning of the period	**809.3**	**(32.4)**	**-**
Cash and cash equivalents at the end of the period	**1,556.8**	**341.0**	**(78.1)**

Net cash provided by operating activities

Net cash provided by operating activities decreased by PLN 330.0 million, or 36.9%, from PLN 894.0 million for the three-month period ended December 31, 2015 to PLN 564.0 million for the three-month period ended December 31, 2016. In the three-month period ended December 31, 2015, the Group received PLN 442.2 million deposit paid during 2015 to UKE in relation with Group's participation in auction for frequencies in the 800 MHz and in the 2600 MHz band. Excluding the impact of the above mentioned cash inflow, the net cash provided by operating activities increased by PLN 112.2 million, or 24.8% from PLN 451.8 million for the three-month period ended December 31, 2015 to PLN 564.0 million for the three-month period ended December 31, 2016, primarily due to increase in the profit before income tax by PLN 61.2 million from PLN 132.9 million to PLN 194.1 million.

Net cash used in investing activities

Net cash used in investing activities increased by PLN 46.4 million, or 50.2%, from PLN 92.4 million for the three-month period ended December 31, 2015 to PLN 138.9 million for the three-month period ended December 31, 2016, mainly due to increase in fixed assets and intangibles purchases by PLN 43.4 million.

Net cash used in financing activities

Cash outflows related to repayment of finance liabilities and relating finance costs remained stable in the periods covered.

Certain other contractual commitments

Leases

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

Frequency reservations

We have certain investment obligations in relation to our frequency reservations.

800 MHz frequency reservation requirements

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

2600 MHz frequency reservation requirements

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

For details regarding our other frequency reservations acquired in previous periods please refer to Note 35 to our consolidated financial statements included elsewhere in this Report.

Contingent liabilities

We have certain contingent liabilities which are discussed in Note 36 to our consolidated financial statements included elsewhere in this Report.

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. On December 13th 2016 UKE has issued Decisions relating P4's contribution to universal service for the years 2007 and 2008 and set the amount at level of PLN 38,61 and PLN 74,17 respectively. Decision relating to P4's contribution to universal service for the years 2007 - 2009 and 2010 - 2011 are expected respectively, in the first quarter of 2017 and first half of 2017.

The Group has created the provision in the consolidated financial statements included elsewhere in this Report for P4's share in the universal service contributions bades on UKE decisions for the years 2007-2008 and based on estimations prepared for the years 2009, 2010 and 2011.

Off-Balance Sheet Arrangements

As of December 31, 2016, we had no off-balance sheet arrangements.

Qualitative and Quantitative Information on Market Risks

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

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

Currency risk

Following the Refinancing and Recapitalization, substantially all of our borrowings are denominated in euro (other than indebtedness under the Floating Rate Senior Secured Notes, Millennium Revolving Credit Facility, Overdraft Facility in Bank Zachodni WBK S.A. and our finance leases drawn in zloty). Amounts under the Revolving Credit Facility can also be drawn in zloty. Certain of our operating costs are in euros and other currencies other than zloty. Currency risk relates to the volatility of cash flows (in respect of zloty) arising from fluctuations in the exchange rate of the zloty against other currencies, and the adverse effect of movements in exchange rates on revenues (in respect of zloty).

Our currency risk is regularly monitored by our senior management who decide if they will take actions, such as entering into derivatives, to protect against currency risk. We do not have, and, as of the date of this Report, do not intend to enter into, currency derivatives to manage this risk and so we will not be protected from increases in the value of the euro relative to the zloty. However, we have the option to enter into currency derivative transactions under the terms of the Senior Secured Notes Indenture and Senior Notes Indenture.

Interest rate risk

The Group is exposed to cash flow interest rate risk related to short- and long-term borrowing facilities. The Group's historical interest bearing liabilities were based mainly on floating interest rates.

As the Notes (other than the Floating Rate Senior Secured Notes) have a fixed interest rate, our interest rates risk going forward will primarily be limited to amounts drawn under the Revolving Credit Facility, the Floating Rate Senior Secured Notes and other available working capital facilities.

We did not hedge or otherwise seek to reduce interest rate risk as of December 31, 2016. We currently do not envisage entering into any transactions to hedge any potential exposure to changes in interest rates. However, we have the option to enter into interest rate derivative transactions under the terms of the Senior Secured Notes Indenture and Senior Notes Indenture.

Credit risk

Except as described below, the Group has no significant concentrations of credit risk because the Group has an extensive portfolio of receivables of low individual amounts.

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

As of December 31, 2016 and December 31, 2015, 10.9% and 9.1% respectively, of our receivables were attributable to aggregate receivables generated by three major debtors (other than individual subscribers) to which we provide services or sell goods. We constantly review the creditworthiness of these counterparties to limit any potential losses.

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, the availability of funding through an adequate amount of committed credit facilities and managing guaranteed equity increases. Going forward, our main sources of liquidity will be cash generated through operations as well as amounts available under our Revolving Credit Facility, under Millennium Revolving Credit Facility, under Overdraft Facility in Bank Zachodni WBK S.A. and other working capital facilities which we may enter into in accordance with the Senior Secured Notes Indenture and Senior Notes Indenture.

The table below presents the maturity of bonds, leases and other debt in contractual values (i.e. excluding the impact of nominal expenses incurred in relation to the loan and the liability), increased by projected value of interest payments. Values are not discounted. The Group has also entered into the Revolving Credit Facility Agreement, which provides for a Revolving Credit Facility in the amount of PLN 400 million, which was fully available as of December 31, 2016. The Group also has revolving credit line agreements with Bank Millennium S.A. for the amount of PLN 50 million and with Bank Zachodni WBK S.A. for the amount of PLN 150 million, which were fully available as of December 31, 2016.

The amounts of bank loans which are not drawn, are not shown below.

December 31, 2016

PLN in millions	**Liabilities payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Notes	252.9	4,948.3	-	5,201.3
Lease	179.0	530.2	466.0	1,175.3
Other debt	1.2	1.5	-	2.7
	433.1	**5,480.1**	**466.0**	**6,379.2**

December 31, 2015

PLN in millions	**Liabilities payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Notes	243.9	5,015.6	-	5,259.5
Lease	183.1	538.2	433.9	1,155.3
	427.0	**5,553.8**	**433.9**	**6,414.8**

December 31, 2014

PLN in millions	**Liabilities payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Notes	217.4	4,629.6	-	4,847.0
Lease	195.9	510.5	360.3	1,066.6
	413.3	**5,140.1**	**360.3**	**5,913.7**

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.

Capital management

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

Critical Accounting Policies, Estimates and Judgments

General

The preparation of consolidated financial statements in conformity with IFRS with early adoption of IFRS 15 and IFRS 16 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from estimates.

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.

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

The Group has certain critical accounting estimates which it applies and these are discussed at Note 2.30 to our consolidated financial statements included elsewhere in this Report.

Retention programs

We have in place a series of management and employee retention programs for our key personnel.

Valuation of the liabilities relating to retention programs

Play's fair value is the main input used for the valuation of retention program liabilities. The fair value of the Group as at December 31, 2016 was estimated using the multiply method on the basis of business projections for the years 2015-2017, 2016-2018 and 2017 - 2019.

The estimated fair value of the Group as at December 31, 2016 has changed in comparison to December 31, 2015.

The following table lists other major inputs to the models used for the plans:

	December 31, 2016	**December 31, 2015**	**December 31, 2014**
Liquidity event date	December 31, 2019	December 31, 2018	December 31, 2017
Volatility	25%	34%	27%
Probability that liquidity event will not occur till liquidity event date mentioned above	50%	50%	50%

Had the major inputs remained the same as at December 31, 2015, the value of retention programs liabilities as at December 31, 2016 and relating costs for the year ended December 31, 2016 would be higher by PLN 7.8 million.

Retention program liabilities

During the year ended December 31, 2016, the Play Group operated cash-settled share-based retention programs. A brief summary of these retention programs is set forth below. Please also see "Management—Remuneration and Benefits." For a more detailed description, see Note 20 to our consolidated financial statements included elsewhere in this Report.

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. In the year ended December 31, 2014 the plan operated by P4 was replaced by the plan with substantially the same conditions operated by the Play Holdings 2 S.à r.l.. The percentage granted under the plan was transformed into a certain number of rights.

In accordance with the conditions of the EGA MB Plan upon disposal of shares by the current 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 are entitled to receive amounts calculated as the number of rights multiplied by the value of one right which is 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 the case of the distribution of equity to shareholders program members are entitled to receive additional payments. The number of rights granted under the plan was 2,181 as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.

As at December 31, 2016 share appreciation rights of the EGA MB Plan have already vested.

Play Holdings 2 S.à r.l. has an option to settle the plan in equity, but intends to settle the plan in cash.

The fair value of share appreciation rights is estimated using a geometric Brownian motion process (a Monte Carlo model).

PSA 1 and PSA 2 Plans

Under the PSA 1 Plan certain members of P4's Management Board were granted share appreciation rights by P4 during year 2009. Under the PSA 2 and PSA 3 Plan these members of P4's Management Board were granted share appreciation rights by P4 during 2013. In the year ended December 31, 2014 the plans operated by P4 were replaced by one plan operated by Play Holdings 2 S.à r.l., the main conditions of the plans remained the same; 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 an initial public offering (a liquidity event), at or above a minimum required liquidity event price, program members are entitled to receive amounts calculated as the number of rights multiplied by the value of one right which is 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 amount paid under the PSA 1 Plan cannot be greater than the limit set forth in the agreement. The number of rights granted under the plan was 2,181 as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.

As at December 31, 2016 share appreciation rights of the PSA 1 Plan have already vested.

In accordance with the conditions of the PSA 2 Plan, upon a change of control over the Company or an initial public offering (a liquidity event), at or above a minimum required liquidity event price, program members are entitled to receive amounts calculated as the number of rights multiplied by the value of one right which is dependent on the excess of liquidity event price above base value defined in the agreement less any interim payments. The number of rights granted under the plan was 727 as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.

As at December 31, 2016 share appreciation rights of the PSA 2 Plan have already vested.

In the case of the distribution of equity to shareholders program members are entitled to receive interim payments.

Play Holdings 2 S.à r.l. has an option to settle the plan in equity, but intends to settle the plan in cash.

The fair value of share appreciation rights of PSA 1 and PSA 2 Plans is estimated using a geometric Brownian motion process (a Black-Scholes model).

SF 1 and SF 2 Plans

Under the SF 1 and SF2 Plan a member of P4's Management Board was granted share appreciation rights by P4 during year 2013. During year 2014 the plans operated by P4 were replaced by plans operated by Play Holdings 2 S.à r.l.and modified.

In accordance with the conditions of the SF 1 Plan, upon a change of control over the Company or an initial public offering (a liquidity event), at or above a minimum required liquidity event price, the program member is entitled to receive an amount defined in agreement, if certain conditions set forth in the agreement have been satisfied.

In accordance with the conditions of the SF 2 Plan, upon a change of control over the Company or an initial public offering (a liquidity event), at or above a minimum required liquidity event price, the program member is entitled to receive an amount calculated as granted percentage of the excess of liquidity event price above base value defined in the agreement less any amounts paid under SF 1 Plan. The amount paid from SF 2 Plan cannot be greater than the limit set in agreement. Percentage granted under the plan was 0.20% as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.
In the case of the distribution of equity to shareholders program member is entitled to receive interim payments.

The SF 1 Plan and SF 2 Plan vest: 20% on April 1, 2013, 20% on April 1, 2014, 20% on April 1, 2015, 20% on April 1, 2016, 20% on April 1, 2017 (or when liquidity event occurs) if the program member has not resigned or been dismissed by the Group before these dates.

The fair value of share appreciation rights of SF 1 and SF 2 Plans is estimated using a geometric Brownian motion process (a Black-Scholes model).

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 the 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 June 30, 2016, as at December 31, 2015 and as at December 31, 2014.

The fair value of share appreciation rights was estimated using a geometric Brownian motion process (a Monte Carlo model).

VDP 1

Under the VDP 1 the members of the Group's key personnel were granted share appreciation rights by P4 during the year 2010 and 2011. In accordance with the conditions of the VDP 1, the program members were entitled to receive amounts calculated as the number of rights granted under the plan multiplied by the value of one right, if, among others, the member has not resigned or been dismissed by the Group before the liquidity event date or by the end of the program. The value of one right was calculated in reference to the increase in the fair value of P4's equity until the date of a 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, 2012. Therefore value of one right was calculated taking into account the increase in fair value of P4's equity until December 31, 2012.

Amounts due under VDP 1 plan were paid out to program members in the year ended December 31, 2013 and in the year ended December 31, 2014.

VDP 2

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 are entitled to receive amounts calculated as the number of rights granted under the plan multiplied by the value of one right. The value of one right is calculated in reference to the increase in the fair value of P4's equity until the date of a 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

Under the VDP 3 the members of the Group's key personnel were granted share appreciation rights by P4 in June and August 2015. In accordance with the conditions of the VDP 3, the program members are entitled to receive amounts calculated as the number of rights granted under the plan multiplied by the value of one right. The value of one right is calculated in reference to the increase in the fair value of P4's equity until the date of a 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 ends on December 31, 2017.
The VDP 3 vests gradually from grant date to the date when program ends if the program member has not resigned or been dismissed by the Group until this date.

The fair value of share appreciation rights is estimated using a geometric Brownian motion process (a Black-Scholes model).

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

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

With respect to Floating Rate Senior Secured Notes issued in January 2014 and Fixed Rate Senior Secured Notes issued in March 2015 it was concluded that option's exercise price approximates debt amortized cost value and that it can be moreover assessed that it reimburses the lost interest. Thus close relation between embedded derivative and host contract was confirmed. Therefore this early redemption option was not separated from host debt contract of Floating Rate Senior Secured Notes issued in January 2014 and Fixed Rate Senior Secured Notes issued in March 2015 for accounting and valuation purposes.

Valuation of early redemption options

For purposes of valuation of early redemption options to fair value the Group applies valuation model which is designed based on Black-Derman-Toy model (BDT) framework. BDT model is a one-factor model and is one of the most used yield-based models to valuate bonds and interest rate (American-style) options.

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

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

Thus critical valuation inputs of the option are as follows:

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

The above inputs are unobservable inputs.

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

Valuation of the assets retirement obligation provision

As at December 31, 2016 the assets retirement obligation provision was calculated using discount rate of 3.62% (3.00% as at December 31, 2015 and 2.95% as at December 31, 2014), representing interest rate of 10-years treasury bonds as at that date.

The discount period equals the average remaining useful life of the fixed assets that will be subject to retirement obligation. The discount period has changed in comparison to the period applied for the calculation in the years ended December 31, 2015 and December 31, 2014.

Valuation of the installment sales receivables

Since 2012 we have offered installment sales plans for the sales of tablets, smartphones and other mobile computing devices. Installment receivables are discounted using current market interest rates applicable for similar transactions at the date of the transaction.

Deferred tax

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

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

The Group is required to assess the likelihood of deferred income tax assets being recovered from future taxable income, and deferred tax assets are recognized to the extent to which such recovery is probable. Significant Group's estimates are required in the valuation of the Play Group's deferred income tax assets. These estimates take into consideration future taxable income projections, the potential volatility of those projections, historical results and ongoing tax planning strategies. Factors such 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.

Impairment of the Group's long-lived assets

Under IAS 36 "Impairment of Assets" the Group is obliged to assess at each end of the 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. No impairment indicators were identified as at December 31, 2016.

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

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

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

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

The mobile telecommunications industry is subject to significant governmental regulation and supervision and future changes in such regulations or telecommunication 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, including possible significant changes in mobile technology, the actual recoverable amount of the CGU may differ significantly in the future from the Play Group's current estimates.

Certain deviations from key assumptions may affect our assessment of the Group's long-lived assets impairment as follows:

- If the total number of new subscribers added by P4 ("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.

Deferred charges—distribution costs of prepaid products

Costs of distribution of prepaid products are deferred until the service is provided, i.e. a pre-paid product is delivered to an end-user, and expensed at that time. However, as P4 has no means of knowing the exact moment at which the prepaid products are delivered to end-users, due to the vast majority of sales being through independent third party channels, it is estimated that the distribution services are rendered when pre-paid products are first activated in P4's billing system. The distribution costs of prepaid products that were not activated after a pre-determined period from the date of delivering the products to the distributors are treated as incurred and expensed at that time.

Impairment of billing receivables

For billing receivables, the impairment provision is calculated on the basis of the collectability ratio in previous periods, including revenue from sale of billing receivables. The collectability ratio used for calculation as at December 31, 2016 is higher than in comparative periods.

Significant judgments and estimates relating to application of IFRS 15

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

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

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, 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. The consideration (transaction price) is allocated between separate goods and services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices for mobile devices are determined based on the standard list prices at which the Group sells them separately (without a service contract). Stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services.

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.

<u>Significant financing component</u>

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.

<u>Material right considerations</u>

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.

<u>Agent vs. principal considerations in relation to cooperation with dealers</u>

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

a) the Group bears primary responsibility for fulfilling the promise to provide the specified good and service – the Group is responsible for delivering airtime services to the end-customer and organizes the process of repairs of the equipment within the guarantee period,
b) prices of services and prices of equipment to customers are determined by the Group and not by the dealer;

c) dealers are remunerated in the form of commissions;
d) credit risk related to consideration for service and in case of instalment sales model also credit risk related to consideration for equipment is borne by the Group.

Significant judgments and estimates relating to application of IFRS 16

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

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 telecommunication towers in case of lease of land on which the tower is located). The same economic useful life is applied to determine the depreciation rate of right-of-use assets.

For lease contracts with option to extend the lease on the same commercial terms:

- for sites – the Group estimates that the option will be exercised only once;
- for other leases – 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.

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

BUSINESS

History

In 2005, Netia S.A. (“Netia”) and Telco Holdings 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 Tollerton contributed approximately 450 retail stores into the Group. During 2007, the “PLAY” brand was launched commercially. Shortly afterwards, Netia divested its stake in Play to Telco Holdings and Tollerton.

In 2008, we won a technology neutral 900 MHz frequency tender. In late 2008 and early 2009, Tollerton made a combined capital injection of € 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 over 10 million subscribers. In December 2013, we amended our national roaming agreement with T-Mobile, which extended its duration. In November 2013 we have launched 4G LTE service for our subscribers, and due to intensive roll-out we have extended our 4G LTE coverage to 92.1% of population in Poland as of December 31, 2016. In fourth quarter 2015, the Group acquired frequency reservations in the 800 MHz and 2600 MHz spectra for the total price of PLN 1,718.4 million and in first quarter of 2016 we have launched 4G LTE Ultra. In the third quarter of 2014 we have for the first time exceeded 20% market share of mobile subscriptions in Poland, to achieve a market share of 26.3% as at year end December 2016.

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 subscribers (collectively our “retail” operations) under our umbrella brand, “PLAY.” We also generate revenue from interconnection fees from other telecommunication operators where their voice and messaging traffic terminates on our network.

Our usage revenue, interconnection revenue and sales of goods represented 56%, 17% and 27%, respectively, of our total operating revenue for 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 and data) 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.

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 direct channels.

Within our retail subscriber base, we provided mobile services to approximately 8.4 million contract subscribers (58.0% of our total reported subscribers), and to 6.0 million prepaid subscribers (42.0% of our total reported subscribers), as of December 31, 2016.

Contract subscribers contributed 78% of usage revenue for the year ended December 31, 2016.

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 within the Play network ("on-net calls"), while our best-selling tariff plan includes unlimited calls to all mobile networks in Poland. We increasingly focus on sales of services such as messaging, data transmission and international roaming 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 and generally 15 months without a handset.

Individual postpaid contract tariff plans

We offer three types of contract tariffs for individual subscribers, pairs and families: FORMUŁA SOLO, FORMUŁA DUET, FORMUŁA RODZINA. All of our tariffs include unlimited calls to every network in Poland, FIX and mobile. Additionally there are unlimited SMS to other Play subscribers.

Each tariff has three options available for customer, depending on how much "unlimited" is actually needed – S, M or L. "S" includes mentioned unlimited calls to every network, SMS to Play and data package. "M" adds unlimited SMS to all mobile network and, of course, bigger data package. "L" is dedicated to our most demanding customers. It adds unlimited data package and 30 days of unlimited calls, texts and 500 MB in EU.

In June 2016, we started with new tariff for pairs called FORMUŁA DUET. Despite the popularity of our family offer, FORMUŁA DUET is intended to fill the gap between individual plans (SOLO) and family ones (RODZINA). Now, in January 2017, DUET has the biggest share in gross additions – 40%, comparing to 35% of FORMUŁA RODZINA and 25% of FORMUŁA SOLO.

In every tariff plan, subscribers can listen to unlimited music whenever they like, thanks to our partnership with Tidal. Also, since August 2016, we have introduced PLAY NOW – a mobile TV offer for Play customers included in subscription price. PLAY NOW allows them to watch movies and TV programs on their smartphones, tablets and laptops. There is no data package consumption and no extra cost of additional transfer. PLAY NOW also allows subscribers to play from the beginning any TV series they have missed up to one week after broadcast and watch movie hits from our VOD library once every two weeks.

All subscribers of FORMUŁA DUET and FORMUŁA RODZINA get as a gift extra SIM with home internet. There are unlimited GB for 3 months and after that each subscriber decide if they want to use it or not after all.

A summary of our current postpaid contract tariff plans is presented below. Each tariff plan is subject to change at any time as we update our offerings to remain competitive and attractive to subscribers.

<table>
<tr><th colspan="5"></th><th>FORMUŁA SOLO
(one SIM offer)</th><th>FORMUŁA DUET
(two SIMs offer)</th><th>FORMUŁA RODZINA
(three SIMs and more offer)</th></tr>
<tr><td>S</td><td rowspan="3">unlimited calls mobile & FIX</td><td></td><td rowspan="2"></td><td>PLAY NOW MINI</td><td>30 PLN
2 GB</td><td>45 PLN
5 GB</td><td>55 PLN
10 GB</td></tr>
<tr><td>M</td><td rowspan="2">unlimited SMS & MMS</td><td rowspan="3">PLAY NOW STANDARD</td><td>45 PLN
5 GB</td><td>75 PLN
15 GB</td><td>95 PLN
30 GB</td></tr>
<tr><td rowspan="2">L</td><td>unlimited Data</td><td rowspan="2">55 PLN
unlimited GB</td><td rowspan="2">95 PLN
unlimited GB</td><td rowspan="2">125 PLN
unlimited GB</td></tr>
<tr><td colspan="3">30 DAYS OF UNLIMITED ROAMING IN UE</td></tr>
<tr><td colspan="5">extra SIM with home internet
unlimited GB for 3 months</td><td>-</td><td colspan="2">as a gift</td></tr>
</table>

MIX tariff plans (launched on: 24.11.2016)

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 of PLN 20, 30, 40 or 50 depending on the option chosen. The tariff of PLN 20 offers features phones range only. The minimum monthly top-up value remains the same during the course of a 24 months contract. Flexible FORMULA MIX offers a better smartphone range at 1 PLN due to its unique top-up mechanism. The first twelve top-ups required are PLN 30, 40, 50 depending on the option chosen, while the remaining twelve top-ups are doubled, i.e., at PLN 60, 80 and 100 accordingly. 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.

Offer	**FORMULA MIX**			
		FLEXIBLE FORMULA MIX		
value of 1-12 top-ups	**PLN 20**	**PLN 30**	**PLN 40**	**PLN 50**
value of 13-23 top-ups		**PLN 60**	**PLN 80**	**PLN 100**
monthly package price	PLN 20	PLN 30	PLN 40	PLN 50
bonus	PLN 100 and 10 GB / for 1st month			
monthly package content				
on-net calls	UNL	UNL	UNL	UNL
off-net calls	100 mins	200 mins	300 mins	400 mins
SMS/MMS	100 SMS	UNL	UNL	UNL
Data allowance	100 MB	2 GB	4 GB	6 GB
standard rates aside monthly package				
off-net calls (per minute)	PLN 0.29			
SMS/MMS (per message)	PLN 0.19			
Activation fee	PLN 20			

Prepaid offers

Our prepaid offerings include five 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. There are no monthly subscription fees or obligations to top-up in a prepaid offer. All prepaid tariff plans provide that subscriber 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 (except in limited circumstances, such as one of our offers for children) 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 five prepaid tariff plans, each of which is targeted at different types of subscribers.

- FORMULA Play na Kartę—including unlimited on net voice, all-net SMS and data packages for a fixed monthly fee.
- Play na Kartę—including unlimited on-net voice and SMS to appeal to cost-conscious subscribers.
- Play na Kartę Like it!—including large internet packages after top-up to particularly to young smartphone users.
- FORMULA Mini Max na kartę—featuring all-net voice calls spending capped at PLN 29 and SMS spending capped at PLN 9, as well as free unlimited calls and SMS on-net, to appeal to high volume users who do not wish to commit to a full contract tariff plan.
- Play na Kartę 1 year-account validity—which maintains the validity of a top-up for one year after top-up to appeal to people who want to keep their account active at minimum cost.

A summary of our current prepaid tariff plans is presented below. Each tariff plan is subject to change at any time as we update our offerings to remain competitive and attractive to subscribers.

	FORMULA Play na kartę							
Services	**FORMULA SMS**	**FORMULA 3 in 1**	**FORMULA 4 in 1**	**FORMULA UNLIMITED**	**Play na Kartę**	**Play na Kartę Like it!**	**FORMLUA Mini Max na Kartę**	**Play na Kartę 1 year-account validity**
		(All prices include VAT)						
Monthly Fee	PLN 7.00	PLN 14.00	PLN 21.00	PLN 25.00				
On-net calls (per minute)	PLN 0.29	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.29	PLN 0.00	PLN 0.29
On-net SMS (per message)	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.09	PLN 0.00	PLN 0.09
Off-net calls (per minute)	PLN 0.29	PLN 0.29	PLN 0.09	PLN 0.00	PLN 0.29	PLN 0.29	PLN 0.29, spending capped at PLN 29 per month regardless of usage	PLN 0.29
Off-net SMS (per message)	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.00	PLN 0.09	PLN 0.09	PLN 0.09, spending capped at PLN 9 per month regardless of usage	PLN 0.09
Data (per 100kB)	PLN 0.02, spending capped at PLN 5 per month regardless of usage (subject to regulators)	100 MB then PLN 0.02, spending capped at PLN 5 per month regardless of usage (subject to regulators)	1 GB then PLN 0.02, spending capped at PLN 5 per month regardless of usage (subject to regulators)	6 GB then PLN 0.02, spending capped at PLN 5 per month regardless of usage (subject to regulators)	PLN 0.12	PLN 0.00	PLN 0.02, spending capped at PLN 5 per month regardless of usage (subject to regulators)	PLN 0.12

Top-ups	Time available to use credit		
PLN 5 - 9	50 days	5 days	365 days
PLN 10 - 24	50 days	10 days	365 days
PLN 25 - 49	50 days	30 days	365 days
PLN 50 - 99	50 days	100 days	365 days
PLN 100 - 300	150 days	150 days	365 days

Each of our prepaid clients on the above offerings can activate additional data on device bundles, both as one-time packages and cyclical packages recurring every month. We have three bundles available: 600 MB for 5 PLN, 2 GB for 9 PLN and 6 GB for 20 PLN.

From the 25th of July 2016 new regulations are effective - Mandatory SIM card registration

CRITICAL DATE

- New customers - from the 25th of July client cannot make FC without giving data
- Current base - must be registered till 1st of February 2017 (after this date we must block in and out connections)
- In 2016 we have registered about 76% of our prepaid clients base

We have prepared several registration channels like:

- simplified registration procedure available in Play POS
- registration via Play24/CC/SMS - channel available only for existing Play customers (postpaid/mix/registered prepaid)
- sales networks with possibility of registration, e.g. RUCH/Inmedio/Poczta Polska etc.
- registered prepaid giveaways to new and retained postpaid customers

OFFER CONSTRUCTION (Play na Kartę & RedBull Mobile)	
Guaranteed for everyone	100PLN on VP + 10GB for 30 days for free + one year account validity
Only for loyal customers > 2/3/4/5 years with Play	200/300/400/500 PLN on VP + 10GB for 30 days for free + one year account validity

To Retaining the active base of prepaid customers and bringing new customers from competition we have launched registration promo:

- Activation via USSD code
- Promotion available till cut-off date
- Promo for Data Prepaid – 100GB and one year account validity for everyone (without USSD code)

MNP OFFER

- 200 PLN on VP + 20 GB for 60 days for free + one year account validity
- Promotion available until further notice
- Guaranteed for everyone who completes the MNP process

Mobile broadband

In order to provide more competitive offer, in March 2016 we have introduced new set of data tariff plans with bigger data bundles and simpler choice for the customer. Price varies whether customer prefers to choose 50 GB or unlimited GB tariff and if he wants mobile or home Wi-Fi solution. All customers who choose 50 GB tariff plans get 6 months of Unlimited GB for free.

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

We have also introduced a new internet solution to the market: Elastic Internet. It is a new uncarrier postpaid offer dedicated to customers who seek inexpensive, elastic internet solution. Basic offer concept is that if the customer does not use data, he doesn't pay. When he starts using it – he starts to pay. Every 10 GB is 10 PLN added to the invoice. There is also an option with a Wi-Fi router for extra 15 PLN monthly and 24-months contract.

Therefore we offer our contract mobile broadband services as either:

- "Mobile Internet" offers which 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" offers which 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" offers which are aimed at subscribers seeking to purchase a subsidized tablet, notebook or laptop along with a mobile broadband tariff plan,
- "SIM only" offers without any subsidized device,
- "Elastic Internet" offer for customers who use internet from time to time and do not want to sign long-term contract.

Mobile broadband contract tariff plans

A summary of our mobile broadband tariff plans is presented below. All prices include VAT. Each tariff plan is subject to change at any time as we update our offerings to remain competitive and attractive to subscribers.

Terminal Offer	**39,99 PLN**	**49,99 PLN**	**59,99 PLN**	**69,99 PLN**	**89,99 PLN**
24 months contract	**50 GB**			**Unlimited GB (FUP 100 GB, then 1 Mb/s)**	
	with dongle for 1 PLN	with Wi-Fi router for 1 PLN	with home router for 1 PLN	with 4G LTE ULTRA Wi-Fi router for 1 PLN	with 4G LTE ULTRA home router for 1 PLN
	Unlimited GB for 6 months (FUP 100 GB, then 1 Mb/s)				
	speed up to 262 Mb/s				

SIM Only Offer	**29,99 PLN**	**49,99 PLN**
24 months contract	**30 GB**	**Unlimited GB (FUP 100 GB, then 1 Mb/s)**
	Unlimited GB for 6 months (FUP 100 GB, then 1 Mb/s)	
	speed up to 262 Mb/s	

Tablet & Laptop offer

The "Tablet & Laptop" offer has a constant price for data transfer, while the total monthly fee commitment is dependent on the class of device selected by the customer. Tablet & Laptop offer have a zero up-front fee for most devices.

Offer with Tablets and Laptops	39,99 PLN + installments
24 or 36 months offer	**50 GB**
	Unlimited GB for 6 months (FUP 100 GB, then 1 Mb/s)
	speed up to 262 Mb/s

Elastic Internet	Uncarrier: 0 PLN if there is no traffic Offer with wi-fi router: 15 PLN / month
Uncarrier or 24 month contract	**every 10 GB / 10 PLN**
	speed up to 262 Mb/s

4G LTE Ultra - New LTE frequencies and network rollout

In the LTE frequencies auction we have acquired new frequencies. We introduced new LTE Advanced network: 4G LTE ULTRA where thanks to the frequencies aggregation we have improved the network's performance, extended coverage and increased maximum data transfer speed. Within 1 year we managed to extend the LTE coverage from 78% to 92% and build the LTE ULTRA coverage to 78.8% of the population.

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.

Prepaid Mobile internet offer

- Play Internet na Kartę 9 zł—including 3GB for start
- Play Internet na Kartę 19 zł—including 30GB for start and 5 zl for calls, SMS or mobile internet
- Play Internet na Kartę 50 zł—which maintains the validity of an account for one year and 2 GB monthly for one year.

Top up value	Current data packages in summer promo	Account validity
5 zł	500 MB	5 days
10 zł..	3 GB	7 days
20 zł..	6 GB	14 days
30 zł..	9 GB	30 days
50 zł..	15 GB	60 days
75 zł..	30 GB	90 days
100 zł......................................	50 GB	120 days

Registration promo: 100 GB for 30 days and one year account validity for everyone.

Business subscribers

We offer various business contract solutions to SoHo and SME. 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 clear and simple. We provided our services to approximately 2.7 million business subscribers as of September 30, 2016, and the number of our business subscribers has been growing steadily since 2008 when we launched our offerings to business subscribers. The number of our business subscribers increased by 17% in the twelve months ended September 30, 2016.

As of March 30, 2016, we were present with our offerings for business subscribers in one in three companies in Poland. According to Millward Brown, as of March 2016, at least one Play SIM activation was used by 34% of companies with registered business SIMs.

Business contract tariff plans

We offer one type of standardized tariff plans Formuła Biznes Box launched as of June 16, 2016, all with unlimited voice, fixed, text and data and available in 3 options – single SIM, 2 SIMs and 3+ SIMs with one monthly fee. Formuła Biznes Box also offers bundling with other business services like office internet, fixed voice and digital presence pack (private domain, email, website) that all can be purchased at reduced prices only in the process of new contract acquisition or existing contract prolongation. All tariff plans are standard SIM-only tariff for 24 months and customer can choose subsidized handset with 24-month contract duration to each and every SIM 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.

A summary of our current core standalone business contract tariff plans is presented below. Each tariff plan is subject to change at any time as we update our offerings to remain competitive and attractive to subscribers.

FORMUŁA BIZNES BOX details

(prices excluded VAT)

	1 SIM	**2 SIMs**	**3 + SIMs**
Monthly fee SIM only	PLN 29.99	PLN 49.99	PLN 79.99
Monthly fee handset	From + PLN 10 each handset		
On-net calls	unlimited		
Fixed calls	unlimited		
Off-net calls	unlimited		
SMS/MMS	unlimited		
Data	unlimited *(FUP 10GB, then 1 Mb/s)*		
VIP package *(unlimited: international UE calls, in/out roaming UE calls, SMS/MMS in UE; 500 MB in UE; smartphone)*	From + PLN 90		
Activation fee	PLN 24.99		
Offers available only with the same process of new contract acquisition or existing contract prolongation:			
Unlimited office internet *(FUP 100 MB, then 1 Mb/s)*	0 PLN for 6 months		
	PLN 19.99	PLN 9.99	PL 4.99
Digital presence *(private domain, email, website)*	0 PLN for 6 months		
	PLN 9,99		
FIXED number *(unlimited call to all mobile and fixed networks)*	0 PLN for 6 months		
	PLN 14.99	PLN 9.99	PLN 4.99

"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 new full unlimited offer with the best price on the market targeted mainly to 50+ old people.

The summary of current Formula Stacjonarna tariff plans are presented below:

24 months contract	**Formula Stacjonarna Play**	**Formula Stacjonarna**
SIM and Handset offer	PLN 19.99	PLN 25.98
SIM Only Offer	PLN 9.99	PLN 19.99
Dedicated Play customers offer		
SIM and Handset offer	PLN 11.00	n/a
SIM Only Offer	PLN 1.00	n/a
On-net calls (including Play Stacjonarny numbers)	Unlimited	Unlimited
Fixed calls	PLN 0.29	Unlimited
Off net calls	PLN 0.29	Unlimited
Activation fee	PLN 19.99	

New offerings and innovations

While we are focused on our core offerings and our efforts to grow and improve the quality of our subscriber base, we also develop new offerings in order to improve the service we can offer our subscribers. For instance, we have recently developed the 1 Bill system described below. Further, we were the first operator to introduce full network coverage throughout the Warsaw underground. The core of our offers is the "unlimited" concept for unlimited on-network traffic and both prepaid and contract subscribers are able to benefit from unlimited calls within our own network. We aim to extend this concept to calls to all networks and into all of our tariff plans.

On April 1, 2014, we introduced a new contract tariff concept of shared tariff plans for families based on unlimited calls to all networks. This is targeted at families and companies with three or more service users. These plans offer one monthly fee for unlimited voice and text with shared data on a 4G LTE network that can be used by all tariff users. These tariff plans offer flexible solutions to increase groups up to eight SIM cards (29 SIM cards for business users) and allow the use of family plan shared data as a home/small office internet solution. In 2016, we supplemented our multi-user offering with "Formula Duet", an exclusive two-SIM offer, which is intended to fill the gap between individual plans and family plans.

In November 2015, we launched a partnership with Tidal to offer unlimited music consumption on smartphones, tablets and computers. As of the date of this Report, this offer has attracted over 800,000 customers since its launch and has very positive feedback. We intend this offering to support our "value-for-money" brand position and increase customer loyalty. Tidal is free of charge for the first two years and we plan to generate revenue from the Tidal user base from 2017 onwards.

In August 2016 we launched PLAY NOW – online video service offering access to live channels, catch up content and additional functionalities on smartphones, tablets, PCs and via Google Chrome cast on TV screen. Entry tier of channels is included in the subscription fee for new and retaining Play customers. Additional tiers are available for extra fee.

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 320 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 and Apple. 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.

Value added services

We provide our subscribers with a variety of basic 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, which is sold widely in Play POS with handset contracts. Since then we reached a base of 213k customers. As phone screen display breakage is rather common and due to low price (5 PLN per month) product is willingly chosen by our postpaid subscribers.

As mentioned earlier TIDAL Music Streaming Service was one of the major focus for Value Added Services in 2016. With over 1.3 million PLAY customers were activated in the promotion.

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);
- "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; and
- Insurance services of the leading insurance companies – such as mobile device insurance, life insurance, health insurance and others.

International Roaming (Roaming Out)

Within our retail business we provide international roaming out services to our subscribers which allow them to use telecommunication 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.

Services to Other Telecommunications Operators

We provide national and international roaming and other telecommunications services to telecommunications operators, such as services to MVNOs.

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. However, 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 telecommunication 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 EU and the European Economic Area countries. EU Regulation 2015/2120 eliminates all roaming charges within the EU as of June 15, 2017. Until such date, EU Regulation 2015/2120 sets 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. In relation to wholesale prices for roaming mobile services, the European Commission has adopted a proposal to implement maximum wholesale roaming charges which will ultimately lead to the abolition of roaming charges for consumers from June 1, 2017.

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 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 pre-paid 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 post-paid model.

Our broad scope of services allows us to efficiently cooperate with 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) to full range of network, IT and billing services for parties that are not capable of maintaining such operation on their part and would like to focus only on marketing activities and sales.

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 our potential subscribers are exposed to, 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 telecommunications 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.

Sales and Distribution

Distribution channels

We believe we have an effective and efficient distribution network comprising of our own- 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 subscriber advisors (a dedicated team of business advisers who can meet directly with customers in order to create a more personalized service), our website and telesales. For the year ended December 31, 2016, approximately 75% of our new contract additions were generated by stores, with approximately 26.3% generated by our specialist business subscriber team, telesales and our website.

We also provide SIM-recharging services indirectly through approximately 60,000 prepaid outlets for our prepaid subscribers.

Stores

We market our offerings and services primarily through our award-winning nationwide distribution network of approximately 858 dedicated "PLAY" branded stores situated in prime locations across Poland. 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 population in excess of 20,000. We measure the performance of all of our stores continually, 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.

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 subscribers 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 cost-efficiently across our store network as the materials and processes required are similar in each location.

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. The employees in both our own- 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 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 valuable and/or cost effective to us from a business perspective. We operate 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 first right of 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 the approximately 858 stores, we own approximately 208. The remaining stores are franchised- or dealer-operated stores. We pay commission for each sale by our franchisees and dealer-operated stores which is related to the value of the sale.

Our stores are conducted under two types of agreements with dealers: (i) sub-dealer agreements and (ii) 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 as a specific percentage of revenues for services provided by the dealer to our subscribers. 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 subscribers. While not currently a core sales channel, we believe our website will increase in importance in the future as subscribers 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 subscribers.

We also generate sales through our telesales department, located in our call centers, which is frequently used to renew the contracts of existing subscribers.

Distribution to business subscribers

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

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. The customer service in PLAY covers the entire customer Lifecycle. 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 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. It allows us to split and distribute incoming calls and e-mails among those call centers seamlessly; thereby our customers' vision is that customer service in PLAY is delivered from one site using standardized and unified processes. Moreover, by spreading our customer service operations over ten sites, we are able to provide uninterrupted service even if another site is not operational.

Our call center operations stand on a highest level of effectiveness despite their massive scale: in 2016 we served over 8 million contacts, while average speed of answer for calls was at the level of less than 12 seconds, 81% of incoming calls were answered during the first 20 seconds and 88% of customers' requests were handled during the first contact.

We provide customers service using multichannel approach. Customers may contact us via call center, 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), e-mails through our website www.play.pl[1]. We also provide customer service online on PLAY's Facebook page, Twitter profile or through our corporate blog and forum.

According to Smartscope survey, which was conducted in January 2017 and tested customers' satisfaction with quality of telephone customer service, we received the highest evaluation among all leading MNOs in Poland in a variety of service attributes including overall evaluation, customer effort, call center speed of answer.

48% of respondents indicated that PLAY has the best customer service among all leading operators in Poland (Orange – 40%, T-Mobile – 28%, Plus – 37%). However, yearly evaluations prepared by external research agency are not sufficient for us and we also review our service and adapt accordingly based on constant feedback gathered directly from our customers. For instance, we send a SMS message asking customer about overall satisfaction with call center after they call our call center and ask them to review their experience. In 2016 we got the score of 5.56 on a scale from 2 to 6, where 6 is the best evaluation.

Our customers appreciate our efforts and constant development and we have received numerous consumer awards for

[1] This is not a hyperlink and no part of this website is incorporated by reference into this Report.

customer service quality, e.g. Service Quality Star 2016.

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 subscribers we emphasize the importance of high quality customer experience in training for both our own employees and those within our dealer-operated stores. Our success in this respect is demonstrated by our recent assessment by smartscope as having the highest net promoter score (a ratio measuring the willingness of subscribers to recommend their current provider) of the four Polish mobile operators as of the fourth quarter of 2015. Our efforts are not limited to assisting subscribers who contact our stores or call centers. We strive to provide high quality customer care through the entire "life cycle" of a subscriber relationship, starting from activating the subscriber on our network through to resolving their complaints, collecting payments, handling fraud prevention processes and various other subscriber retention activities.

In order to further reduce churn, we have established dedicated teams within our call centers who focus on subscribers with a high propensity to churn. We also cooperate with three external partners mainly in the area of active subscriber retention process. Going forward, we plan to focus on the increased efficiency of our remote channels for the retention and migration of our subscriber base.

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

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, as well as specific subscribers' demographic factors and usage profile.

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 (postpaid, 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 or cash deposits from our dealers.

In addition, we have implemented internal policies and procedures that define the system of credit management (scoring model) 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 history and the value of delivered collateral.

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 June 23, 2016) that expires on June 23, 2031;
- 900 MHz for 2 × 5 MHz (decision issued on December 9, 2008) - that expires on December 31, 2023;
- 1800 MHz for 2 × 15 MHz (decision issued on June 14, 2013) - that expires on December 31, 2027;
- 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; and
- 2600 MHz for 8 x 5 MHz (decision issued on January 25, 2016) that expires on January 25, 2031.

We may apply for the renewal of any of these frequency reservations, six to twelve months before the expiry of the present reservation. All our frequency reservations are technology neutral, *i.e.*, their use with respect to new technologies (so called "refarming") shall not require the payment of any additional reservation fees. Also spectrum allocated by these frequency reservations is contiguous which makes this spectrum suitable for refarming. We also have the benefit of numerous radio reservations in the 32 GHz band for radio equipment forming part of our backhaul network.

Network and Infrastructure

We have a well invested integrated 2G/3G/4G LTE network through which we offer our mobile voice, messaging and data services. Since June 2012, our entire network has been based on an all-IP architecture. We provide details on our network below.

We believe that through the use and management of our network, we will be able to support the growth in our subscriber base and their data usage. In recent years, we have made substantial investments, which have resulted in the build-out of our 3G and 4G LTE mobile networks. Our aggregate network capital expenditure (expenditure on radio network, core network and network operations center and also including our spectrum frequency payments) for the period from January 1, 2012 to December 31, 2015 was PLN 2,169 million, with the majority of these expenditures concentrated on improving and maintaining our mobile network and gaining new frequency reservation.

Coverage and capacity

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 own 2G network covers 86.3% of the Polish population while we estimate that our 3G network covers 90.5% of the Polish population. In 2013, we acquired 2 × 15 MHz of spectrum in the 1800 MHz band to enable us to provide higher speed data services to our subscribers. Our 4G LTE network launched in November 2013 as the second in the country. 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, 2016 is approximately 92.1% (while 4G LTE Ultra population coverage reached 78.8%).

The acquisition of the 1800 MHz spectrum gives us an opportunity to move 2G traffic from the 900 MHz layer to part (5MHz) of the 1800 MHz layer and shift 900 MHz usage to UMTS 900, and enlarge the coverage of our 3G network. This is the reason we cover more of the population with 3G services than 2G services. By December 31, 2014 approximately 90% of our own 900Mhz network had been refarmed to UMTS900.

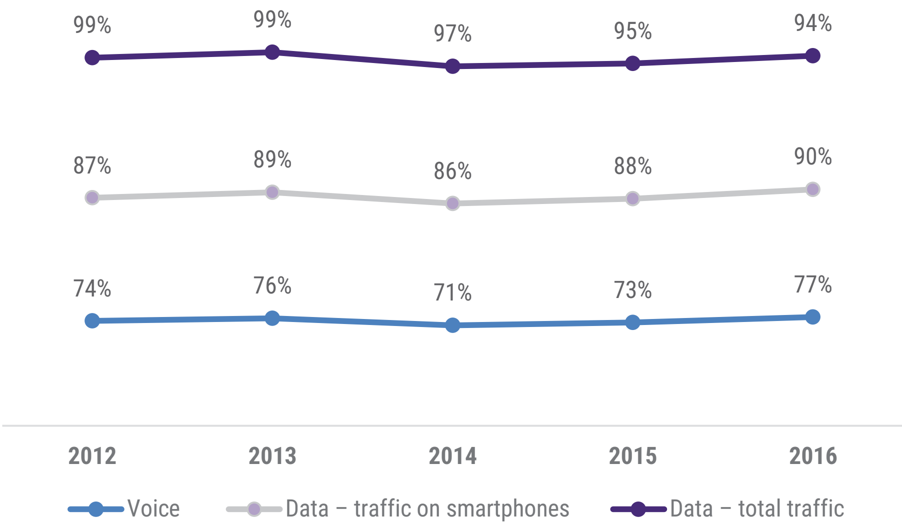
In addition to our own network, we have national roaming agreements with each of the other three major MNOs in Poland: Plus, Orange and T-Mobile. These agreements provide our subscribers with network access in primarily rural areas where the deployment by us of new network sites is not financially viable at present 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 the agreement with T-Mobile. Combined with the extensive coverage of our own network, these agreements give our subscribers the most extensive overall network coverage in Poland, covering 99% of the Polish population with coverage.

Population and Area Network Coverage Estimations Through Own Network by Technology as of December 31, 2016:

Coverage/Technology	**2G**	**3G**	**4G LTE**	**4G LTE Ultra**
Population	86.3%	90.5%	92.1%	78.8%
Area	60.8%	68.2%	72.4%	41.8%

We service the vast majority of traffic generated by our subscribers on our own network, and particularly so for data traffic. For the year ended December 31, 2016, we served 94% of the total data traffic (including smartphones and mobile broadband) from our subscribers on our own network.

Share of traffic on own network



Physical footprint

Our physical footprint made up of base stations in our network as of December 31, 2015 and December 31, 2016 is set forth below. Individual physical sites may carry more than one technology:

	December 31, 2015		**December 31, 2016**	
	Number of sites	**Break-down**	**Number of sites**	**Break-down**
Total number of physical sites	**4,798**	**100.0%**	5,137	**100.0%**
of which carrying 2G	4,731	98.6%	5,038	98.07%
of which carrying 3G	4,791	99.9%	5,089	99.07%
of which carrying 4G LTE	4,714	98.2%	5,037	98.05%

We had installed 4G LTE technology on 4,714 of these sites (or standalone sites) as of December 31, 2015, which had increased to 5,037 as of December 31, 2016.

We are providing services with recently won frequencies reservations 800 MHz and 2600 MHz using 3,114 and 1,685 sites respectively.

Core, backbone and backhaul network

Our Core network is based on "all IP connections" and is located on three servers at separate locations to provide back up in case of malfunction at one location.

We possess a full backbone and backhaul transmission network in IP technology, providing a single IP solution to all base stations for all traffic (voice and data). The radio access network is supported by an appropriate transmission network, including a backhaul network (mainly built using IP microwave links, but also fibre optic) and a backbone (mainly fibre optic based on leased n*10 Gbps connections). Our own backhaul and microwave network is composed of approximately 3.8 thousand hybrid and full IP microwaves (supplied by Huawei and NEC) and over 300 IP Routers (supplied by Huawei).

We believe the Polish transmission services market is competitive with multiple suppliers who engage in developing fibre optic cables to telecommunication sites both in urban and rural areas.

We currently cooperate with number of credible transmission services and dark fibre optics suppliers across the country, with a significant number of providers in each of our four regions: Gdańsk, Poznań, Warsaw and Katowice.

Currently, all Polish mobile operators use transmission networks that allow them to provide high capacity lines, particularly in rural areas. Fixed-line operators are developing the network and are then able to recoup their investment costs by selling access to multiple mobile operators, including us, which has substantial influence on prices offered. This allows us to acquire new leased lines at competitive prices and under favorable lease conditions.

As a result of this favorable competitive environment, we believe we are able to further decrease our spending on transmission services while at the same time providing significantly more capacity. We believe that the number and capacity of leased lines, in connection with the current set of radio frequencies, will be sufficient to serve all of our data traffic.

Network build-out efficiency

Since our network footprint was primarily developed to use 3G technology over 2100 MHz, adding 4G transmitters (given the enhanced propagation characteristics of the 1800 MHz frequency, 800 MHz frequency and 2600 MHz frequency) to our existing sites provides our subscribers ample coverage both indoor and outdoor.

We manage our network build with in-house resources. Our in-house network build-out department is responsible for radio and transmission planning, designing and building as well as installing our entire radio network with deployment being organized in four regions, namely Warszawa, Katowice, Poznań and Gdańsk. The deployment process is performed through a combination of our own and subcontracted staff to allow full control of the entire process.

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). Subcontractors install the standardized elements and are not responsible for sourcing the materials. This results in savings on mark-up on the cost of materials and allows the subcontractors to focus on installation as opposed to logistics. The limited working capital needs for subcontractors in this framework allows us to use a larger number of small to medium size contractors, further reducing costs.

Network maintenance

We continually upgrade and modernize our network in order to provide technologically advanced services to our subscribers 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 Operation Center and maintained by both this central center, as well as by several remote maintenance centers. The traffic distribution and various network and service parameters are constantly measured and analyzed, providing input to an optimization process covering all the components of the network, including the access network, transport network, VAS platforms, the core network and all interconnection points.

We operate internally monitoring platforms for alarms, performance measurements and end-2-end active testing. We continually develop our monitoring platform to provide the most relevant and efficient solutions for proactive and automatic monitoring of services availability and performance.

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.

Information Technology

IT systems are critical to our operations. We have a modern, flexible and simple IT architecture. 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 centers support;
- data warehousing and business analysis;
- controlling, finance; accounting and revenue assurance; and
- human resources.

For example, we have a standardized and convergent billing system that has the capability to generate real-time voice and data rating and billing for both contract and prepaid subscribers. The billing system also provides access to detailed subscriber information that covers subscribers, offerings and promotional management, which enables us to better monitor our operational and financial performance.

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.

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.

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. We have chosen leading vendors for certain mission-critical aspects such as billing (Comverse), intelligence and analytical platforms (Pivotal, SAS), infrastructure (IBM, EMC, Symantec and Cisco), Enterprise Resource Planning (SAP) and databases (Oracle).

We have implemented cost-efficient IT principles together with IT governance practices and continuously improve our IT organization and management effectiveness. We strive to keep IT spending at a very competitive level in comparison with benchmark indicators provided by research companies.

Certain Contracts Material to the Operations of Our Business

The following is a summary of certain contracts material to the operation of our business.

National roaming agreements

We have 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. Under these agreements we are provided with network services, allowing us to offer mobile telecommunication 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.

Our national roaming agreements are long-term, securing provision of services to us at least until 2017-2022, depending on the agreement concerned, with attractive commercial terms through a combination of contracts until 2020. We believe each of our national roaming partners is incentivized to retain national roaming revenues from us, as revenues from our national roaming fees represent high conversion to cash-flow for them, given the services are provided on their already existing network.

International roaming agreements

As of December 31, 2016, we have entered into approximately 525 roaming agreements with international mobile network operators pursuant to which we offer voice, text and data services in approximately 190 countries. 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.

Interconnection agreements

We have entered into a number of interconnection agreements with Polish telecommunications operators including, among others, Plus, Orange, T- Mobile, Exatel, Netia 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 reservationd software, as well as its further development, with, among others, Huawei and Comverse. 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.

Research and Development

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 mobile telephony technology to subscribers, we test new equipment and systems 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.

Legal proceedings

We are subject to various legal proceedings arising in the ordinary course of business.

Below is a description of those pending court and administrative proceedings which we deem to be material. 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.

We are involved in various proceedings, initiated among others by the UKE or the UOKiK. As of December 31, 2016, we recognized provisions for known and quantifiable risks related to these proceedings in our financial statements, which represent our best estimate of the amounts that are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date.

Proceedings before the UKE President related to the tender for the 1800 MHz frequency

In April 2013, Sferia, Plus and Polska Izba Radiodyfuzji Cyfrowej (a non-governmental organization representing the interests of its member, Emitel) applied to the UKE President for the annulment of the tender for the 1800 MHz frequency in its entirety, claiming the violation of principles of open, transparent, non-discriminatory and proportionate procedures aimed at allocating frequencies and incorrect assessment of bids during the first stage of the tender that led to the rejection of Sferia's and Emitel's bids.. In addition, Sferia, Plus and Polska Izba Radiodyfuzji Cyfrowej have also applied for a ruling by the UKE President to the effect that there was an incorrect assessment of the bids during the first stage of the tender, which led to, among other things, the rejection of Sferia's and Emitel's bids in the same tender. In arguing these claims, the respective parties emphasized that the specific requirements to be met by the offerees in the tender as well as the criteria under which the offers were evaluated eliminated certain groups of participants and favored others. The parties also raised procedural claims, including claims that the UKE President failed to observe the procedure of initiation of the tender.

The motions to invalidate the tender initiated administrative proceedings before the UKE President. In May 2013, acting as a party to the proceedings, we filed our response to the claims raised by Sferia, Plus and Polska Izba Radiodyfuzji Cyfrowej and requested that the UKE President dismiss the applications for annulment. The UKE President in its decision of October 27, 2015 refused to annul the tender. Polkomtel, Polska Izba Radiodyfuzji Cyfrowej ("**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 Polska Izba Radiodyfuzji Cyfrowej and requested that the UKE President dismiss the applications for annulment. The President of UKE in its decision of August 3, 2016, upheld the decision refusing to invalidate the 1800 tender. Polkomtel, PIRC and Sferia already appealed the UKE President's decision at the lower administrative court.

In July 2013, in a separate proceeding, Sferia, Plus and Emitel applied for reconsideration of the three decisions relating to the reservation of the 1800 MHz frequency, which included the granting of a frequency reservation to us. Sferia, Plus and Emitel demanded, among other things, that the three decisions be annulled and the reservation proceedings be suspended until the proceedings relating to the tender described above are finalized. The claimants are of the opinion that, in the course of the process of issuing the decisions relating to the reservation of the 1800 MHz frequency, the UKE President did not observe the administrative procedure rules. As a result of the motions mentioned above, administrative proceedings were initiated before the UKE President. In July 2013, acting as a party to the proceedings, we filed our response to the claims raised by Sferia, Plus and Emitel and requested the UKE President to dismiss the motions for reconsideration of the decisions relating to the reservation of the 1800 MHz frequency. The UKE President in its decisions of October 30, 2015, upheld the three decisions on reservation for us of the frequencies in the 1800 MHz spectrum. The UKE President's decisions were appealed against at the lower administrative court by Plus. In March 2016, acting as a party to the proceedings, we filed our response to the Plus motion to withhold the enforceability of the decisions and requested the court to dismiss the motion. In three of the proceeding the court refused to withhold the enforceability of the decisions. In July 2016, we filed our answers to Polkomtel's appeals against the reservation decisions and requested the court to dismiss the appeals in whole. The Voivodship Administrative Court in judgments of August 25, August 30, 2016 and September 8, 2016 dismissed Polkomtel's complaints against the three decisions. The judgements were appealed against at the Supreme Administrative Court by Polkomtel.

Both of the aforementioned cases are related to the 1800 MHz frequency reservation process, but are two separate proceedings, the former relating to the tender process and the latter relating to the process of issuing the reservation decision.

To date, no entity has lost its frequency reservation as a result of the invalidation of a tender; however, if the tender and/or frequency reservation were to be invalidated, another tender will occur and we will not be barred from participating in any such re-tender. If the UKE President has to repeat the tender and issue a new decision as a result of the court proceedings, this decision also may be challenged. At present, we believe that the outcome of both proceedings will be positive as we are not aware of any violation of administrative procedures.

In addition, see "*Risk Factors—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*".

Proceedings before the UOKiK President and Court of Competition and Consumer Protection Info TV FM Proceeding

On September 21, 2010, the UOKiK President commenced antitrust proceedings concerning, among others, our alleged anticompetitive practices with respect to our refusal to enter into what we believe was an unfavorable agreement with Info TV FM sp. z o.o. ("**Info TV FM**"). The case relates to the tender proceedings for the reservation of 470-790 MHz frequencies. Info TV FM won the aforementioned tender. One of its obligations under the reservation decision relating to such tender was to make wholesale offers regarding DVB-H based services. All of the major mobile service operators, including us, rejected the wholesale offer of Info TV FM. On November 23, 2011, the UOKiK President issued its decision (the "**Decision**") in which it held that we had participated in a concerted anti-competitive practice in the retail market of mobile telephony in Poland together with Plus, Orange and T-Mobile. According to the UOKiK President's decision (which we are appealing as described below), we breached Polish and European competition laws by coordinating with these operators, exchanging information as to the evaluation of Info TV FM's wholesale offer for providing DVB-H mobile television services and agreeing to public questioning of that offer. For this alleged behavior, we were imposed with a fine by the UOKiK, in the amount of PLN 10,706,142.70, which equaled 0.43% of our turnover generated in 2010.

We appealed the Decision to the Court of Competition and Consumer Protection (the "**Competition Court**") on December 8, 2011 (the "**Appeal**") in which we requested that the Competition Court annul the Decision in its entirety or, alternatively, to revise it, either by deleting any reference to us from it or by decreasing the amount of the fine imposed on us.

In the Appeal, we argued, among other things, that we were never party to any anti-competitive arrangement with Plus, Orange and T-Mobile and that the evidence obtained by the UOKiK President did not prove otherwise. In particular, we argued that the fact that we and the other MNOs behaved in the same way (*i.e.*, did not conclude a wholesale agreement with Info TV FM) could only be proof of a cartel if there were no other credible and objectively justified reasons for such conduct.

In September 2013, Magna Polonia S.A. ("**Magna Polonia**") filed an intervention (*i.e.* a request to be admitted to take part in the proceeding as an interested party) in the proceedings before the Competition Court, arguing that the alleged anti-competitive behavior caused damage to Magna Polonia in its capacity as a shareholder of Info-TV-FM. On September 24, 2013, this application to join proceedings was rejected by the court. Magna Polonia subsequently filed an appeal, which was rejected by the Court of Appeal in Warsaw.

Plus, Orange and T-Mobile were also imposed fines by the UOKiK President and filed similar appeals, which were registered with the Competition Court under three separate numbers (we are named as an interested party in all of them). Until the first hearing on February 27, 2015, there had been four separate court proceedings, each concerning the appeal of a particular operator. All four of the operators have been served with the UOKiK President's responses to their appeals, which were addressed in turn by filing additional pleadings. In proceedings before the Competition Court, we submitted five additional pleadings with further argumentation or evidentiary motions.

All four cases were merged into one with four claimants acting against the UOKiK President. The District Court in Warsaw in its judgment of June 19, 2015 repealed UOKiK's decision. In September 2015, the President of UOKiK filed an appeal to the Court of Appeal in Warsaw requesting the court: (i) to repeal the judgement and dismiss the appeals of Play, T-Mobile, Orange and Plus; or, alternatively; (ii) reverse the decision and remand the case for further reconsideration. In October 2015, we filed a response to the appeal of the President of UOKiK to the Court of Appeal in Warsaw, requesting the court to dismiss the appeal. In the event of an unfavorable judgment of the Court of Appeal, under certain conditions, a cassation appeal can be filed with the Supreme Court. Until the dispute with the UOKiK is finally resolved either by the Competition Court or the Court of Appeal, we have no obligation to pay the fine imposed by the Decision.

Separately, in September 2013, Magna also filed a summons for an amicable settlement in the Polish courts, seeking damages of approximately PLN 617 million from the four Polish mobile telecommunications operators, including us, in relation to their allegations regarding anti competitive behavior. We have rejected such amicable settlement and thus such court proceeding is closed. According to the press announcement Magna filed a claim for damages before District Court in Warsaw in November 2016 (it hasn't been delivered to us yet).

Proceedings relating to infringement of consumer interests

The President of UOKiK in its notice of September 2, 2016 informed us of commencement of proceedings concerning infringement of collective consumer interests with respect to a lack of reimbursement of unused amounts from top-ups after the validity period of the consumer's account has lapsed, which may inhibit number portability. Such proceedings were preceded by an explanatory stage which began at the end of 2014.

The President of UOKiK argues that consumer would rather continue to top-up its account than to port-out its mobile number to the competitor (which would result in loss of accumulated amount of top-ups). Until this year, the President of UOKiK not only hadn't questioned current market practice, but also had accepted the *status quo* in its explanations available on the UOKiK's website. These explanations were altered in August 2016.

Analogous proceedings were brought against other mobile operators.

The President of UOKiK may impose a penalty on us and order reimbursement of annulled amounts, which may be high as 10% of our turnover in the financial year preceding the decision. Based on our experience, penalties in the past have ranged from 0.1% – 1.0% % of annual revenue and may be decreased if the decision orders curing effects of infringement (in this case it may be especially reimbursement of annulled amounts).

We expect that a decision with respect to payment of penalties and curing effects of infringement will not be immediately enforceable. A final decision by UOKIK would only become enforceable after two rounds of appeals proceedings have been exhausted, which may take up to two to three years from date of the decision.

Proceedings before the UKE President related to the auction for the 800 MHz and 2600 MHz frequencies

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 MHz and 2600 MHz frequency in its entirety, claiming the violation of procedures applicable to the allocation of frequencies. The motions to annul the auction have 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 response to the motions that have been filed, the UKE President may issue an administrative decision by which it invalidates or refuses to invalidate the auction or decision. Dissatisfied participants may at this point file a motion with the UKE President for reconsideration of the case and after the procedure is exhausted, may also appeal the UKE President's decision at the lower administrative court, and then file a cassation appeal with the Supreme Administrative Court of Poland. If at any point the auction is found to be invalid, the UKE President will be empowered to take measures to remedy the breach of law. Such proceedings could take three to five years.

In February 2016, Polkomtel, T-Mobile and Net Net sp. z o.o. applied to the UKE President for reconsideration of the decisions on the reservation of 800/2600 MHz frequencies. Polkomtel, T-Mobile and Net Net sp. z o.o. demand, inter alia, the cancelation of the decision 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 the reservation of the

800/2600 MHz frequencies and in our case decided about the relocation of the 800 MHz block of frequency. We received the Block C (801-806 MHz and 842-847 MHz) instead of the Block D (806-811 MHz oraz 847-852 MHz). All new decisions on the reservation of 800/2600 MHz frequencies were appealed against at the lower administrative court by Polkomtel and the new decisions on reservation of the 800 MHz with regard to Block C and E were appealed against at the lower administrative court by T-Mobile. The Voivodship Administrative Court in judgments of 30 January 2016 dismissed Polkomtel's and T-Mobile's complaints against the P4's decisions. The judgements may be appealed against at the Supreme Administrative Court.

Discriminatory Pricing Dispute between Play and T-Mobile, Orange and Plus

On June 14, 2015, we brought proceedings against T-Mobile, Orange and Plus claiming damages in the sum of PLN 315.7 million plus statutory late-payment interest of 7% per year. We claimed that, throughout the period July 1, 2009 to March 31, 2012, T-Mobile, Orange and Plus (i) inflated retail rates and margins for their own off-net connections to our network (which they did not do in relation to connections to the networks of the two other respective defendants), (ii) excluded voice connections to our network from the "free minutes" plans offered by each defendant to their respective customers (which each defendant did not do in relation to voice connections of the two other respective defendants' customers), (iii) the actions of the defendants were in breach of the Act on Combating Unfair Competition, (iv) each of the defendants knew or should have known that its actions were harming our commercial interests and (v) we suffered loss as a result of the actions of the defendants.

On December 15, 2015, each of the defendants filed responses to our claim requesting that the matter be dismissed. The first hearing took place on February 15, 2017. The court ordered exchange of legal writs between the parties.

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.

Employees

As of December 31, 2016, the Group employed 2,606 employees on both fixed-term and indefinite contracts, of which approximately 63% were employed in a commercial/sales function and approximately 37% at the headquarters.

We believe that our labor relations with employees are good. In October 2013 we were awarded, together with three other companies in Poland, the "Best Employer" title in the "corporations" category by AON Hewitt. We have set out and implemented personnel management standards which aim to harmonize the understanding of the personnel management rules and comply with the values adopted by us.

In 2015 we received the title of TOP EMPLOYER which we were awarded in 2014.

Trade unions and collective labor agreements

The Group does not have any trade unions and has not entered into any collective labor agreements with its employees.

Remuneration system; additional benefits

We monitor remuneration levels in Poland and respond accordingly in order to attract and retain key personnel.

We are legally required to make contributions to the Polish government's retirement benefit scheme at the applicable rate based on gross salary payments (the "**State Plan**"). The State Plan is funded on a pay-as- you-go basis, *i.e.*, we are only obliged to pay contributions as they fall due based upon a percentage of salary, and if we cease to employ personnel who are entitled to benefit from the State Plan, we will have no obligation to pay any additional benefits. During the years ended

December 31, 2012, 2013, 2014, 2015 and 2016 we paid contributions at a rate of up to 9.76% of gross salaries and we were not required to make any contributions in excess of this statutory rate. We have no other employee retirement plans.

Real Property and Leases

We lease the vast majority of the premises which are required for our business operations. We have a lease agreement for our headquarters in Warsaw 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, telecommunication purposes and other), of approximately 9,316 square meters and around 315 parking spaces. The lease agreement was entered on December 21, 2007 for a specific term and is due to expire on November 14, 2017. Since 2007, the lease has been amended by the Settlement dated May 15, 2008, Annex no. 1 dated May 20, 2008, Annex no. 2 dated July 11, 2012 and Annex no. 3 dated March 1, 2013.

The lease agreement for our headquarters was entered into by us (as the lessee) and, as successor in interest to Horizon Investment sp. z o.o, Marynarska Office sp. z o.o. ("**Marynarska**"). Either party has a right of early termination of the lease agreement, as per the terms of the agreement. For example, we may terminate the lease agreement early upon three-months' notice, in the case of the lessor not maintaining the premises for proper use within certain periods or upon one-month's notice in the event of defects in the premises which could threaten human life or health.

As of December 31, 2016, we also lease approximately circa 5,185 properties or parts of properties (*e.g.*, roof spaces) for base stations and the development of other telecommunication infrastructure (*e.g.*, telecommunication 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, 2016, we lease approximately 376 premises for stores, which are located throughout the country. These lease agreements are typically entered into for a 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. **Intellectual Property**

We use a number of trademarks in our corporate and marketing activities. As of December 31, 2016, we hold trademark protection for 233 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 55 additional trademarks. We also hold protection over 2 industrial designs registered with the European Union Intellectual Property Office.

Based on an agreement for transfer of trademark protection rights and rights under trademark registration applications, dated December 6, 2012 and an agreement for the assignment of copyrights, dated February 11, 2014, the rights to the majority of our trademarks were owned by our former Cypriot subsidiary, Play Brand Management Limited. As the owner of these trademarks, Play Brand Management Limited was responsible for their management, including trademark protection and registration. We entered into a full and non-exclusive license with Play Brand Management Limited, in order to be able to use the trademarks owned by Play Brand Management Limited. On May 26, 2014, all of the intellectual property assets held by Play Brand Management Limited were transferred to Play 3GNS which holds them on substantially the same terms as those upon which Play Brand Management Limited had held them, and the license agreement made with Play Brand Management Limited was terminated. Subsequently, on May 27, 2014, we entered into a full and non-exclusive license agreement with Play 3GNS, in order to be able to use the trademarks owned by Play 3GNS.

We grant reservations to our registered trademarks solely for performing rights and obligations under particular contracts entered into with third parties, such as authorized vendors and agents. We have also entered into agreements regarding the use of registered trademarks of third parties.

Additionally, we use approximately 400 registered Internet domains, including:

- play.pl;

- play24.com.pl;
- playmobiles.pl;
- playmusic.pl;
- playkonto.pl;
- onlineplay.com.pl;
- playfresh.pl; and
- internet-play.pl.

There are no disputes pending, nor, to our knowledge, threatened with respect to any trademarks or other intellectual property owned or used by us.

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, 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 our Management Board and Supervisory Board and group life and accident insurance for employees.

MANAGEMENT

The registered office of the Parent is 2, rue du Fort Bourbon, L-1249 Luxembourg, Grand Duchy of Luxembourg. The managers of the Parent are:

Class A Managers: (i) Tatiana Fafaliou;

Class B Managers: (i) Jan Rottiers, (ii) Sigthor Sigmarsson.

Play

In accordance with Polish corporate law, we conduct our decision-making processes through the shareholders' meeting *(Zgromadzenie Wspólników),* the Management Board (*Zarząd*) and the Supervisory Board *(Rada Nadzorcza).* The powers of, and relationships among these governing bodies are governed by the applicable provisions of the Polish Companies Code of September 15, 2000 (Dz. of 2000, No. 94, Item 1037, as amended) (the "**Companies Code**"), our articles of association and the internal by-laws including Management Board and Supervisory Board by-laws.

Management Board of Play

We have set forth below the members of the Management Board of Play. The Management Board is responsible for the day to day management of the Group. The members of the Management Board are appointed by, and may be dismissed at any time by the Shareholders Meeting. The Management Board consists of between three and eight members. The current Management Board consists of six members. The office address for all members of our Management Board is: Taśmowa 7, Warsaw, Poland.

As of January 31, 2016 and December 31, 2016, the Management Board was composed of six members. The table below sets out the name and the position of the members of our Management Board:

Name	Position
Jørgen Bang-Jensen	Chief Executive Officer
Michał Wawrzynowicz	Chief Commercial Officer
Bartosz Dobrzyński	Chief Marketing Officer
Robert Bowker	Chief Financial Officer
Jacek Niewęgłowski	Chief Strategy Officer
Hans Cronberg	Chief Technical Officer

Jørgen Bang-Jensen

Jørgen Bang-Jensen has been a member of our Management Board since May 2009. He also performs the function of Chief Executive Officer and is 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).

Michał Wawrzynowicz

Michał Wawrzynowicz has been a member of our Management Board since June 2007. He is the Chief Sales 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 our 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 the Sales Director and that of the Marketing Director. Mr. Wawrzynowicz received an MBA from Kozminski University and a Master of Science degree from Warsaw Technical University.

Bartosz Dobrzyński

Bartosz Dobrzyński has been a member of our Management Board since 2009. He is our Chief Marketing Officer. Since 2009, he has also served as a member of the Management Board of 3GNS Sp. z o.o., which has been part of the Group. Mr. Dobrzyński is an experienced marketing manager in the telecommunications sector in Poland. He started his professional career in the telecommunication 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.

Robert Bowker

Robert Bowker has been a member of our Management Board since April 2013. He also performs the function of Chief Financial Officer. Since October 2013, he has also served as a member of the Management Board of 3GNS Sp. z o.o. which is part of the Group. Prior to joining Play, he served as Chief Financial Officer for several entities, including Invitel Holdings N.V. from 2004 to June 2012, Eurotel Praha from 2000 until 2004 and at EuroTel Slovakia prior to 2000. He also he worked at PricewaterhouseCoopers prior to that. He received a Bachelor of Commerce from Rhodes University. In addition, Mr. Bowker is a South African Chartered Accountant and a Chartered Financial Analyst.

Jacek Niewęgłowski

Jacek Niewęgłowski has been a member of our Management Board since December 2005. He is also our Chief Strategy Officer. Since 2006, he has also served as a member of the Management Board of 3GNS Sp. z o.o. which is part of the Group.

Prior to joining Play, Mr. Niewęgłowski served as a member of the Management Board of Germanos Polska, a former subsidiary. He also served as a member of the Supervisory Board of PTC, now known as T-Mobile, a member of the Management Board of Aster City Cable, a leading Polish CaTV operator, Chairman of the board of Comtica Sp. z o.o., a member of the Management Board of Elektrim Telekomunikacja, thePolish subsidiary of Vivendi Universal, and has previously held the position of CEO of numerous telecommunication companies. Additionally, Mr. Niewęgłowski has over 21 years of managerial experience and a professional track record within the mobile industry. Jacek Niewęgłowski received an MBA degree from London Business School, and an M.Sc degree from Tampere University of Technology in Finland.

Hans Cronberg

Hans Cronberg has been a member of our Management Board since September 2005. He is our Chief Technical 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 us, Mr. Cronberg worked for the Deutsche Telekom Group; 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 for 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.

Supervisory Board of Play

We have set forth below the members of the Supervisory Board of Play. Members of the Supervisory Board are appointed at the shareholders' meeting for an individual term of five years, with the reservation that (i) for each full 10% of Shares held by Telco Holdings (acting jointly with its affiliates and permitted transferees), Telco Holdings shall be entitled to appoint one member of the Supervisory Board and dismiss that member, and to appoint his/her replacement; (ii) for each full 10% of Shares held by Tollerton (acting jointly with its affiliates and permitted transferees), Tollerton shall be entitled to appoint one member of the Supervisory Board and dismiss that member, and to appoint his/her replacement; (iii) the shareholders acting jointly shall be entitled to appoint, by a unanimous vote, up to two members of the Supervisory Board, who act as independent board members. For the avoidance of doubt, those members of the Supervisory Board shall not be considered to be the Supervisory Board members appointed by either Telco Holdings or Tollerton.

The Supervisory Board consists of between three and 11 members. The current Supervisory Board consists of 11 members. For the Supervisory Board's resolutions to be valid all of its members must be invited to the meeting and no less than half of the members must attend in order to establish a quorum. As a rule, the Supervisory Board's resolutions are passed by an absolute majority of votes cast; however, certain decisions specified in our articles of association require a simple majority of the votes of all members of the Supervisory Board. The primary function of the Supervisory Board is to supervise all aspect of the businesses. The principal functions of the Supervisory Board include: (i) examination of financial statements to ensure consistency with records and documents and with operations; examination of the Management Board's reports as well as Management Board proposals regarding the distribution of profits or coverage of losses; and submission of written reports to the general shareholders' meeting on the outcomes of such examinations; (ii) approving and granting the Management Board consent to proceed with transactions and activities specified in the articles of association; and (iii) approving the rules of procedure of the Management Board. The Supervisory Board meets at least four times per year.

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 members of our Supervisory Board:

Name	Representing
Ioannis Karagiannis	Tollerton
Vasileios Billis	Tollerton
Christos Kalogerakis	Tollerton
Dimitrios Lolis	Tollerton
Georgios (George) Xirouchakis	Tollerton
Bruce McInroy	Telco Holdings
Serdar Çetin	Telco Holdings
Mark Keatley	Telco Holdings
Patrick Tillieux	Telco Holdings
Andrzej Klesyk	Independent
Andrzej Olechowski	Independent

Mr. Ioannis Karagiannis is the current Chairman of the Supervisory Board.

The business address for all members of our Supervisory Board is: Taśmowa 7, Marynarska, Warsaw, Poland.

Other than two independent board members, our Supervisory Board members are appointed by our shareholders. Our shareholders' interests may differ from the interests of the Group, holders of the Notes and each other.

Ioannis Karagiannis

Ioannis Karagiannis has been a member of the Supervisory Board of Play since 2010 and has been working for companies in the Tollerton group since 1994, and has served as a manager there since January 2010. He has 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 a Supervisory Board Member for Retail World SA and Tollerton. 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 a member of the Supervisory Board of Play since 2007. He has 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.. 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.

Dimitrios Lolis

Dimitrios Lolis has been appointed for the position of member of the Supervisory Board of Play in January 2016. He holds a degree in Business Administration with a major in Finance and a minor in Marketing, from the University State of Long Beach – California – USA. He has more than 35 years experience in Marketing and Sales, at several Greek and multinational companies among which, PEPSICO - IVI, HENKEL HELLAS, STET HELLAS. He served as General Manager of "GERMANOS S.A. - EUROPE" retail chain and Advisor to the C.E.O. of COSMOTE. From May 2010 until September 2014 he was the Managing Director of OTEAcademy, OTE Group's Training Center. Recently he is consulting various companies in Greece, for managerial and commercial matters. He is certified CEX Master Practitioner and CXPA Member. Elected member of the Board of Directors of the Greek Advertisers Association and Chairman of the Greek Advertising Self-Regulation Council.

George Xirouchakis

Georgios (George) Xirouchakis was a member of Play's Supervisory Board from April 2009 until February 2010 and has been serving in his current term as a member of the Supervisory Board since December 2013. He has also served as a member of the Supervisory Board of 3GNS Sp. z o.o. which is part of the Group.. 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).

Christos Kalogerakis

Christos Kalogerakis has joined the Supervisory Board of Play in April 2016. He holds a MSc in Shipping, Trade & Finance from City University as well as a BSc in Management from Deree College. He began his career working for the Shipping Sector. He decided to pursue his career in commercial positions in FMCG and Telecommunications sector, gaining extensive experience from companies such as Bacardi, Vodafone and Wind. He joined Olympia Group in 2011 as Commercial Director of Public company (RETAIL WORLD S.A.). In 2012 he was appointed Chief Executive Officer of Westnet Distribution, also belonging to the interests of Olympia Group. As of January 2015 he is the Chief Executive Officer of "PUBLIC" company (RETAIL WORLD S.A.).

Bruce McInroy

Bruce McInroy is a partner of Novator Partners LLP, a London based private equity 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 been with Play since its inception in 2005, serving on the Supervisory Board, and acting as Chairman of the Audit Committee. He has also served as a member of the Supervisory Board of 3GNS Sp. z o.o. since 2008. He has significant investment experience, including Novator's investment in Tradus (formerly QXL), the leading internet auction business in Poland and the region, acting as board member, member of the Audit Committee and interim Chairman in 2006/07. He takes an active role in managing portfolio investments, particularly in telecoms and has been member of the boards of directors of Netia (Poland), Turknet (formerly NetOne, Turkey), Bulgarian Telecoms Company (now Vivacom), Forthnet (Greece) and Be* Unlimited (UK). He played an active role in the Audit Committees at Netia, BTC and Forthnet. He has over twenty years experience in both developed and emerging markets with a primary focus on telecoms & technology and related sectors. Prior to joining Novator, he gained wide ranging telecoms 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 is a Partner at Telco HoldingsPartners LLP. Serdar is responsible for sourcing, managing and exiting investments at Telco HoldingsPartners LLP. He has served on the Supervisory Board of Play since July 2007 and 3GNS Sp. z o.o. since October 2008. He also served on the Management Board of Play between July 2005 and October 2006. In addition he is a member of Play's audit committee. Mr. Çetin has significant investment experience in the telecommunications sector. He has advised on telecoms 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 Telco Holdingsin 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.

Mark Keatley

Mark Keatley has been a CFO of leading international companies for almost 20 years. From 2005 until 2012, he served as CFO of the global generic drug manufacturer Actavis Group, which was sold to Watson Pharma of the US for US$ 6 billion. Previously he was CFO of the European contract manufacturer Famar, and the African gold mining company Ashanti Goldfields, which was listed on the London and New York Stock Exchanges. Mr. Keatley has also worked in investment banking and private equity at the International Finance Corporation (IFC). He holds Masters Degrees from Cambridge University in the UK and an MBA from Stanford Business School in the United States, and is a qualified accountant in the UK. Mr Keatley currently serves on the Boards of Directors of Medichem SA of Spain, Medlab Ghana Limited, and Midlands Minerals Corporation of Canada.

Patrick Tillieux

Patrick Tillieux has joined the Supervisory Board of Play in January 2015. 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.

Andrzej Klesyk

Andrzej Klesyk has been a member of the Supervisory Board of Play since 2012. He has also served as CEO of Powszechny Zaklad Ubespieczen 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 masters 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 a member of the Supervisory Board of Play since 2012. 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. 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.

Special committees

According to the Supervisory Board regulations, the Supervisory Board may establish from amongst its members permanent or ad hoc committees acting as consultation and advisory collective bodies of the Supervisory Board, consisting of at least three members. As of the date of this Report the Supervisory Board has established: (i) audit committee ("Audit Committee") and (iii) an operating and investment committee ("Operating and Investment Committee. The Chairman of an committee is appointed by the Chairman of the Supervisory Board.

The tasks of the Audit Committee include assisting the Supervisory Board in conducting supervising activities, in particular by: (ii) monitoring the financial reporting process; (i) monitoring the effectiveness of systems of internal control, internal audit and risk management; (iii) monitoring the performance of financial audit; (iv) monitoring the independence of the auditor; (v) supervision over the organizational unit responsible for internal audit; (vi) recommendation to the Supervisory Board of an entity authorized to audit the financial statements and the Company's financial position.

The tasks of the 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 matters relating to the remuneration of the Company's employees, (iv) supervision over strategic and investment projects of the Company, including in particular capital structure changes, (v) review of the Company's long term business plan.

As of December 31, 2016, the Audit Committee consists of: (i) Bruce McInroy; (ii) Serdar Çetin; (iii) Ioannis Karagiannis, (iv) Vasileios Billis (v) Mark Keatley and the Operating and Investment Committee consists of (i) Bruce McInroy; (ii) Serdar Çetin; (iii) Ioannis Karagiannis, (iv) Vasileios Billis.

Remuneration and Benefits

Cost of remuneration (including accrued bonuses) of members of Management Boards of Group entities incurred for the year ended December 31, 2016 amounted to PLN 8,690 thousand (PLN 9,950 thousand for the year ended December 31, 2015 and PLN 9,184 thousand for the year ended December 31, 2014).

Cost of remuneration of members of Supervisory Board of P4 incurred during the year ended December 31, 2016 amounted to PLN 2,518 thousand (for the year ended December 31, 2015 PLN 2,349 thousand and for the year ended December 31, 2014 PLN 2,141 thousand).

Additionally, the members of the P4's Management Board participated in the retention programs to our consolidated financial statements included elsewhere in this Report). The valuation of the programs resulted in income in the amount of PLN 3,380 thousand for the year ended December 31, 2016, cost of PLN 74,939 thousand for the year ended December 31, 2015 and cost of PLN 55,532 thousand for the year ended December 31, 2014. Relating costs and income are included in general and administrative expenses in the consolidated statement of comprehensive income.

We operate three main types of compensation programs: the Equity Grant Agreement ("**EGA**") program (based on Equity Grant Agreements concluded with participants of the program), the Profit Sharing Agreement ("**PSA**") program (based on Profit Share Agreements concluded with participants of the program) and the Value Development Program ("**VDP**") program (based on Value Development Program Agreements concluded with participants of the program). Membership in these plans is granted to Management Board members and key employees. In principle, under the terms of the plans, participants of the programs are entitled to receive remuneration, paid in cash, at the moment of a defined liquidity event. Defined liquidity events for the EGA program consist of a change of control, an initial public offering of the Company, a recapitalization, cancellation or redemption of the shares in the Company and distributions of cash or other assets of the Company to members of the shareholders' groups or a disposal of the shares in the Company by a shareholder to a third party if specified thresholds are exceeded; defined liquidity events for the PSA program consist of an initial public offering of the Company or a change of control. The amount of remuneration depends, in particular, on the percentage or participation unit which is granted to each participant under the program and on the price calculated for the given liquidity event or the value of the Company's enterprise at a defined date.

PRINCIPAL SHAREHOLDERS

Play Topco S.A. owns 100% of the issued and outstanding capital stock of HoldCo 1, which owns 100% of the issued and outstanding capital stock of the Parent which indirectly owns 100% of the issued and outstanding capital stock of Play.

The Parent's issued share capital amounts to 1,251,000 shares with a par value of EUR 0.01 each.

The following table sets forth, as of the date hereof, the aggregate shareholding amounting to over 5% of the Parent's equity interests held indirectly by funds affiliated with, and/or advised by, the entities identified as the Parent's shareholders in the left-hand column.

Shareholders	Percentage Holding (indirectly)
Tollerton Investments Ltd.	50.3%
Telco Holdings S. à r. l.	49.7%

Shareholders' Agreement

On August 4, 2008, the shareholders' agreement ("**SHA**") was executed, as amended and restated on December 5, 2008, May 7, 2009, November 29, 2013, January 23, 2014 and April 29, 2015. On January 23, 2014, the SHA was amended to reflect the changes in share ownership in connection with the offering of the Senior Secured Notes and the Senior Notes and other incidental amendments and was also amended to reflect consequential changes to certain shareholder exit rights. All references to share membership in Play in the sixth paragraph below were thus updated to reference Play Topco S.A. The SHA was amended few times since first signing date. On April 29, 2015 the SHA was further amended to reflect certain changes to the reserved matters (which require the consent of the shareholders) and the corporate seat of Telco Holdings S.à r.l. was changed from Jersey to Luxembourg.

The parties to the SHA agreed that the Group would conduct its business in the operation and provision of mobile telecommunication services and equipment and other related telecommunications services. The provisions of the SHA place the same customary non-compete and non-solicitation restrictions on both shareholders.

Our Management Board consists of three to eight members which are appointed by our shareholders. If there are any vacancies on the Management Board, Telco Holdings and Tollerton will discuss and agree upon a candidate to fill the vacant position. If they are unable to agree, an internationally recognized recruitment consultant will propose relevant candidates, and the candidates, after Telco Holdings and Tollerton have the opportunity to each veto a candidate, will be put to a simple majority vote at the shareholders' meeting.

Our Supervisory Board consists of three to 11 members who are appointed by Telco Holdings (acting jointly with its affiliates and permitted transferees) and Tollerton (acting jointly with its affiliates and permitted transferees). Each of Telco Holdings and Tollerton are individually entitled to appoint one member of the Supervisory Board for each full 10% of the shares it holds in Play Topco S.A. and to appoint his/her replacement. Any member of the Supervisory Board appointed by one of our shareholders is entitled to supply details of any business transacted at Supervisory Board meetings and any other information obtained in his/her capacity as a member of the Supervisory Board to the shareholder who appointed him/her.

Under the SHA, the shareholders acting jointly, are entitled to appoint, by a unanimous vote, up to two members of the Supervisory Board, who act as independent board members. For the avoidance of doubt, those members of the Supervisory Board shall not be considered to be the Supervisory Board members appointed by either Telco Holdings or Tollerton. The chairperson of the Supervisory Board will be appointed by Tollerton Investments Ltd. and the vice-chairperson will be appointed by Telco Holdings S. à r. l. If at any time the total number of Supervisory Board members that Telco Holdings and Tollerton are entitled to appoint is less than seven, the shareholders will be entitled to appoint the number of Supervisory Board members corresponding to the difference between seven and the total number of Supervisory Board members appointed by Telco Holdings and Tollerton, by way of a simple majority vote.

The SHA sets out a list of positive covenants of Play and its subsidiaries, which are related to the distribution of profits, provision of information and appointment of auditors and accountants.

With the exception of certain Reserved Matters (as defined in the SHA) and subject to mandatory provisions of Polish law, all matters presented for (i) the approval of the shareholders meeting should be decided by shareholders holding at least 50% of Play Topco S.A's shares and (ii) the approval of the Supervisory Board should be decided by a simple majority of votes at the Supervisory Board meeting, respectively. At least one representative from each of Tollerton and Telco Holdings must be present for the shareholders meeting in order to have a quorum. The Reserved Matters for shareholders meetings include, for example, any amendments to the articles of association of Play or its subsidiaries, issuing shares, change of business, appointment of auditors and incentive schemes. For the Supervisory Board, the Reserved Matters include, for example, the disposal of any asset or assets with an aggregate or individual net book value in excess of EUR 500,000 in any 12 month period, entering into employment or consultancy agreements with a remuneration exceeding EUR 100,000 *per annum*, taking any action or entering into any arrangement pursuant to which the Play shares or other securities are listed for trading on any stock exchange. The Reserved Matters require the unanimous consent of the shareholders. A shareholder ceases to have the benefit of the rights under the Reserved Matters to the extent that a positive vote is required of that shareholder or a Supervisory Board member appointed by him/her if such shareholder, its permitted transferees and/or its affiliates hold less than 15% of the issued shares of Play Topco S.A. The SHA specifies the procedure for any deadlock occurring at either a Supervisory Board meeting or the shareholders' meeting.

The SHA is governed by English law. The courts of England have exclusive jurisdiction over any claim or matter arising under or in connection with the SHA and accordingly any proceedings in respect of any such claim or matter may only be brought in those courts.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

The Group has entered into certain transactions with its shareholders and their affiliates.

Fees for Advisory Services Provided by Shareholders and Other Fees

The Group has entered into advisory services agreements with shareholders whereby such entities have agreed to provide advisory and consulting services which the Group requests. These services include advising and consulting services relating to business activities of the Company, analysis of the Company's business activities in relation to telecommunication environment of the Polish and European markets, supporting the Company's activities before other economic forums such as the EC, preparation of reports and analysis, training and certain other agreed services. The counterparties may not entrust the performance of these duties or transfer any payment resulting from these duties to any third parties without the Company's consent. If any professionals are retained to perform any of the services described above, the shareholders will ensure that such professionals are competent and qualified. In addition, these agreements each contain a clause preventing such entities from undertaking any competitive activity towards the Company in Poland. Fees for advisory services provided by shareholders are paid up to a maximum amount equal to 0.5% of the Company's total annual operating revenues (and so will increase as our revenues increase), with a cap of PLN 25 million. Fees incurred under these arrangements amounted to PLN 19.0 million in the year ended December 31, 2012, PLN 17.9 million in the year ended December 31, 2013, PLN 21.2 million in the year ended December 31, 2014, PLN 27.7 million in the year ended in December 31, 2015 and PLN 35.9 million in the year ended in December 31, 2016.

Other Arrangements with Related Parties

Members of the Management Board (or entities under their control) have entered into contracts through which they agree to provide strategic, operational and financial advisory services in exchange for a monthly flat fee retainer and additional renumeration.

Management Retention Plans

We operate certain management retention programs for our Management Board and key employees.

DESCRIPTION OF CERTAIN FINANCING ARRANGEMENTS

The following summary of certain provisions of the Group's indebtedness and does not purport to be complete and is subject to, and qualified in its entirety by reference to, the underlying documents.

As of December 31, 2016, the Group had total financial indebtedness of PLN 5,480.2 million. In addition, the Company has entered into the Revolving Credit Facility Agreement, which provides for a Revolving Credit Facility in the amount of PLN 400 million, which was fully available as of December 31, 2016. The Group also has a revolving credit line agreement with Bank Millennium S.A. for the amount of PLN 50 million and a revolving credit line agreement with Bank Zachodni WBK S.A. for the amount of PLN 150 million, both were fully available as of December 31, 2016.

Revolving Credit Facility Agreement

In this description "**Restricted Group**" refers to the Parent and its restricted subsidiaries from time to time.

The Parent, HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent) and Play have entered into the Revolving Credit Facility Agreement with Alior Bank S.A. and Bank Zachodni WBK S.A. as lenders, and Bank Zachodni WBK S.A. as agent (the "**Agent**") under, the Revolving Credit Facility Agreement. Play is the sole original borrower of the Revolving Credit Facility and the guarantors of the Senior Secured Notes and the Senior Notes are also the guarantors under the Revolving Credit Facility Agreement. The Revolving Credit Facility Agreement provides for a revolving credit facility of up to PLN 400 million on a committed basis which can be utilized by way of loans, letters of credit or other ancillary facilities. The Revolving Credit Facility may be utilized by Play or any future borrower in Polish zloty (or other currencies agreed by all of the lenders and freely convertible into Polish zloty), subject to certain minimum thresholds for each relevant currency. The Revolving Credit Facility will be used to finance the working capital and general corporate needs of the Restricted Group (including towards capital expenditure, which, for the avoidance of doubt, shall include, without limitation, the acquisition of telecommunications frequency reservations or capital expenditure relating thereto). Each guarantor of the Revolving Credit Facility irrevocably and unconditionally guarantees, jointly and severally, the obligations of the borrowers and each other guarantor under the Finance Documents in respect of (and as defined in) the Revolving Credit Facility.

Repayments and prepayments

The Revolving Credit Facility will mature on the date falling four years after January 31, 2014. Any amount still outstanding at that time will be immediately due and payable. Subject to certain conditions, the borrowers may voluntarily prepay the utilizations and/or permanently cancel all or part of the available commitments under the Revolving Credit Facility in a minimum amount of PLN 5 million in respect of prepayments and PLN 10 million in respect of cancellations (or their equivalents). The borrowers may reborrow amounts repaid, subject to the terms of the Revolving Credit Facility Agreement.

In addition to voluntary prepayments, the Revolving Credit Facility requires mandatory prepayment in certain circumstances, including upon the occurrence of a sale of all or substantially all of the assets of the Restricted Group.

Subject to the terms as set out in the Revolving Credit Facility Agreement, upon a Change of Control (as defined therein), Play shall promptly notify the Agent of such Change of Control, no lender under the Revolving Credit Facility shall be obliged to fund any loan under the Revolving Credit Facility (except for a Rollover Loan, as defined in the Revolving Credit Facility Agreement) and, if a lender so requires and notifies the Agent within a prescribed time period, the Agent 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 Revolving Credit Facility 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.

Interest and fees

The Revolving Credit Facility initially bears interest at a rate per annum equal to LIBOR, EURIBOR or WIBOR, as applicable (provided that LIBOR, EURIBOR or WIBOR shall never be less than zero) and an initial margin of 2.00% per annum plus mandatory costs. Beginning from the date which falls six months from January 31, 2014, the margin may be reduced by reference to a Consolidated Leverage Ratio (as defined in the Revolving Credit Facility Agreement). Play is also required to pay a commitment fee, quarterly in arrears, on the last day of the availability period of the Revolving Credit Facility and on the date on which the Revolving Credit 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 pursuant to the Revolving Credit Facility.

Security and guarantees

Play is the sole original borrower under the Revolving Credit Facility Agreement. The Revolving Credit Facility is guaranteed by the guarantors of the Senior Secured Notes and the Senior Notes and secured by first-priority liens over the collateral which secures the Senior Secured Notes and the Senior Notes.

Covenants

The Revolving Credit Facility Agreement contains customary operating and negative covenants (including certain of the same restrictive covenants and related definitions (with certain adjustments) that apply to the Senior Secured Notes and the Senior Notes), subject to certain agreed exceptions. The Revolving Credit Facility Agreement also requires the Parent and certain of its restricted subsidiaries to observe certain customary affirmative covenants.

Note purchase condition

The Revolving Credit Facility Agreement includes restrictions on the ability of members of the Restricted Group to prepay, purchase, defease or redeem (or otherwise retire or acquire for value) ("**Repurchase**") the Notes and certain other categories of its debt (excluding the Revolving Credit Facility) (together, the "**Relevant Debt**"). Members of the Restricted Group will be able to purchase the Relevant Debt if: (A) the total aggregate principal amount of all Relevant Debt outstanding immediately after the Repurchase is greater than 50% of the aggregate principal amount of the Notes issued on January 31, 2014; or (B) to the extent the total aggregate principal amount of the Relevant Debt outstanding after the Repurchase is less than 50% of the aggregate principal amount of the Senior Secured Notes and the Senior Notes issued on January 31, 2014 (such amount being the "**Excess**"), commitments under the Revolving Credit Facility are canceled (and, if applicable, amounts outstanding under the Revolving Credit Facility are prepaid) in the same proportion as that by which the outstanding Relevant Debt is reduced by the payment of such Excess.

Events of default

The Revolving Credit Facility Agreement contains customary events of default (subject in certain cases to agreed grace periods, thresholds and other qualifications), including a cross default provision, the occurrence of which would allow the Majority Lenders (as defined in the Revolving Credit Facility Agreement) to terminate their commitments and /or declare all or part of their utilizations are payable on demand and/or immediately due and payable and/or declare that cash cover in respect of ancillary facilities and outstanding letters of credit is immediately due and payable or is payable on demand.

Governing law

The Revolving Credit Facility 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 although the restrictive covenants will be interpreted in accordance with New York law (without prejudice to the fact that the Revolving Credit Facility Agreement is governed by English law).

Intercreditor Agreement

In connection with entering into the Revolving Credit Facility Agreement, the Senior Secured Notes Indenture and the Senior Notes Indenture, the Parent, HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent), Play, the Senior Secured Notes Issuer, the Senior Notes Issuer, Glenmore, Bank Zachodni WBK S.A. as the Original RCF Agent, notes trustees in relation to the Senior Secured Notes and the Senior Notes, the Security Agent and certain other entities entered into an intercreditor agreement on January 31, 2014 (the "**Intercreditor Agreement**") to govern the relationships and relative priorities among: (a) the lenders under the Revolving Credit Facility Agreement; (b) any persons that accede to the Intercreditor Agreement as counterparties to certain hedging agreements (collectively, the "**Hedging Agreements**" and any persons that accede to the Intercreditor Agreement as counterparties to the Hedging Agreements are referred to in such capacity as the "**Hedge Counterparties**"); (c) the trustee, on its behalf and on behalf of the holders of the Senior Secured Notes (the "**Senior Secured Noteholders**"); (d) the trustee, on its behalf and on behalf of the holders of the Senior Notes (the "**Senior Noteholders**"); (e) the Security Agent; (f) the Creditor Representatives (as defined below); (g) intra-group creditors and debtors; and (h) certain investor debt (which consists of liabilities owed by any Debtor (as defined below) to any Shareholder Creditor (being the original shareholder creditors party to the Intercreditor Agreement on the date of the Intercreditor Agreement and any direct or indirect shareholder (or affiliate who is not a member of the Group) of the Parent) (the "**Shareholder Liabilities**")).

The Parent and its restricted subsidiaries that incur any liability or provide any guarantee under any of the Revolving Credit Facility Agreement, the Senior Secured Notes Indenture or the Senior Notes Indenture or in respect of any Shareholder Liabilities are each referred to in this description as a "Debtor" and are referred to collectively as the "Debtors."

The Intercreditor Agreement, amongst other things, sets out:

(a) the relative ranking of certain indebtedness of the Debtors;

(b) when payments can be made in respect of certain indebtedness of the Debtors;

(c) when enforcement actions can be taken in respect of that indebtedness;

(d) the terms pursuant to which that indebtedness will be subordinated upon the occurrence of certain insolvency events;

(e) turnover provisions; and

(f) when security and guarantees will be released to permit a sale of any assets subject to transaction security (the "**Transaction Security**") or any merger, consolidation, amalgamation, reorganization or combination of the foregoing which relates to (by disposal or otherwise) any asset which is subject to the Transaction Security which are permitted or not prohibited under the Senior Secured Notes Indenture or the Senior Notes Indenture.

The Intercreditor Agreement contains provisions relating to future indebtedness that may be incurred by the Debtors that (a) is permitted by the Revolving Credit Facility Agreement, the Senior Secured Notes Indenture or the Senior Notes Indenture to rank pari passu with the Revolving Credit Facility and the Senior Secured Notes and be secured by the Transaction Security, subject to the terms of the Intercreditor Agreement, such debt being "**Pari Passu Debt**" and the creditors of such debt being "**Pari Passu Creditors**" and (b) is permitted by the Debt Documents (as defined in the Intercreditor Agreement) to rank pari passu with the Senior Notes and be secured by the Transaction Security securing the Senior Notes, subject to the terms of the Intercreditor Agreement, such debt being "**Additional Unsecured Debt**" and the creditors of such debt being "**Additional Unsecured Debt Creditors**." Additional Unsecured Debt, together with the guarantee liabilities in respect of (i) such debt; and (ii) the Senior Notes, and together with the Senior Notes Liabilities, being "**Senior Liabilities**." Each lender of a credit facility (a "**Credit Facility**") is a "**Credit Facility Lender**" and the liabilities of the Debtors to the Credit Facility Lenders are the "**Credit Facility Lender Liabilities**."

Ranking and priority

The Intercreditor Agreement provides, subject to the provisions in respect of permitted payments described below, that the Credit Facility Lender Liabilities and the liabilities of the Debtors under the Hedging Agreements (the "**Hedging Liabilities**") (and in respect of Hedging Liabilities which relate to the hedging of floating interest rate exposures or non-PLN currency exposures in respect of (a) a Credit Facility or Senior Secured Notes or (b) other permitted indebtedness with aggregate hedging liabilities up to (but not exceeding) PLN 80,000,000 (the "**Super Senior Hedging Liabilities**" and together with the Credit Facility Lender Liabilities, the "**Super Senior Liabilities**")), the liabilities of the Debtors in respect of the Senior Secured Notes (the "**Senior Secured Notes Liabilities**"), the liabilities of the Debtors in respect of the Senior Notes (the "**Senior Notes Liabilities**" and, together with the Senior Secured Notes Liabilities, the "**Notes Liabilities**"), the liabilities of the Debtors to the trustee in respect of the Senior Secured Notes (the "**Senior Secured Notes Trustee Amounts**"), the liabilities of the Debtors to the trustee in respect of the Senior Notes (the "**Senior Notes Trustee Amounts**"), the liabilities of the Debtors to the Creditor Representatives (as defined below) (the "**Creditor Representative Liabilities**"), the liabilities of the Debtors to the Security Agent (the "**Security Agent Liabilities**") (all the liabilities described in the foregoing, together with liabilities relating to Pari Passu Debt and Additional Unsecured Debt, collectively referred to as the "**Secured Liabilities**") and certain other unsecured liabilities will rank in right and priority of payment (but excluding liabilities owed by the Senior Note Issuer and, if applicable the borrower and/or issuer of the Additional Unsecured Debt) in the following order:

(a) first, the Credit Facility Lender Liabilities, the Creditor Representative Liabilities, the Senior Secured Notes Liabilities, the Pari Passu Debt, the Senior Secured Notes Trustee Amounts, the Senior Notes Trustee Amounts, the Hedging Liabilities and the Security Agent Liabilities, pari passu and without any preference between them;

(b) second, the guarantee liabilities in respect of the Senior Notes and the Additional Unsecured Debt, pari passu and without any preference between them;

(c) third, the liabilities owed by a Proceeds Loan Borrower to the borrower or issuer of the Senior Notes or Additional Unsecured Debt ("**Finco Liabilities**") and other intra-group liabilities (the "**Intra-Group Liabilities**") pari passu between themselves and without any preference between them; and

(d) fourth, the Shareholder Liabilities.

The following liabilities owed by the Senior Notes Issuer and, as the case may be, the issuer or borrower of any Additional Unsecured Debt to the Primary Creditors (as defined in the Intercreditor Agreement) shall rank the following in right and priority of payment: the Credit Facility Lender Liabilities, the Creditor Representative Liabilities, the Senior Secured Notes Liabilities, the Pari Passu Debt, the Senior Liabilities, the Senior Secured Notes Trustee Amounts, the Senior Notes Trustee Amounts, the Hedging Liabilities and the Security Agent Liabilities pari passu and without any preference between them.

The Transaction Security shall rank and secure (but only to the extent that such Transaction Security is expressed to secure those liabilities) in the following order:

(a) first, the Credit Facility Lender Liabilities, the Creditor Representative Liabilities, the Senior Secured Notes Liabilities, the Pari Passu Debt, the Senior Secured Notes Trustee Amounts, the Senior Notes Trustee Amounts, the Hedging Liabilities and the Security Agent Liabilities pari passu and without any preference between them; and

(b) second, (in respect of the Shared Collateral only), the Senior Liabilities pari passu and without any preference between them (other than the Senior Notes Trustee Amounts and Additional Unsecured Debt Representative Liabilities (as defined in the Intercreditor Agreement)),

but in any event (irrespective of the manner in which such Transaction Security is constituted), all proceeds of the Transaction Security shall be applied in accordance with the Intercreditor Agreement.

The Intercreditor Agreement permits, among other things, certain payments to be made in respect of the Secured Liabilities. The Intercreditor Agreement permits, prior to the occurrence of an acceleration event in respect of a Credit Facility, Pari Passu Debt or the Senior Secured Notes Liabilities, (a "**Secured Debt Acceleration Event**"), payments to be made by the Debtors under the Revolving Credit Facility, the Senior Secured Notes Documents (as defined below) and the Pari Passu Debt Documents (as defined below), in each case in accordance with the terms of the relevant Credit Facility Agreement, Senior Secured Notes Documents and the Pari Passu Debt Documents, but subject to: (i) in the case of payments in respect of the Senior Secured Notes, compliance with the notes purchase condition described under "—Revolving Credit Facility—Note purchase condition" above; (ii) in the case of payments in respect of the Pari Passu Debt, any restrictions under the Credit Facility Documents (as defined below), the Senior Secured Notes Documents, the Senior Notes Documents (as defined below) and any Pari Passu Debt Documents and Additional Unsecured Debt Documents (as defined below) then outstanding. Following the occurrence of a Secured Debt Acceleration Event, subject to certain exceptions, payments can only be made by the Debtors applying the amounts received by the relevant Debtor under the process described under "—Application of Proceeds" below. The restriction in the foregoing sentence shall not apply (i) where, provided that the Majority Super Senior Creditors (as defined below) constitute the Instructing Group in accordance with "—Enforcement decisions" below, a payment block suspension notice has been delivered by the Agent of the Revolving Credit Facility to the Security Agent in accordance with the terms of the Intercreditor Agreement (ii) to the extent that such Secured Debt Acceleration Event has subsequently been canceled and/or irrevocably revoked in writing by each relevant Creditor Representative and (iii) in certain other specified circumstances in the Intercreditor Agreement.

In respect of Senior Notes Issuer Liabilities (as defined in the Intercreditor Agreement) and Additional Unsecured Issuer Debt (as defined in the Intercreditor Agreement), other than as provided for in the Intercreditor Agreement, the Debtors may make payments of the Senior Notes Issuer Liabilities (as defined in the Intercreditor Agreement) or any Additional Unsecured Issuer Debt (as defined in the Intercreditor Agreement) at any time in accordance with the terms of the Senior Notes Documents or any Additional Unsecured Debt Documents, as the case may be, subject to compliance with the notes purchase condition provision in the Revolving Credit Facility Agreement (or any equivalent provision of a Credit Facility

Document) and to the extent permitted or not prohibited under the Senior Secured Notes Documents and the Pari Passu Debt Documents.

The Intercreditor Agreement permits the relevant issuer or borrower of Finco Liabilities to make payments in respect of Finco Liabilities (whether of principal, interest or otherwise) if, amongst other things, such payment is expressly permitted or not prohibited by the documents governing the Credit Facility Lender Liabilities (the "**Credit Facility Documents**"), the Senior Secured Notes (the "**Senior Secured Notes Documents**") and the Pari Passu Debt (the "**Pari Passu Debt Documents**") (if any) or such payment is made before the Senior Debt Discharge Date (as defined in the Intercreditor Agreement) and is equal to the amount of a payment in respect of Senior Notes Liabilities or Additional Unsecured Debt which is then due by the Senior Notes Issuer and/or the relevant issuer or borrower of the Additional Unsecured Debt (as the case may be) in circumstances where such payment is permitted under the Intercreditor Agreement to be made, at the time such payment of Finco Liabilities is made by the relevant borrower or issuer to the Senior Notes Issuer or, as the case may be, the Additional Unsecured Notes Issuer.

The Intercreditor Agreement also permits payments from time to time when due to lenders owed any Intra-Group Liabilities ("**Intra-Group Liabilities Payments**") if at the time of payment no acceleration event has occurred (an "**Acceleration Event**") and is continuing. The Intercreditor Agreement permits Intra-Group Liabilities Payments if such an Acceleration Event has occurred and is continuing in certain limited circumstances.

The Debtors may make payments in respect of the Shareholder Liabilities (whether of principal, interest or otherwise) from time to time when due: (a) if the payment is expressly permitted or not prohibited by the Credit Facility Documents, the Senior Secured Notes Documents, the Pari Passu Debt Documents (if any), the documents governing the Senior Notes (the "**Senior Notes Documents**"), the documents governing the Additional Unsecured Debt (the "**Additional Unsecured Debt Documents**") (if any) or (b) in certain other limited circumstances.

Restrictions relating to Senior Notes

Restriction on payment and dealings: Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities

Under the Intercreditor Agreement, until the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), except with the prior consent of (a) the Credit Facility Agent (to the extent either (i) not permitted or prohibited under any Credit Facility Document or (ii) after the commencement of any Enforcement Action (as defined in the Intercreditor Agreement) permitted or not prohibited by the terms of the Intercreditor Agreement), (b) the Senior Secured Notes Trustee (to the extent either (i) not permitted or prohibited under the Senior Secured Notes Documents or (ii) after the commencement of any Enforcement Action (as defined in the Intercreditor Agreement) permitted or not prohibited by the terms of the Intercreditor Agreement) and (c) the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) (to the extent either (i) not permitted or prohibited under the Pari Passu Debt Documents or (ii) after the commencement of any Enforcement Action (as defined in the Intercreditor Agreement) permitted or not prohibited by the terms of the Intercreditor Agreement), the Parent shall not (and the Parent shall ensure that no member of the Restricted Group will):

(A) pay, repay, prepay, redeem, acquire or defease any principal, interest or other amount on or in respect of, or make any distribution in respect of, any guarantee liabilities in respect of the Senior Notes and the Additional Unsecured Debt in cash or in kind or apply any such money or property in or towards discharge of any guarantee liabilities in respect of the Senior Notes and the Additional Unsecured Debt except as permitted by "—Permitted Senior Notes and Additional Unsecured Debt Payments," "—Permitted Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities Enforcement" or "—Effect of insolvency event; filing of claims;"

(B) exercise any set-off against any guarantee liabilities in respect of the Senior Notes and the Additional Unsecured Debt, except as permitted by "—Permitted Senior Notes and Additional Unsecured Debt Payments," "—Permitted Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities Enforcement" or "—Effect of insolvency event; filing of claims;" or

(C) create or permit to subsist any security over any assets of any member of the Restricted Group or give any guarantee (and the Senior Notes Trustee and any Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) may not and no Senior Notes Creditor (as defined in the Intercreditor Agreement) or Additional Unsecured Debt Creditor may, accept the benefit of any such security or guarantee) from any member of the Restricted Group for, or in respect of, any Senior Notes Liabilities (as defined in the Intercreditor Agreement) or Additional Unsecured Debt (as applicable) other than:

(a) (in the case of guarantees) the Senior Note Guarantees or Additional Unsecured Debt Guarantees (as defined in the Intercreditor Agreement) provided that a Senior Notes Guarantee or Additional Unsecured Debt Guarantee (as defined in the Intercreditor Agreement) may not be given by a member of the Restricted Group unless the relevant Senior Note Guarantor or Additional Unsecured Debt Guarantor (as defined in the Intercreditor Agreement) has also guaranteed the Super Senior Liabilities (as defined in the Intercreditor Agreement), the Senior Secured Notes Liabilities (as defined in the Intercreditor Agreement) and the Pari Passu Debt Liabilities (as defined in the Intercreditor Agreement); and

(b) (in the case of security) the Shared Collateral.

Payment blockage provisions

(A) Under the Intercreditor Agreement, until the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), (i) (to the extent not permitted or prohibited under any Credit Facility Document) except with the prior consent of the Credit Facility Agent, (ii) (to the extent prohibited under the Senior Secured Notes Indenture) the consent of the Senior Secured Notes Trustee and (iii) (to the extent prohibited under the Pari Passu Debt Documents) the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement), and, in the case of (i), (ii) and (iii), subject to "—Effect of insolvency event; filing of claims," the Parent shall not make and shall procure that no member of the Restricted Group shall make, and no Senior Notes Creditor (as defined in the Intercreditor Agreement) or Additional Unsecured Debt Creditor may receive from any member of the Restricted Group (other than the Senior Notes Issuer or Additional Unsecured Issuer/Borrower (as the case may be) (as defined in the Intercreditor Agreement) to the extent permitted under the Intercreditor Agreement and the other debt documents), any Permitted Senior Noteholder Payment (other than Senior Notes Trustee Amounts) (each as defined in the Intercreditor Agreement) or any Permitted Additional Unsecured Debt Payment (other than Additional Unsecured Debt Representative Liabilities (as defined in the Intercreditor Agreement)) (each as defined in the Intercreditor Agreement) if:

(a) a Secured Debt Payment Default (as defined in the Intercreditor Agreement) has occurred and is continuing; or

(b) a Secured Debt Event of Default (as defined in the Intercreditor Agreement) (other than a Secured Debt Payment Default (as defined in the Intercreditor Agreement)) has occurred and is continuing, from the date on which the Credit Facility Agent or the Senior Secured Notes Trustee or the Pari Passu Debt Representative (as the case may be) (the "**Relevant Representative**") delivers a notice (a "**Senior Payment Stop Notice**") specifying the event or circumstance in relation to that Secured Debt Event of Default (as defined in the Intercreditor Agreement) to the Company, the Security Agent, the Senior Notes Trustee and any Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) until the earliest of:

    (i) the date falling 179 days after delivery of that Senior Payment Stop Notice;

    (ii) in relation to payments of Senior Liabilities (as defined in the Intercreditor Agreement), if a Senior Standstill Period is in effect at any time after delivery of that Senior Payment Stop Notice, the date on which that Senior Standstill Period expires;

    (iii) the date on which the relevant Secured Debt Event of Default (as defined in the Intercreditor Agreement) is no longer continuing and, if the relevant Secured Liabilities (as defined in the Intercreditor Agreement) (other than the Senior Liabilities (as defined in the Intercreditor Agreement)) have been accelerated, such acceleration has been rescinded provided that at such time no Event of Default is continuing under the Secured Debt Documents (as defined in the Intercreditor Agreement) of the Credit Facility Agent, the Senior Secured Notes Trustee or the Pari Passu Debt Representative (as the case may be) that did not issue the Senior Payment Stop Notice;

(iv) (if the Senior Payment Stop Notice has been provided by the Credit Facility Agent) the date on which the Credit Facility Agent delivers a notice to the Company, the Security Agent, the Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) and the Senior Notes Trustee (as the case may be) cancelling the Senior Payment Stop Notice (and if at such time an Event of Default is continuing under the Senior Secured Notes Documents and/or the Pari Passu Debt Documents, each of the Senior Secured Notes Trustee and the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) (as applicable) gives its prior consent);

(v) (if the Senior Payment Stop Notice has been provided by the Senior Secured Notes Trustee) the date on which the Senior Secured Notes Trustee delivers a notice to the Company, the Security Agent, the Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) and the Senior Notes Trustee (as the case may be) cancelling the Senior Payment Stop Notice (and if at such time an Event of Default is continuing under the Credit Facility Documents and/or the Pari Passu Debt Documents, each of the Credit Facility Agent and the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) (as applicable) gives its prior consent);

(vi) (if the Senior Payment Stop Notice has been provided by a Pari Passu Debt Representative) the date on which the relevant Pari Passu Debt Representative delivers a notice to the Company, the Security Agent, any Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) and the Senior Notes Trustee (as the case may be) cancelling the Senior Payment Stop Notice (and if at such time an Event of Default is continuing under the Credit Facility Documents and/or the Senior Secured Notes Documents, each of the Credit Facility Agent and the Senior Secured Notes Trustee (as applicable) gives its prior consent);

(vii) the Secured Debt Discharge Date (as defined in the Intercreditor Agreement); and

(viii) the date on which the Senior Notes Trustee or any the Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) (as the case may be) takes any Enforcement Action (as defined in the Intercreditor Agreement) that it is permitted to take under the provisions described in "—Permitted Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities Enforcement" and "—Senior Standstill Period."

(B) Unless the Senior Notes Trustee and any the Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) waives this requirement:

(a) a new Senior Payment Stop Notice may not be delivered unless and until 360 days have elapsed since the delivery of the immediately prior Senior Payment Stop Notice; and

(b) no Senior Payment Stop Notice may be delivered in reliance on a Secured Debt Event of Default (as defined in the Intercreditor Agreement) more than 45 days after the date the Credit Facility Agent, the Senior Secured Notes Trustee or the Pari Passu Debt Representative (as applicable) received notice of that Secured Debt Event of Default (as defined in the Intercreditor Agreement).

(C) The Credit Facility Agent, the Senior Secured Notes Trustee and the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) may serve only one Senior Payment Stop Notice with respect to the same event or set of circumstances. Subject to paragraph (b) above, this shall not affect the right of the Credit Facility Agent, the Senior Secured Notes Trustee or the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) to issue a Senior Payment Stop Notice in respect of any other event or set of circumstances.

(D) No Senior Payment Stop Notice may be served by the Credit Facility Agent, the Senior Secured Notes Trustee or the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) in respect of a Secured Debt Event of Default (as defined in the Intercreditor Agreement) which had been notified to each of them at the time at which an earlier Senior Payment Stop Notice was issued.

(E) For the avoidance of doubt, the provisions of the Intercreditor Agreement described in this section "—Payment blockage provisions":

(a) act as a suspension of payment and not as a waiver of the right to receive payment on the date such payments are due;

(b) will not prevent the accrual or capitalization of interest (including default interest) in accordance with the Senior Notes Documents or the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement), as the case may be;

(c) will not prevent the payment of any Senior Notes Trustee Amounts or payment of Additional Unsecured Debt Representative Liabilities (as defined in the Intercreditor Agreement), as the case may be; and

(d) will not prevent the payment of audit fees, directors' fees, taxes and other proper and incidental expenses required to maintain existence.

Permitted Senior Notes and Additional Unsecured Debt Payments

Under the Intercreditor Agreement, the Debtors may:

(A) prior to the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), make payments to the Senior Notes Creditors (as defined in the Intercreditor Agreement) in respect of the Senior Notes Guarantee Liabilities (as defined in the Intercreditor Agreement) then due in accordance with the Senior Notes Documents and to the Additional Unsecured Debt Creditors in respect of the Additional Unsecured Debt Guarantee Liabilities (as defined in the Intercreditor Agreement) then due in accordance with the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) if: (a)

(i) the payment is of:

(A) any of the principal amount of the Senior Notes Liabilities (as defined in the Intercreditor Agreement) or the Additional Unsecured Debt which is not prohibited from being paid by the Credit Facility Documents, the Senior Secured Notes Documents and any Pari Passu Debt Document; or

(B) any other amount which is not an amount of principal or capitalized interest or a corresponding amount under the Senior Notes Proceeds Notes (as defined in the Intercreditor Agreement) (such other amounts including all scheduled interest payments (including, if applicable, special interest (or liquidated damages)) and default interest on the Senior Notes Liabilities (as defined in the Intercreditor Agreement) or the Additional Unsecured Debt (as the case may be) accrued due and payable in cash in accordance with the terms of the relevant Senior Notes Documents and/or Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) (in each case, as at the date of issue of the same or as amended in accordance with the terms of the Intercreditor Agreement and the relevant Senior Notes Document and/or Additional Unsecured Debt Document), additional amounts payable as a result of the tax gross-up provisions relating to the relevant Senior Notes Liabilities (as defined in the Intercreditor Agreement) and/or Additional Unsecured Debt and amounts in respect of currency indemnities in the Senior Notes Indenture or Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) (as the case may be) and/or, as applicable the Senior Notes Proceeds Notes (as defined in the Intercreditor Agreement) (to the extent such amounts are utilized to fund such interest payments));

(ii) no Senior Payment Stop Notice is outstanding; and

(iii) no Secured Debt Payment Default (as defined in the Intercreditor Agreement) has occurred and is continuing;

(b) paid on or after the final maturity date of the Senior Notes Liabilities (as defined in the Intercreditor Agreement) or the final maturity date of the Additional Unsecured Debt (in each case provided that such maturity date is not and will not be earlier than the maturity date for the Senior Secured Notes and the Termination Date (as defined in the Revolving Credit Facility Agreement));

(c) the Majority Super Senior Creditors, the Senior Secured Notes Trustee and the Pari Passu Debt Representative give prior consent to that payment being made;

(d) the payment is of Senior Notes Trustee Amounts and/or Additional Unsecured Debt Representative Liabilities (as defined in the Intercreditor Agreement);

(e) the payment is by the Senior Notes Issuer or Additional Unsecured Issuer/Borrower (as the case may be) (as defined in the Intercreditor Agreement) of any of its obligations under the Senior Notes Documents and/or Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) that is not prohibited from being paid under the Senior Secured Notes Documents or any Pari Passu Debt Document and such payment is not financed by a payment by the Senior Notes Issuer or Additional Unsecured Issuer/Borrower (as the case may be) (as defined in the Intercreditor Agreement) from a member of the Restricted Group which is prohibited by the Credit Facility Documents, the Senior Secured Notes Documents and any existing Pari Passu Debt Documents;

(f) the payment is of costs, commissions, taxes, consent fees and expenses incurred in respect of (or reasonably incidental to) the Senior Notes Documents (including in relation to any reporting or listing requirements under the Senior Notes Documents) or the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) (including in relation to any reporting or listing requirements under the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement)); or

(g) the payment is of costs, commissions, taxes, premiums and any expenses incurred in respect of (or reasonably incidental to) any refinancing of the Senior Notes or Additional Unsecured Debt in compliance with the Intercreditor Agreement and permitted by the Credit Facility Documents, the Senior Secured Notes Indenture and any Pari Passu Debt Document; and

(B) on or after the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), make payments to the Senior Notes Creditors (as defined in the Intercreditor Agreement) and/or the Additional Unsecured Debt Creditors in respect of the relevant Senior Liabilities (as defined in the Intercreditor Agreement) in accordance with the Senior Notes Documents or the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement), as applicable.

Senior Standstill Period

In relation to a Relevant Senior Default (as defined in the Intercreditor Agreement), a Senior Standstill Period shall mean the period beginning on the date (the "**Senior Standstill Start Date**") the relevant Creditor Representative serves an enforcement notice on the Credit Facility Agent, the Trustee for the Senior Secured Notes and the Pari Passu Debt Representative(s) in respect of such Relevant Senior Default (as defined in the Intercreditor Agreement) and ending on the earlier to occur of: (a) the date falling 179 days after the Senior Standstill Start Date (the "**Senior Standstill Period**"); (b) the date the Senior Secured Parties (as defined in the Intercreditor Agreement) take any Enforcement Action (as defined in the Intercreditor Agreement) in relation to a guarantor of the Senior Notes or Additional Unsecured Debt provided, however, that: (i) if a Senior Standstill Period ends pursuant to this paragraph (b), the Senior Notes Creditors and the Additional Unsecured Debt Creditors may only take the same Enforcement Action (as defined in the Intercreditor Agreement) in relation to such guarantor as the Enforcement Action (as defined in the Intercreditor Agreement) taken by the Senior Secured Parties (as defined in the Intercreditor Agreement) against such guarantor and not against any other member of the Restricted Group; and (ii) Enforcement Action for the purpose of this paragraph (b) shall not include action taken to preserve or protect any Security as opposed to realize it; (c) the date of an Insolvency Event (as defined in the Intercreditor Agreement) in relation to a guarantor of the Senior Notes or Additional Unsecured Debt against whom Enforcement Action (as defined in the Intercreditor Agreement) is to be taken; (d) the expiry of any other Senior Standstill Period outstanding at the date such first mentioned Senior Standstill Period commenced (unless that expiry occurs as a result of a cure, waiver or other permitted remedy); (e) the date on which the Credit Facility Agent, the trustee for the Senior Secured Notes and the Pari Passu Debt Representative(s) (as applicable) consent to an enforcement in respect of the Relevant Senior Default by the relevant Senior Notes Creditor or Additional Unsecured Debt Creditor; and (f) a failure to pay the principal amount outstanding on the Senior Notes or Additional Unsecured Debt at the final stated maturity of the Senior Notes or Additional Unsecured Debt, as applicable.

Payment obligations and capitalization of interest continue

Under the Intercreditor Agreement no Debtor shall be released from its liability to make any payment (including of default interest, which shall continue to accrue) under any Senior Notes Document or any Additional Unsecured Debt Document by the operation of the provisions of the Intercreditor Agreement described in "—Restriction on payment and dealings: Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities" even if its obligation to make that payment is restricted at any time by the terms of any of the provisions of the Intercreditor Agreement described in "—Restriction on payment and dealings: Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities."

The accrual and capitalization of interest (if any) in accordance with the Senior Notes Documents or the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) shall continue notwithstanding the issue of a Senior Payment Stop Notice.

Cure of payment stop

If at any time following the issue of a Senior Payment Stop Notice or the occurrence of a Secured Debt Payment Default (as defined in the Intercreditor Agreement), that Senior Payment Stop Notice ceases to be outstanding and/or (as the case may be) the Secured Debt Payment Default (as defined in the Intercreditor Agreement) ceases to be continuing and the relevant Debtor then promptly pays to the Senior Noteholders and/or the Additional Unsecured Debt Creditors an amount equal to any payments which had accrued under the Senior Notes Documents and the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement) (as applicable) and which would have been Permitted Senior Noteholder Payments or Permitted Additional Unsecured Debt Payments (each as defined in the Intercreditor Agreement), as the case may be, but for that Senior Payment Stop Notice or Secured Debt Payment Default (as defined in the Intercreditor Agreement), then any Event of Default which may have occurred as a result of that suspension of payments shall be waived and any Senior Enforcement Notice (as defined in the Intercreditor Agreement) which may have been issued as a result of that Event of Default shall be waived, in each case without any further action being required on the part of the Senior Noteholders or Additional Unsecured Debt Creditors (as the case may be).

Restrictions on amendments and waivers

Without prejudice to the terms of the Credit Facility Documents, the Senior Secured Notes Documents and the Pari Passu Debt Documents: (i) the Senior Notes Creditors (as defined in the Intercreditor Agreement) may amend or waive the terms of the Senior Notes Documents; and (ii) any Additional Unsecured Debt Creditors may amend or waive the terms of the relevant Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement), in each case other than the Intercreditor Agreement and in each case in accordance with their terms, at any time.

Restrictions on enforcement by Senior Notes Creditors and Additional Unsecured Debt Creditors

The Intercreditor Agreement provides that until the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), except with the prior consent of or as required by an Instructing Group (as defined in the Intercreditor Agreement and as further described in "—Enforcement decisions" below), no Senior Notes Creditor (as defined in the Intercreditor Agreement) shall take or require the taking of any Enforcement Action (as defined in the Intercreditor Agreement) in relation to the Senior Notes Guarantees or Shared Collateral, except as permitted under the provisions described in "—Permitted Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities Enforcement" below.

Permitted Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities Enforcement.

The restrictions in the provisions described in this description "—Restrictions on enforcement by Senior Notes Creditors and Additional Unsecured Debt Creditors" will not apply in respect of the Senior Notes Guarantee Liabilities (as defined in the Intercreditor Agreement), the Additional Unsecured Debt Guarantee Liabilities (as defined in the Intercreditor Agreement) or the Shared Security Documents (as defined in the Intercreditor Agreement) if:

- a Senior Notes Default or Additional Unsecured Debt Default (each as defined under the Intercreditor Agreement) (the "**Relevant Senior Default**") is continuing;

- the Credit Facility Agent, the Senior Secured Notes Trustee and the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) have received a written notice of the Relevant Senior Default specifying the event or circumstance in relation to the Relevant Senior Default from the Senior Notes Trustee or Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement), as the case may be;

- a Senior Standstill Period has elapsed; and
- the Relevant Senior Default is continuing at the end of the relevant Senior Standstill Period.

Promptly upon becoming aware of a Senior Notes Default or Additional Unsecured Debt Default, the Senior Notes Trustee or the Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) (as applicable) may by notice (a "**Senior Enforcement Notice**") in writing notify the Credit Facility Agent, the Senior Secured Notes Trustee and the Pari Passu Debt Representative(s) (as defined in the Intercreditor Agreement) of the existence of such Senior Notes Default (as defined under the Intercreditor Agreement) or, as the case may be, such Additional Unsecured Debt Default (as defined under the Intercreditor Agreement).

Subsequent senior defaults

The Senior Notes Creditors (as defined in the Intercreditor Agreement) and the Additional Unsecured Debt Creditors (as applicable) may take Enforcement Action (as defined in the Intercreditor Agreement) under the provisions of the Intercreditor Agreement described in "—Permitted Senior Notes Guarantee Liabilities and Additional Unsecured Debt Guarantee Liabilities Enforcement" above in relation to a Relevant Senior Default even if, at the end of any relevant Senior Standstill Period or at any later time, a further Senior Standstill Period has begun as a result of any other Senior Notes Default or Additional Unsecured Debt Default (each as defined under the Intercreditor Agreement).

Creditor Representative

Under the Intercreditor Agreement, the parties have appointed various Creditor Representatives. "**Creditor Representative**" means:

(a) in relation to the Revolving Credit Facility Lenders, the Original RCF Agent;

(b) in relation to the Credit Facility Lenders under any Credit Facility (other than the RCF Facility), the facility agent (or equivalent) in respect of that Credit Facility (which, for the avoidance of doubt, may be the Credit Facility Lender itself if there is no trustee, agent or similar creditor representative in respect of the relevant Credit Facility) (together with the Revolving Credit Facility Agent, the "**Credit Facility Agents**");

(c) in relation to the Senior Secured Noteholders, the trustee for the Senior Secured Notes;

(d) in relation to the Senior Noteholders, the trustee for the Senior Notes;

(e) in relation to any Pari Passu Creditors, the Pari Passu Debt Representative for such Pari Passu Creditors;

(f) in relation to any Additional Unsecured Debt Creditor of any Additional Unsecured Debt, the Additional Unsecured Debt Representative in respect of those Additional Unsecured Debt Creditors; and

(g) in relation to any Hedge Counterparty, each Hedge Counterparty shall be its own Creditor Representative.

Enforcement instructions

The Security Agent may refrain from enforcing the Transaction Security or taking any other enforcement action unless otherwise instructed by the relevant (i) Instructing Group or (ii) the trustee for the Senior Notes and/or Additional Unsecured Debt Representative (acting in accordance on the instructions of the Senior Notes/Additional Debt Required Holders (as defined below)) (as further described in "—Enforcement decisions" below).

Subject to the Transaction Security having become enforceable in accordance with its terms and subject to the terms of the Intercreditor Agreement, the Instructing Group may give instructions to the Security Agent as to the enforcement of the Transaction Security as they see fit provided that the instructions as to enforcement given by the Instructing Group are consistent with the Security Enforcement Principles (as defined below) or to the extent permitted to enforce or to require the enforcement of the Shared Collateral prior to the Senior Debt Discharge Date in accordance with the Intercreditor

Agreement and subject to paragraphs below, the Senior Notes/Additional Unsecured Debt Required Holders may give instructions to the Security Agent as to the enforcement of the Shared Collateral as they see fit provided that such instructions given by the Senior Notes/Additional Debt Required Holders are consistent with the Security Enforcement Principles.

Prior to the Secured Debt Discharge Date:

(a) if the Instructing Group has instructed the Security Agent not to enforce or to cease enforcing the Transaction Security; or

(b) in the absence of instructions from the Instructing Group,

and, in each case, the Instructing Group has not required any Debtor to make a Distressed Disposal, the Security Agent shall give effect to any instructions to enforce the Shared Collateral which the Senior Notes/Additional Unsecured Debt Required Holders are then entitled to give to the Security Agent under and in accordance with the relevant provisions of the Intercreditor Agreement.

Notwithstanding the above, if at any time the Senior Notes/Additional Unsecured Debt Required Holders are then entitled to give the Security Agent instructions to enforce the Shared Collateral pursuant to the paragraph above and the Senior Notes/Additional Unsecured Debt Required Holders either gives such instruction or indicates any intention to give such instruction, then the Instructing Group may give instructions to the Security Agent to enforce the Shared Collateral as the Instructing Group sees fit in lieu of any instructions to enforce given by the Senior Notes/Additional Unsecured Debt Required Holders under and in accordance with the terms of the Intercreditor Agreement.

Enforcement decisions

For the purposes of this paragraph "—Intercreditor Agreement":

(a) "**Majority Super Senior Creditors**" means, at any time, those Super Senior Creditors (as defined below) (in each case acting through their Creditor Representative) whose Super Senior Credit Participations (as defined in the Intercreditor Agreement) at that time aggregate more than $66^2/_3$% of the total Super Senior Credit Participations (as defined in the Intercreditor Agreement) at that time.

(b) "**Senior Notes/Additional Unsecured Debt Required Holders**" means, at any time, those Senior Notes Required Holders (as defined in the Intercreditor Agreement) and Additional Unsecured Debt Required Holders (as defined in the Intercreditor Agreement) whose Senior Credit Participations (as defined in the Intercreditor Agreement) at that time aggregate more than 50% of the total Senior Credit Participations (as defined in the Intercreditor Agreement) at that time.

(c) "**Senior Secured Notes/Pari Passu Required Holders**" means, at any time, those Senior Secured Notes Required Holders (as defined in the Intercreditor Agreement) and Pari Passu Debt Required Holders (as defined in the Intercreditor Agreement) (in each case, acting through their Creditor Representatives) whose Senior Secured Credit Participations (as defined in the Intercreditor Agreement) at that time aggregate more than 50% of the total Senior Secured Credit Participations (as defined in the Intercreditor Agreement) at that time.

If either the Majority Super Senior Creditors or the Senior Secured Notes/Pari Passu Required Holders in each case as defined in the Intercreditor Agreement (in each case, acting through their Creditor Representatives) wish to instruct the Security Agent to commence enforcement of any Transaction Security, such group of creditors must deliver a copy of the proposed instructions as to enforcement (the "**Proposed Enforcement instructions**") to the Security Agent and the Creditor Representative for each of the creditors of the Super Senior Liabilities (the "**Super Senior Creditors**"), the trustee for the Senior Secured Notes and each Pari Passu Debt Representative (as appropriate). The Security Agent shall promptly notify each Creditor Representative of the Super Senior Creditors, the trustee for the Senior Secured Notes and each of the Pari Passu Debt Representatives upon receipt of such Proposed Enforcement Instructions.

Prior to the Super Senior Discharge Date (as defined in the Intercreditor Agreement), subject to certain terms described in the next paragraph below, if the Security Agent has received any Proposed Enforcement Instructions, then the Security Agent shall either enforce or refrain from enforcing the Transaction Security in accordance with the instructions of the Senior Secured Notes/Pari Passu Required Holders (and the Senior Secured Notes/Pari Passu Required Holders shall be the Instructing Group for the purpose of "—Enforcement instructions" above, in each case, acting through their respective Creditor Representative) and any such instructions by such Instructing Group must be in accordance with the Security Enforcement Principles (as referred to below) and failure to give instructions will be deemed to be an instruction not to take Enforcement (as defined in the Intercreditor Agreement) steps.

In the event that:

(a) from the date that is three-months after the date upon which the first Proposed Enforcement Instructions (including instructions not to take Enforcement (as defined in the Intercreditor Agreement) steps) are delivered, the Senior Secured Notes/Pari Passu Required Holders have not taken any Relevant Enforcement Action (as defined in the Intercreditor Agreement) of the Transaction Security; or

(b) the Super Senior Liabilities have not been fully discharged in cash within six months of the date upon which the first such Proposed Enforcement Instructions (including any such instructions not to take Enforcement (as defined in the Intercreditor Agreement) steps) are delivered,

then (with effect from the date of the earlier to occur of such events), the Majority Super Senior Creditors shall become the Instructing Group for the purposes of "—Enforcement instructions" above.

If at any time the Security Agent has not taken any Relevant Enforcement Action (as defined in the Intercreditor Agreement) with respect to the Transaction Security notwithstanding the Transaction Security having become enforceable in accordance with its terms, a Creditor Representative acting on behalf of the Majority Super Senior Creditors or the Senior Secured Notes/Pari Passu Required Holders, as the case may be, may at any time provide immediate instructions as to Enforcement (as defined in the Intercreditor Agreement) to the Security Agent if the Majority Super Senior Creditors or the Senior Secured Notes/Pari Passu Required Holders determine in good faith (and notify the Creditor Representatives of the other Super Senior Creditors and the Senior Secured Notes Creditors and the Pari Passu Creditors and the Security Agent) that the delay in taking Relevant Enforcement Action of the Transaction Security could reasonably be expected to have a material adverse effect on:

(i) the Security Agent's ability to enforce the Transaction Security; or

(ii) the realization proceeds of any enforcement of the Transaction Security,

and the Security Agent shall act with respect to the relevant asset or Debtor that is the subject of the determination pursuant to (i) or (ii) above, in accordance with the first such notice of determination and instructions as to Enforcement (and in each case any such instructions by such Instructing Group must be in accordance with the Security Enforcement Principles (referred to below)) received by the Security Agent.

If at any time an insolvency event has occurred with respect to any Debtor (other than an insolvency event which is the direct result of any action taken by the Security Agent acting on the instructions of the Majority Super Senior Creditors or the Senior Secured Notes/Pari Passu Required Holders), the Security Agent shall act, to the extent the Credit Facility Agent elects to provide such instructions, in accordance with the instructions received from the Credit Facility Agent provided that in the event the Security Agent has received Proposed Enforcement Instructions from the Creditor Representative for the Senior Secured Notes/Pari Passu Required Holders and has commenced relevant enforcement action pursuant to such instructions, the Security Agent shall continue to act in accordance with the instructions of the Creditor Representative for the Senior Secured Notes/Pari Passu Required Holders until such time as the Credit Facility Agent issues enforcement instructions to the Security Agent and such instructions shall override and supersede any such prior instructions given by the Creditor Representative for the Senior Secured Notes/Pari Passu Required Holders.

Other than where the preceding two paragraphs apply, if, prior to the Super Senior Discharge Date (as defined in the Intercreditor Agreement), the Majority Super Senior Creditors or the Senior Secured Notes/Pari Passu Required Holders (in each case, acting reasonably) consider that the Security Agent is enforcing the Transaction Security in a manner which is not consistent with the Security Enforcement Principles (as referred to below), the Creditor Representatives for the relevant Super Senior Creditors, the Pari Passu Debt Representative(s) or the trustee for the Senior Secured Notes shall give notice to the Creditor Representatives for the other Super Senior Creditors, Pari Passu Debt Representative(s) and the trustee for the Senior Secured Notes (as appropriate) and the Security Agent, after which the Creditor Representatives for the other Super Senior Creditors, the trustee for the Senior Secured Notes and each Pari Passu Debt Representative shall consult with the Security Agent for a period of 15 days (or such lesser period as the relevant Creditor Representatives may agree) with a view to agreeing the manner of enforcement provided that such Creditor Representatives shall not be obliged to consult in the manner referred to in this paragraph more than once in relation to each enforcement action. Upon receipt of a notice described herein, the Security Agent shall refrain, without liability, from taking any further action relating to Enforcement and need not resume any such enforcement action until further instructions are received by it from the relevant Instructing Group.

After the Super Senior Discharge Date, the Security Agent shall either enforce or refrain from enforcing the Transaction Security in accordance with the instructions provided by the Senior Secured Notes/Pari Passu Required Holders.

If the Transaction Security is being enforced or other action as to enforcement is being taken, the Security Agent shall enforce the Transaction Security or take other action as to enforcement in such manner (including, without limitation, the selection of any administrator or examiner of any Debtor or Third Party Chargor (as defined in the Intercreditor Agreement) to be appointed by the Security Agent) as:

(a) the Instructing Group; or

(b) prior to the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), if:

   (i) the Security Agent has, pursuant to the relevant provisions of the Intercreditor Agreement, received instructions from the Senior Notes/Additional Unsecured Debt Required Holders to enforce the Shared Collateral; and

   (ii) the Instructing Group has not given instructions as to the manner of enforcement of the Shared Collateral,

   the Senior Notes/Additional Unsecured Debt Required Holders shall instruct and any such instructions by the Instructing Group or the Senior Notes/Additional Secured Debt Required Holders (as the case may be) must be in accordance with the Security Enforcement Principles. For the avoidance of doubt, in the absence of instructions from an Instructing Group or the Senior Notes/Additional Unsecured Debt Required Holders (as the case may be), the Security Agent will not be required to take any action.

Limitation on enforcement of Finco Liabilities

For the purposes of this paragraph "—Intercreditor Agreement":

"**Proceeds Loan Borrower**" means:

(a) Glenmore (merged with P4 on September 30, 2015); and/or

(b) (until the Senior Secured Notes Discharge Date (as defined in the Intercreditor Agreement)) any member of the Restricted Group that is the Senior Secured Notes Issuer or a Senior Secured Note Guarantor other than the Senior Notes Issuer and the borrower or issuer of Additional Unsecured Debt; and/or

(c) (on or after the Senior Secured Notes Discharge Date (as defined in the Intercreditor Agreement)) any member of the Restricted Group,

in each case, that is the holder or borrower of the Senior Notes Proceeds Notes.

"**Senior Notes Proceeds Notes**" means:

(a) the loan, bond or other debt instrument whereby any proceeds of the issue of Senior Notes are lent/issued by the Senior Notes Issuer to a Proceeds Loan Borrower; and

(b) any loan, bond or other debt instrument whereby any proceeds of the issue of Additional Unsecured Debt in the form of notes or drawing of Additional Unsecured Debt is lent/issued by the issuer or borrower of the Additional Unsecured Debt to a Proceeds Loan Borrower.

The Senior Notes Issuer(s) and borrower or issuer of the Additional Unsecured Debt (as the case may be) will not be permitted to take any enforcement action in respect of Finco Liabilities save that, prior to the Secured Debt Discharge Date (as defined in the Intercreditor Agreement) and after the occurrence of an Insolvency Event (as defined in the Intercreditor

Agreement) in relation to the Proceeds Loan Borrower(s), the Senior Notes Issuer(s) and the borrower or issuer of the Additional Unsecured Debt (as the case may be) may (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of the Senior Notes Issuer(s) and issuer or borrower of the Additional Unsecured Debt (as the case may be) in accordance with the Intercreditor Agreement), exercise any right it may otherwise have against such Proceeds Loan Borrower(s) to:

(a) accelerate any of the relevant Proceeds Loan Borrower(s)' Finco Liabilities or declare them prematurely due and payable or payable on demand;

(b) make a demand under any guarantee, indemnity or other assurance against loss given by such Proceeds Loan Borrower(s) in respect of any Finco Liabilities;

(c) exercise any right of set off or take or receive any payment in respect of any Finco Liabilities of the Proceeds Loan Borrower(s); or

(d) claim and prove in the liquidation of the relevant Proceeds Loan Borrower(s) for Finco Liabilities owing to it,

but shall not take any other enforcement action.

Security: Finco Liabilities

Prior to the Secured Debt Discharge Date (as defined in the Intercreditor Agreement), the Senior Notes Issuer and the Additional Unsecured Issuer/Borrower (as the case may be) may not take, accept or receive the benefit of any security, guarantee, indemnity or other assurance against loss in respect of Finco Liabilities other than as expressly permitted in, or not prohibited under, the Credit Facility Documents, the Senior Secured Notes Documents, the Senior Notes Documents, Additional Unsecured Debt Documents and the Pari Passu Debt Documents.

Amendments and waivers: Finco Liabilities

The Intercreditor Agreement provides that prior to the Secured Debt Discharge Date, the Senior Notes Issuer(s), the issuer or borrower of the Additional Unsecured Debt (as the case may be) and the Proceeds Loan Borrower(s) may not amend or waive the terms of any agreement evidencing the terms of the Finco Liabilities unless:

(a) the amendment or waiver is of a minor, technical or administrative nature or is not materially adverse to the Primary Creditors (as defined in the Intercreditor Agreement) (and provided that such amendment or waiver does not result in any such agreement becoming inconsistent with the Intercreditor Agreement);

(b) the amendment or waiver is expressly permitted or not prohibited by the Credit Facility Documents, the Senior Secured Notes Documents, the Pari Passu Debt Documents (if any), the Senior Notes Documents and the Additional Unsecured Debt Documents (if any); or

(c) the amendment is to the intra-group notes which constitutes Finco Liabilities and is to ensure that the payment flows under the intra-group notes constituting Finco Liabilities align with those under the Senior Notes Indenture and/or Additional Unsecured Debt Documents (if applicable) pursuant to which any Senior Notes and/or Additional Unsecured Debt remain outstanding; or

(d) the prior written consent of the Instructing Group is obtained.

Limitation on enforcement of Shareholder Liabilities

Creditors in respect of the Shareholder Liabilities will not be permitted to take any enforcement action in respect of such liabilities prior to the last to occur of the discharge of all the Secured Liabilities (the "**Final Discharge Date**") save that, prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to any member of the Restricted Group or grantor of Transaction Security, each such shareholder creditor may only (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of that shareholder creditor in accordance with the terms of the Intercreditor Agreement) exercise any right it may otherwise have against that member of the Restricted Group to:

(a) accelerate any of that member of the Restricted Group's Shareholder Liabilities or declare them prematurely due and payable or payable on demand;

(b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Restricted Group in respect of any Shareholder Liabilities;

(c) exercise any right of set off or take or receive any payment in respect of any Shareholder Liabilities of that member of the Restricted Group; or

(d) claim and prove in the liquidation of that member of the Restricted Group for the Shareholder Liabilities owing to it,

but shall not take any other enforcement action.

Limitation on enforcement of Intra-Group Liabilities

Creditors in respect of the Intra-Group Liabilities ("**Intra Group Lenders**") will not be permitted to take any enforcement action in respect of such liabilities prior to the Final Discharge Date except that, prior to the Final Discharge Date and after the occurrence of an insolvency event in relation to any member of the Restricted Group or grantor of Transaction Security, each Intra Group Lender may only (unless otherwise directed by the Security Agent or unless the Security Agent has taken, or has given notice that it intends to take, action on behalf of that Intra Group Lender in accordance with the Intercreditor Agreement) and shall, if so directed by the Security Agent, exercise any right it may otherwise have against that member of the Restricted Group to:

(a) accelerate any of that Restricted Group member's Intra Restricted Group Liabilities or declare them prematurely due and payable or payable on demand;

(b) make a demand under any guarantee, indemnity or other assurance against loss given by that member of the Restricted Group in respect of any Intra-Group Liabilities;

(c) exercise any right of set off or take or receive any payment in respect of any Intra-Group Liabilities of that member of the Restricted Group; or

(d) file claims, or claim and prove in the liquidation of that member of the Restricted Group for the Intra Group Liabilities owing to it,

but shall not take any other enforcement action (excluding certain limited actions).

Security Enforcement Principles

A Creditor Representative may only give enforcement instructions that are consistent with the following security enforcement principles (the "**Security Enforcement Principles**"):

(a) it shall be the primary and overriding aim of any enforcement of the Transaction Security to achieve the security enforcement objective, such objective being to maximize the recovery by the Secured Parties (as defined in the Intercreditor Agreement) so far as such recovery is consistent with prompt and expeditious realization of value from enforcement of the Transaction Security (the "**Security Enforcement Objective**");

(b) without prejudice to the Security Enforcement Objective, the Transaction Security will be enforced and other enforcement action will be taken such that either:

    (i) all proceeds of enforcement are received by the Security Agent in cash for distribution in accordance with the terms of the Intercreditor Agreement (as further described in "—Application of proceeds" below); or

    (ii) in the case of enforcement by the Senior Secured Notes/Pari Passu Required Holders sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that when the proceeds are applied in accordance with the terms of the Intercreditor Agreement, the Super Senior Liabilities are repaid and discharged in full in cash (unless the Majority Super Senior Creditors agree otherwise);

(c) to the extent that the Transaction Security that is the subject of the proposed enforcement action is:

(i) securing assets other than shares in a member of the Group where the aggregate book value of such assets exceeds the threshold as provided for in the Intercreditor Agreement (or its equivalent); or

(ii) over some or all of the shares in a member of the Group,

then the Security Agent shall, if requested by the Instructing Group or the Senior Notes/Additional Senior Unsecured Debt Required Holders (as the case may be), and at the expense of the Company, (to the extent that financial advisers have not adopted a general policy of not providing such opinion) appoint an internationally recognized investment bank or accountancy firm or, if it is not practicable for the Security Agent to appoint any such bank or firm on commercially reasonable terms (including for reasons of conflicts of interest) as determined by the Security Agent (acting in good faith), another third party professional firm which is regularly engaged in providing valuations in respect of the relevant type of assets (in each case not being the firm appointed as the relevant Debtor's administrator or other relevant officer holder) selected by the Security Agent (a "**Financial Adviser**") to opine that the consideration received from any disposal is fair from a financial point of view after taking into account all relevant circumstances (a "**Financial Adviser's Opinion**");

(d) the Security Agent shall be under no obligation to appoint a Financial Adviser or to seek the advice of a Financial Adviser, unless expressly required to do so by the Intercreditor Agreement. Prior to making any appointment of a Financial Adviser, the Security Agent is entitled to ensure that cost cover (at a level it is satisfied with) has been provided;

(e) the Financial Adviser's Opinion (or any equivalent opinion obtained by the Security Agent in relation to any other enforcement of the Transaction Security that such action is fair from a financial point of view after taking into account all relevant circumstances) will be conclusive evidence that the Security Enforcement Objective has been met;

(f) where the Instructing Group is the Senior Secured Notes/Pari Passu Required Holders, the Senior Secured Notes/Pari Passu Required Holders may waive the requirement for a Financial Adviser's Opinion where sufficient proceeds from enforcement will be received by the Security Agent in cash to ensure that when the proceeds are applied in accordance with the terms of the Intercreditor Agreement, the Super Senior Liabilities are repaid and discharged in full; and

(g) in the event that an enforcement of the Transaction Security is conducted by way of public auction (as defined below), no Financial Adviser shall be required to be appointed, and no Financial Adviser's Opinion shall be required, in relation to such enforcement, provided that the Security Agent shall be entitled (but not obliged) to appoint a Financial Adviser to provide such advice as the Security Agent deems appropriate in relation to such enforcement by way of public auction.

The Security Enforcement Principles may be amended, varied or waived with the prior written consent of the Majority Super Senior Creditors, the Senior Secured Notes Required Holders, the Pari Passu Debt Required Holders of each tranche of Pari Passu Debt (each as defined therein) and the Security Agent.

Turnover

The Intercreditor Agreement also provides that if at any time prior to the Final Discharge Date any Primary Creditor receives or recovers the proceeds of any enforcement of any Transaction Security, it shall:

(a) in relation to receipts and recoveries not received or recovered by way of set-off, (i) hold an amount of that receipt or recovery equal to the Relevant Liabilities (as defined in the Intercreditor Agreement) (or if less, the amount received or recovered) on trust for the Security Agent and separate from other assets, property or funds and promptly pay that amount to the Security Agent for application in accordance with the terms of this Agreement; and (ii) promptly pay an amount equal to the amount (if any) by which the receipt or recovery exceeds the Relevant Liabilities (as defined in the Intercreditor Agreement) to the Security Agent for application in accordance with the terms of the Intercreditor Agreement; and

(b) in relation to receipts and recoveries received or recovered by way of set-off, promptly pay an amount equal to that recovery to the Security Agent for application in accordance with the terms of the Intercreditor Agreement.

Application of proceeds

The Intercreditor Agreement provides that amounts received (other than recoveries from the Senior Notes Issuer or the borrower or issuer of the Additional Unsecured Debt (as the case may be) (except with respect to the realization or enforcement of Shared Collateral)) from the realization or enforcement of all or any part of the Transaction Security or otherwise paid to the Security Agent to be applied as follows, will be applied in the following order of priority:

(a) first, (i) pari passu and pro rata any sums owing to the Security Agent, any Receiver or any Delegate, in each case in their capacity as such; and then; (ii) pari passu and pro rata, any certain amounts payable to the trustee in its capacity as trustee for the Senior Secured Notes, any sums owing to any Pari Passu Debt Representative in their capacity as a Creditor Representative, certain amounts payable to the trustee in its capacity as trustee for the Senior Notes and any sums owing to the Additional Unsecured Debt Representative in its capacity as Creditor Representative, as the case may be; and then; (iii) pari passu and pro rata to each Creditor Representative (to the extent such sum is not included in sub-paragraphs (i) and (ii) above and excluding any Hedge Counterparty in its capacity as its own Creditor Representative) of the unpaid fees, costs, expenses and liabilities (and all interest thereon as provided in the relevant Secured Debt Documents (as defined in the Intercreditor Agreement)) of each such Creditor Representative and any receiver, attorney or agent appointed by such Creditor Representative under any document governing Transaction Security or the Intercreditor Agreement (to the extent that such security has been given in favor of such obligations);

(b) second, pari passu and pro rata, in or towards payment to the relevant Creditor Representative of the Super Senior Creditors, to the trustee on behalf of the Senior Secured Noteholders, to the relevant Hedge Counterparties (that are not Super Senior Creditors), to the relevant Pari Passu Debt Representative on behalf of the Pari Passu Creditors, to the trustee on behalf of the Senior Noteholders and to the relevant Additional Unsecured Debt Representative on behalf of the Additional Unsecured Debt Creditors for application towards any unpaid costs and expenses incurred by those creditors in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of this Agreement or any action taken at the request of the Security Agent;

(c) third, in or towards payment to, (i) the Revolving Credit Facility Agent on its own behalf and on behalf of the finance parties under the Revolving Credit Facility and on behalf of the arrangers under the Revolving Credit Facility (or following the RCF Discharge Date (as defined in the Intercreditor Agreement), each Creditor Representative(s) in respect of a Credit Facility on its own behalf and on behalf of the arrangers and lenders under that Credit Facility); and (ii) the Super Senior Hedge Counterparties (as defined in the Intercreditor Agreement), for application towards the discharge of: (A) the Revolving Credit Facility Agent Liabilities and the Credit Facility Lender Liabilities and related arranger liabilities (or following the RCF Discharge Date (as defined in the Intercreditor Agreement), the Creditor Representative Liabilities owed to the Creditor Representatives in respect of each Credit Facility, the Credit Facility Lender Liabilities and the related arranger liabilities) in accordance with the terms of the Credit Facility Documents; and (B) the Super Senior Hedging Liabilities (as defined in the Intercreditor Agreement) on a pari passu and pro rata basis between paragraphs (A) and (B);

(d) fourth, pari passu and pro rata to the trustee on behalf of the Senior Secured Noteholders for application towards the discharge of the Senior Secured Notes Liabilities (in accordance with the Senior Secured Notes Indenture), to the Non-Super Senior Hedge Counterparties (as defined in the Intercreditor Agreement) for application towards the discharge of the Non- Super Senior Hedging Liabilities (as defined in the Intercreditor Agreement), the relevant Pari Passu Debt Representative on behalf of the Pari Passu Creditors for application towards the discharge of the Pari Passu Debt (in accordance with the Pari Passu Debt Documents);

(e) fifth, pari passu and pro rata (to the extent permitted by law) to the trustee on behalf of the Senior Noteholders for application towards the discharge of the Senior Notes Liabilities and the Additional Unsecured Debt Representative for application towards the discharge of the Additional Unsecured Debt; and

(f) sixth, after the Final Discharge Date, in payment of the surplus (if any) to the relevant Debtor or any other person entitled to it.

The Intercreditor Agreement provides that amounts received by the Security Agent from the Senior Notes Issuer and the issuer or borrower of the Additional Unsecured Debt (other than pursuant to any security document governing Shared Collateral) from the realization or enforcement of all or any part of the Transaction Security or otherwise paid to the Security Agent to be applied as follows, will be applied in the following order of priority:

(i) first, in payment of the following amounts in the following order (A) pari passu and pro rata any sums owing to the Security Agent, any Receiver or any Delegate, in each case, in their capacity as such; and then; (B) pari passu and pro rata, certain amounts payable to the trustee in its capacity as trustee for the Senior Secured Notes, any sums owing to any Pari Passu Debt Representative in their capacity as a Creditor Representative, certain amounts payable to the trustee in its capacity as trustee for the Senior Notes and any sums owing to the Additional Unsecured Debt Representative in its capacity as Creditor Representative, as the case may be; and then (C) pari passu and pro rata to each Creditor Representative (to the extent such sum is not included in sub-paragraphs (A) and (B) above and excluding any Hedge Counterparty in its capacity as its own Creditor Representative) of the unpaid fees, costs, expenses and liabilities (and all interest thereon as provided in the relevant Secured Debt Documents (as defined in the Intercreditor Agreement)) of each such Creditor Representative and any receiver, attorney or agent appointed by such Creditor Representative under any document governing Transaction Security or the Intercreditor Agreement (to the extent that such Security has been given in favor of such obligations);

(ii) second, pari passu and pro rata, in or towards payment to the relevant Creditor Representative of the Super Senior Creditors, to the trustee on behalf of the Senior Secured Noteholders, to the relevant Hedge Counterparties (that are not Super Senior Creditors), to the relevant Pari Passu Debt Representative on behalf of the Pari Passu Creditors, to the trustee on behalf of the Senior Noteholders and to the relevant Additional Unsecured Debt Representative on behalf of the Additional Unsecured Debt Creditors for application towards any unpaid costs and expenses incurred by those creditors in connection with any realization or enforcement of the Transaction Security taken in accordance with the terms of this Agreement or any action taken at the request of the Security Agent;

(iii) third, in or towards payment to, (i) the Revolving Credit Facility Agent on its own behalf and on behalf of the finance parties under the Revolving Credit Facility and on behalf of the arrangers under the Revolving Credit Facility (or following the RCF Discharge Date (as defined in the Intercreditor Agreement), each Creditor Representative(s) in respect of a Credit Facility on its own behalf and on behalf of the arrangers and lenders under that Credit Facility); and (ii) the Super Senior Hedge Counterparties (as defined in the Intercreditor Agreement), for application towards the discharge of: (A) the Revolving Credit Facility Agent Liabilities and the Credit Facility Lender Liabilities and related arranger liabilities (or following the RCF Discharge Date (as defined in the Intercreditor Agreement), the Creditor Representative Liabilities owed to the Creditor Representatives in respect of each Credit Facility, the Credit Facility Lender Liabilities and the related arranger liabilities) in accordance with the terms of the Credit Facility Documents; and (B) the Super Senior Hedging Liabilities on a pari passu and pro rata basis between paragraphs (A) and (B);

(iv) fourth, pari passu and pro rata to the trustee on behalf of the Senior Secured Noteholders for application towards the discharge of the Senior Secured Notes Liabilities (in accordance with the Senior Secured Notes Indenture), to the Non-Super Senior Hedge Counterparties (as defined in the Intercreditor Agreement) for application towards the discharge of the Non- Super Senior Hedging Liabilities (as defined in the Intercreditor Agreement), the relevant Pari Passu Debt Representative on behalf of the Pari Passu Creditors for application towards the discharge of the Pari Passu Debt (in accordance with the Pari Passu Debt Documents), to the trustee on behalf of the Senior Noteholders for application towards the discharge of the Senior Notes Liabilities and the Additional Unsecured Debt Representative for application towards the discharge of the Additional Unsecured Debt;

(v) fifth, after the Final Discharge Date, in payment of the surplus (if any) to the Senior Notes Issuer and the relevant borrower or issuer of the Additional Unsecured Debt (as the case may be) or any other person entitled to it.

Effect of insolvency event; filing of claims

Without limitation to the provisions described above in "—Turnover" and "—Application of proceeds," and subject to certain specified provisions in the Intercreditor Agreement, after the occurrence of an Insolvency Event (as defined in the Intercreditor Agreement), the Intercreditor Agreement provides that any Subordinated Creditor (as defined in the Intercreditor Agreement), Additional Unsecured Debt Creditor or Senior Notes Creditor (as defined in the Intercreditor Agreement) entitled to receive a distribution out of the assets of the relevant member of the Restricted Group subject to the insolvency event in respect of:

- in the case of a Subordinated Creditor (as defined in the Intercreditor Agreement), any of the Liabilities (as defined in the Intercreditor Agreement) owed to that Party;

- in the case of an Additional Unsecured Debt Creditor, Additional Unsecured Debt Guarantee Liabilities (as defined in the Intercreditor Agreement); and

- in the case of a Senior Notes Creditor (as defined in the Intercreditor Agreement), Senior Notes Guarantee Liabilities (as defined in the Intercreditor Agreement),

shall, to the extent it is able to do so, including pursuant to applicable law and regulation, direct the person responsible for the distribution of the assets of the relevant member of the Restricted Group to pay that distribution to the Security Agent until the Liabilities (as defined in the Intercreditor Agreement) owing to the Secured Parties (as defined in the Intercreditor Agreement) under the Secured Debt Documents (as defined in the Intercreditor Agreement) have been paid in full.

The Security Agent shall apply distributions paid to it under the provision described above in accordance with "—Application of proceeds."

Set-off

To the extent that any member of the Restricted Group's Liabilities (as defined in the Intercreditor Agreement) are discharged by way of set-off (mandatory or otherwise) after the occurrence of an insolvency event, the Intercreditor Agreement provides that any:

- Subordinated Creditor which benefited from that set-off shall pay an amount equal to the amount of the Liabilities (as defined in the Intercreditor Agreement) owed to it which are discharged by that set-off to the Security Agent for application in accordance with "—Application of proceeds;" and

- Senior Notes Creditor (as defined in the Intercreditor Agreement) or Additional Unsecured Debt Creditor which benefitted from any set-off but only to the extent from any member of the Restricted Group other than the Senior Notes Issuer and the Additional Unsecured Issuer/Borrower (as the case may be) (as defined in the Intercreditor Agreement), shall pay an amount equal to the amount of the Senior Notes Liabilities (as defined in the Intercreditor Agreement) or Additional Unsecured Debt (as applicable) owed to it which are discharged by that set-off to the Security Agent for application in accordance with "—Application of proceeds."

Non-cash distributions

If the Security Agent or any other Secured Party (as defined in the Intercreditor Agreement) receives a distribution in a form other than in cash in respect of any of the Liabilities (as defined in the Intercreditor Agreement), the Intercreditor Agreement provides that the Liabilities (as defined in the Intercreditor Agreement) will not be reduced by that distribution until and except to the extent that the realization proceeds are actually applied towards the Liabilities (as defined in the Intercreditor Agreement).

Filing of claims

Subject to certain limitations described in the Intercreditor Agreement, after the occurrence of an Insolvency Event (as defined in the Intercreditor Agreement) each Creditor (as defined in the Intercreditor Agreement) irrevocably authorises the Security Agent (acting in accordance with the Intercreditor Agreement), on its behalf, to:

- take any Enforcement Action (as defined in the Intercreditor Agreement) (in accordance with the terms of the Intercreditor Agreement) against the relevant member of the Restricted Group;

- demand, sue, prove and give receipt for any or all of the relevant member of the Restricted Group's Liabilities (as defined in the Intercreditor Agreement);

- collect and receive all distributions on, or on account of, any or all of the relevant member of the Restricted Group's Liabilities (as defined in the Intercreditor Agreement); and

- file claims, take proceedings and do all other things the Security Agent considers necessary to recover the relevant member of the Restricted Group's Liabilities (as defined in the Intercreditor Agreement).

Creditors' actions

The Intercreditor Agreement further provides that each Creditor (as defined in the Intercreditor Agreement) will:

- do all things that the Security Agent (acting in accordance with the terms of the Intercreditor Agreement) requests in order to give effect to the provisions described in "—Effect of insolvency event; filing of claims;" and

- if the Security Agent is not entitled to take any of the actions contemplated by "—Effect of insolvency event; filing of claims" or if the Security Agent (acting in accordance with the Intercreditor Agreement) requests that a Creditor (as defined in the Intercreditor Agreement) take that action, undertake that action itself in accordance with the instructions of the Security Agent (acting in accordance with the Intercreditor Agreement) or grant a power of attorney to the Security Agent (on such terms as the Security Agent (acting in accordance with the Intercreditor Agreement) may require) to enable the Security Agent to take such action.

Additional Indebtedness

If a Debtor gives written notice to the Security Agent, the Creditor Representatives and the Hedge Counterparties that it intends to enter into one or more loans and/or credit or guarantee facilities and/or issue any debt securities under which it will incur additional or replacement indebtedness ("**Additional Indebtedness**") which the Company certifies to the Security Agent is permitted or not prohibited under the terms of the Senior Secured Notes Documents, the Pari Passu Debt Documents and the Credit Facility Documents, in each case to share in the Transaction Security (or in the case of Shared Collateral, in each case to share in the Shared Collateral under the terms of the Senior Secured Notes Documents, the Pari Passu Debt Documents, Credit Facility Documents, Senior Notes Documents and Additional Unsecured Debt Documents), then:

(a) at the request and cost of the Parent, the Parties will, and each Creditor Representative is authorised without the consent of any creditor or any other person to, enter into such documentation as may be necessary to give effect to the Additional Indebtedness and ensure that any obligations and liabilities incurred by the Debtors in respect of such Additional Indebtedness will have the ranking (and that the creditors under such Additional Indebtedness will have the rights and obligations) permitted or not prohibited to be conferred upon it in accordance with the Senior Secured Notes Documents, the Pari Passu Debt Documents and the Credit Facility Documents (and in the case of Shared Collateral, also in accordance with the Senior Notes Documents and Additional Unsecured Debt Documents) (including, without limitation, the entry into a new intercreditor agreement on substantially the same terms as the Intercreditor Agreement or an amendment to the Intercreditor Agreement); and

(b) the Security Agent is authorised by each Secured Party (as defined in the Intercreditor Agreement) (and for the avoidance of doubt without the consent of any creditor or any other person) to and shall release the Transaction Security and enter into documentation to effect a retaking, amendment or extension of the Transaction Security provided that the Company further certifies that the Company has complied with any requirements (if any) with respect to such release, retaking, amendment and/or extension of the Transaction Security (as applicable) in accordance with the relevant Debt Documents (as defined in the Intercreditor Agreement).

Release of the Guarantees and the security

Proceeds of disposals

In this section, "**Distressed Disposal**" means a disposal by a member of the Restricted Group of an asset subject to the Transaction Security which is being effected:

- at the request of the Instructing Group in circumstances where the Transaction Security has become enforceable;

- by enforcement of the Transaction Security; or

- after the occurrence of a Distress Event, by a Debtor to a person or persons which is, or are, not a member, or members, of the Restricted Group.

Non-Distressed Disposals

(A) In this description, "Disposal Proceeds" means the proceeds of a Non-Distressed Disposal (as defined below),

(B) The Intercreditor Agreement contains certain provisions governing a disposal of an asset which is subject to the Transaction Security to a person which is a member of the Restricted Group, and/or a merger, consolidation, amalgamation, reorganization or combination of the foregoing which relates to (by disposal or otherwise) any asset which is subject to the Transaction Security with or to a person which is a member of the Restricted Group.

(C) In respect of a disposal of an asset which is subject to the Transaction Security to a person or persons outside the Restricted Group; and/or a merger, consolidation, amalgamation, reorganization or combination of the foregoing which relates to (by disposal or otherwise) any asset which is subject to the Transaction Security with or to a person which is not a member of the Restricted Group, in each case which is permitted or not prohibited under the Credit Facility Documents, the Senior Secured Notes Indenture, the Pari Passu Debt Documents, (in respect of Shared Collateral) the Additional Unsecured Debt Documents (as defined in the Intercreditor Agreement), (in respect of Shared Collateral) the Senior Notes Indenture, and is not a Distressed Disposal (a "**Non-Distressed Disposal**"), and provided that the Company certifies to the Security Agent that the relevant disposal and/or merger (as applicable) is so permitted or not prohibited, the Intercreditor Agreement provides that the Security Agent is irrevocably authorised and instructed (at the cost of the relevant Debtor or the Company and without any consent, sanction, authority or further confirmation, but subject to paragraph (D) below:

- to release the Transaction Security or any other claim (relating to a debt document) over that asset;

- where that asset consists of shares in the capital of a Debtor, to release the Transaction Security or any other claim (relating to a debt document) over the assets of that Debtor and the shares in and assets of any of its Subsidiaries (as defined in the Intercreditor Agreement); and

- to execute and deliver or enter into any release of the Transaction Security or any claim described in the bullet points above and issue any certificates of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable.

(D) If any disposal described above is not made, each release of Transaction Security or any claim described above shall have no effect and the Transaction Security or claim subject to that release shall continue in such force and effect as if that release had not been effected.

(E) If any Disposal Proceeds are required to be applied in mandatory prepayment of any of the Secured Liabilities (as defined in the Intercreditor Agreement) or to be offered to Secured Parties (as defined in the Intercreditor Agreement) pursuant to the terms of the relevant Secured Debt Documents (as defined in the Intercreditor Agreement) then the Intercreditor Agreement provides that such proceeds shall be applied in or towards payment of such Secured Liabilities (as defined in the Intercreditor Agreement) or shall be offered to the relevant Secured Parties (as defined in the Intercreditor Agreement) in accordance with the terms of the relevant Secured Debt Documents (as defined in the Intercreditor Agreement) and the consent of any other Party shall not be required for that application.

Distressed Disposals

Subject to certain specified provisions of the Intercreditor Agreement and receipt by the Security Agent of instructions pursuant to the Intercreditor Agreement, if a Distressed Disposal is being effected, the Intercreditor Agreement provides that the Security Agent is irrevocably authorised and without any consent, sanction, authority or further confirmation:

(A) *Release of Transaction Security / non-crystallization certificates*: to release the Transaction Security, or any other claim over that asset and execute and deliver or enter into any release of that Transaction Security, or claim and issue any letters of non-crystallization of any floating charge or any consent to dealing that may, in the discretion of the Security Agent, be considered necessary or desirable;

(B) *Release of liabilities and Transaction Security on a share sale (Debtor)*: if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor, to release (or instruct to release) that Debtor and any of its subsidiaries from all or any part of its Borrowing Liabilities, its Guarantee Liabilities and its Other Liabilities (each as defined in the Intercreditor Agreement), and to release any Transaction Security granted by that Debtor and any of its subsidiaries over any of its assets and any other claim of a Shareholder Creditor, an Intra-Group Lender (as defined in the Intercreditor Agreement), or another Debtor over that Debtor's assets or over the assets of any of its subsidiaries, on behalf of the relevant Creditors and Debtors;

(C) *Release of liabilities and Transaction Security on a share sale (Holding Company)*: if the asset subject to the Distressed Disposal consists of shares in the capital of any Holding Company (as defined in the Intercreditor Agreement) of a Debtor, to release (or instruct to release) that Holding Company and any of its subsidiaries from all or any part of its Borrowing Liabilities, its Guarantee Liabilities and its Other Liabilities (each as defined in the Intercreditor Agreement), and to release any Transaction Security granted by any subsidiary of that Holding Company over any of its assets and any other claim of a Shareholder Creditor, an Intra-Group Lender (as defined in the Intercreditor Agreement) or another Debtor over the assets of any subsidiary of that Holding Company, on behalf of the relevant Creditors (as defined in the Intercreditor Agreement) and Debtor;

(D) *Disposal of Liabilities (as defined in the Intercreditor Agreement) on a share sale*: provided always that the disposal is in accordance with the Security Enforcement Principles, if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the Holding Company (as defined in the Intercreditor Agreement) of a Debtor and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to dispose of all or any part of the Liabilities (as defined in the Intercreditor Agreement) or the Debtor Liabilities (as defined in the Intercreditor Agreement) owed by that Debtor or Holding Company or any subsidiary thereof:

(a) (if the Security Agent does not intend that any transferee of such liabilities is to be treated as Primary Creditor or Secured Party (each as defined under the Intercreditor Agreement) to execute and deliver or enter into any agreement to dispose of all (and not part only) of those Liabilities (as defined in the Intercreditor Agreement) owed to the Primary Creditors (as defined in the Intercreditor Agreement) or Debtor Liabilities (as defined in the Intercreditor Agreement), provided that, notwithstanding any other provision of any debt document, the transferee shall not be treated as a Primary Creditor or a Secured Party for the purposes of the Intercreditor Agreement; or

(b) (if the Security Agent does intend that any transferee of such liabilities is to be treated as Primary Creditor or Secured Party (each as defined under the Intercreditor Agreement) to execute and deliver or enter into any agreement to dispose of all (and not part only) of the Liabilities (as defined in the Intercreditor Agreement) owed to the Primary Creditors (as defined in the Intercreditor Agreement) and all or part of any other Liabilities (as defined in the Intercreditor Agreement) and the Debtor Liabilities (as defined in the Intercreditor Agreement),

on behalf of, in each case, the relevant Creditors (as defined in the Intercreditor Agreement) and Debtors;

(E) *Transfer of obligations in respect of Liabilities (as defined in the Intercreditor Agreement) on a share sale*: if the asset subject to the Distressed Disposal consists of shares in the capital of a Debtor or the Holding Company of a Debtor (the "**Disposed Entity**") and the Security Agent (acting in accordance with the Intercreditor Agreement) decides to transfer to another Debtor (the "**Receiving Entity**") all or any part of the Disposed Entity's obligations or any obligations of any subsidiary of that Disposed Entity in respect of the Intra-Group Liabilities or the Debtor Liabilities (each as defined in the Intercreditor Agreement), to execute and deliver or enter into any agreement to agree to the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or Debtor Liabilities (each as defined in the Intercreditor Agreement) on behalf of the relevant Intra-Group Lenders (as defined in the Intercreditor Agreement) and Debtors to which those obligations are owed and on behalf of the Debtors which owe those obligations and to accept the transfer of all or part of the obligations in respect of those Intra-Group Liabilities or Debtor Liabilities (each as defined in the Intercreditor Agreement) on behalf of the Receiving Entity or Receiving Entities to which the obligations in respect of those Intra- Group Liabilities or Debtor Liabilities (each as defined in the Intercreditor Agreement) are to be transferred.

If a Distressed Disposal is being effected at a time when the Senior Notes/Additional Unsecured Debt Required Holders are then entitled to give, and have given, instructions under certain provisions of the Intercreditor Agreement, the Security Agent is not authorised to release any Debtor, Subsidiary or Holding Company (each as defined in the Intercreditor Agreement) from any Borrowing Liabilities, Guarantor Liabilities or Other Liabilities (each as defined in the Intercreditor Agreement) owed to any Senior Secured Parties (as defined in the Intercreditor Agreement) unless those Borrowing Liabilities, Guarantor Liabilities or Other Liabilities will be paid (or repaid) in full (or, as appropriate under the terms of the Intercreditor Agreement, cash collateralized) following that release.

To the extent permitted by applicable law, where Borrowing Liabilities (as defined in the Intercreditor Agreement) in respect of any Secured Liabilities (as defined in the Intercreditor Agreement) would otherwise be released pursuant to certain of the provisions described above, the Intercreditor Agreement provides that the Creditor (as defined in the Intercreditor Agreement) concerned may elect to have those Borrowing Liabilities (as defined in the Intercreditor Agreement) transferred to certain holding companies, in which case the Security Agent is irrevocably authorised (at the cost of the Company and without any consent, sanction, authority or further confirmation) to execute such documents as are required to so transfer those Borrowing Liabilities (as defined in the Intercreditor Agreement).

Certain limitations on release: if before the Senior Debt Discharge Date (as defined in the Intercreditor Agreement), a Distressed Disposal is being effected such that the Senior Notes Guarantees, any Additional Unsecured Debt Guarantees (as defined in the Intercreditor Agreement) and the Shared Collateral will be released, it is a further condition to the release under the Intercreditor Agreement that either:

- the Senior Notes Trustee has approved the release on the instructions of the Senior Notes Required Holders (as defined in the Intercreditor Agreement) and the Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) has approved the release on the instructions of the Additional Unsecured Debt Required Holders (as defined in the Intercreditor Agreement); or

- where shares or assets of a Senior Notes Guarantor or Additional Unsecured Debt Guarantor (as defined in the Intercreditor Agreement) are sold:

  (a) the proceeds of such sale or disposal are in cash (or substantially in cash);

  (b) all present and future obligations owed to the Secured Parties (as defined in the Intercreditor Agreement) under the Credit Facility Documents, Hedging Agreements, the Senior Secured Notes Documents and the Pari Passu Debt Documents by a member of the Group, all of whose shares are pledged in favour of the Secured Parties (as defined in the Intercreditor Agreement) are sold or disposed of pursuant to such Enforcement Action (as defined in the Intercreditor Agreement), and all security under the documents governing the Transaction Security in respect of the assets that are sold or disposed of, are unconditionally released and discharged or sold or disposed of concurrently with such sale (and are not assumed by the purchaser or one of its Affiliates (as defined in the Intercreditor Agreement)), provided that in the event of a sale or disposal of any such claim (instead of a release or discharge) the Credit Facility Agent, Senior Secured Notes Trustee and Pari Passu Debt Representative determine acting reasonably and in good faith that the finance parties under the Revolving Credit Facility, the Senior Secured Notes Creditors (as defined in the Intercreditor Agreement) and the Pari Passu Creditors (respectively) will recover more than if such claim was released or discharged and serve a notice on the Security Agent notifying the Security Agent of the same, in which case the Security Agent shall be entitled immediately to sell and transfer such claim to such purchaser (or an Affiliate (as defined in the Intercreditor Agreement) of such purchaser); and

  (c) such sale or disposal (including any sale or disposal of any claim) is made pursuant to a public auction or where an independent investment bank or an internationally recognised firm of accountants or a reputable international independent third party professional firm, in each case selected by the Security Agent, has delivered an opinion in respect of such sale or disposal that the amount received in connection therewith is fair from a financial point of view taking into account all relevant circumstances and such opinion shall be conclusive evidence of the fairness of the amount received provided that the liability of such investment bank or internationally recognised firm of accountants in giving such opinion may be limited to the amount of its fees in respect of such engagement.

For the purposes of paragraphs (B), (C), (D) and (E) above the Intercreditor Agreement provides that the Security Agent shall act (if the relevant Distressed Disposal is being effected by way of enforcement of the Transaction Security) in accordance with the provisions described in the final paragraph of "—Enforcement decisions;" and in any other case, on the instructions of the Instructing Group.

Equalization

In this description, "**Enforcement Date**" means the first date (if any) on which a Super Senior Creditor or a Senior Secured Creditor (as defined in the Intercreditor Agreement) takes certain enforcement action under certain provisions of the Intercreditor Agreement.

The Intercreditor Agreement provides that if, for any reason, any Secured Liabilities (as defined in the Intercreditor Agreement) in respect of the Super Senior Creditors remain unpaid after the Enforcement Date and after the application of Recoveries, as defined in, and in accordance with the Intercreditor Agreement, and the resulting losses are not borne by the Super Senior Creditors in the proportions which their respective Super Senior Credit Participations (as defined in the Intercreditor Agreement) at the Enforcement Date bore to the aggregate Super Senior Credit Participations of all Super Senior Creditors at the Enforcement Date, the Super Senior Creditors will make such payments, from such Recoveries (as defined in the Intercreditor Agreement) actually applied, amongst themselves as the Security Agent shall require to put the Super Senior Creditors in such a position that (after taking into account such payments) those losses are borne in those proportions.

If, for any reason, any Secured Liabilities (as defined in the Intercreditor Agreement) in respect of the Senior Secured Creditors (as defined in the Intercreditor Agreement) (other than any Hedge Counterparty) remain unpaid after the Enforcement Date and after the application of Recoveries, as defined in, and in accordance with the Intercreditor Agreement, and the resulting losses are not borne by the Senior Secured Notes Creditors (as defined in the Intercreditor Agreement) and the Pari Passu Creditors in the proportions which their respective Exposures (as defined in the Intercreditor Agreement) at the Enforcement Date bore to the aggregate Exposures (as defined in the Intercreditor Agreement) of all Senior Secured Notes Creditors (as defined in the Intercreditor Agreement) and the Pari Passu Creditors at the Enforcement Date, the Senior Secured Notes Creditors (as defined in the Intercreditor Agreement) and the Pari Passu Creditors will make such payments, from such Recoveries (as defined in the Intercreditor Agreement) actually applied, amongst themselves as the Security Agent shall require to put the Senior Secured Notes Creditors (as defined in the Intercreditor Agreement) and such Pari Passu Creditors in such a position that (after taking into account such payments) those losses are borne in those proportions.

Waiver of rights

To the extent permitted under applicable law and subject to certain provisions of the Intercreditor Agreement, the Intercreditor Agreement provides that each of the Secured Parties (as defined in the Intercreditor Agreement) and the Debtors and the Third Party Chargor (as defined in the Intercreditor Agreement) waives all rights it may otherwise have to require that the Transaction Security be enforced in any particular order or manner or at any particular time or that any sum received or recovered from any person, or by virtue of the enforcement of any of the Transaction Security or of any other security interest, which is capable of being applied in or towards discharge of any of the Secured Obligations (as defined in the Intercreditor Agreement) is so applied.

Duties owed

Pursuant to the Intercreditor Agreement, each of the Secured Parties (as defined in the Intercreditor Agreement), the Debtors and the Third Party Chargor (as defined in the Intercreditor Agreement) acknowledges that, in the event that the Security Agent enforces or is instructed to enforce the Transaction Security prior to the Final Discharge Date, the duties of the Security Agent and of any Receiver or Delegate (each as defined in the Intercreditor Agreement) owed to the Hedge Counterparties, the Credit Facility Agent, the Credit Facility Lenders, the Senior Secured Notes Trustee, the Senior Secured Noteholders, the Pari Passu Creditors, any Pari Passu Debt Representative, the Senior Noteholders, the Senior Notes Trustee, any Additional Unsecured Debt Representative (as defined in the Intercreditor Agreement) and the Additional Unsecured Debt Creditors in respect of the method, type and timing of that enforcement or of the exploitation, management or realization of any of that Transaction Security shall, subject to certain provisions of the Intercreditor Agreement, be no different to or greater than the duty that is owed by the Security Agent, Receiver or Delegate (each as defined in the Intercreditor Agreement) to the Debtors or the Third Party Chargors (as defined in the Intercreditor Agreement) under general law.

Amendment

The Intercreditor Agreement provides that it may be amended subject to certain exceptions as set out therein with only the consent of the Majority Super Senior Creditors, the Senior Secured Notes Required Holders, the Senior Notes Required

Holders, the Additional Unsecured Debt Required Holders, the Pari Passu Debt Required Holders, Play and the Security Agent, in each case as defined under the Intercreditor Agreement, unless it is an amendment, waiver or consent that has the effect of changing or which relates to: (a) any amendment to the order of priority or subordination set out in the Intercreditor Agreement; or (b) any amendment to the payment waterfall, turnover provisions, redistribution provisions, proceeds of disposal provisions, application of proceeds provisions or enforcement provisions set out in the Intercreditor Agreement; or (c) certain provisions relating to the giving of instructions to the Security Agent or the exercise of discretion by the Security Agent or (d) the amendments provisions in the Intercreditor Agreement which shall not be made without the written consent of:

(a) the Credit Facility Lenders;

(b) the trustee for the Senior Secured Notes;

(c) the trustee for the Senior Notes;

(d) the Additional Unsecured Debt Representative;

(e) the Creditor Representative for the Pari Passu Creditors;

(f) each Hedge Counterparty (to the extent that the amendment or waiver would adversely affect the Hedge Counterparty);

(g) the Security Agent; and

(h) Play.

Subject to the paragraph above and certain other exceptions any amendment or waiver or consent will bind all parties to the Intercreditor Agreement.

Option to purchase: Senior Secured Noteholders and Pari Passu Creditors

After a Distress Event (as defined in the Intercreditor Agreement), one or more Senior Secured Noteholders and the Pari Passu Debt Representative(s) (the "**Purchasing Senior Secured Creditors**") may: subject to certain requirements and procedures set out in the Intercreditor Agreement acquire or procure the acquisition by a person nominated by the Purchasing Senior Secured Creditors of all (but not part only) of the rights and obligations of the Credit Facility Lenders and the Hedge Counterparties in connection with the Credit Facility Lender Liabilities under the Credit Facility Documents and the Hedging Liabilities (for the purposes of this paragraph "—Option to Purchase: Senior Secured Noteholders and Pari Passu Creditors" only, the "**Senior Acquisition Debt**").

If more than one Purchasing Senior Secured Creditor wishes to exercise the option to purchase the Senior Acquisition Debt in accordance with the paragraph above, each such Purchasing Senior Secured Creditor shall acquire the Senior Acquisition Debt pro rata, in the proportion that its credit participation bears to the aggregate credit participations of all the Purchasing Senior Secured Creditors.

Any such purchase will be on terms which will include, without limitation that: (a) the transfer is lawful; (b) payment in full in cash of an amount equal to the Credit Facility Lender Liabilities outstanding as at the date that amount is to be paid, together with certain applicable costs and expenses (including legal fees); (c) payment in full of the Hedging Purchase Amount (as defined in the Intercreditor Agreement) in respect of the transaction under the relevant Hedging Agreements together with certain applicable costs and expenses (including legal fees); (d) payment in full in cash of the amount which each Credit Facility Lender certifies to be necessary to compensate it for any loss on account of funds borrowed, contracted for or utilized to fund any amount included in the Credit Facility Lender Liabilities resulting from the receipt of that payment otherwise than on the last day of an interest period as set out in the relevant Credit Facility Document; (e) after the transfer, no Credit Facility Lender or Hedge Counterparty will be under any actual or contingent liability to any Debtor or any other person under the Intercreditor Agreement, any Credit Facility Document or any Hedging Agreement for which it is not holding cash collateral in an amount and on terms reasonably satisfactory to it; (f) the Purchasing Senior Secured Creditors (or, if required by the Credit Facility Lenders and Hedge Counterparties, a third party acceptable to all the Credit Facility Lenders and Hedge Counterparties) indemnifies each Credit Facility Lender and each other Finance Party under such Credit Facility Document on the date of the relevant transfer and each Hedge Counterparty under any Hedging

Agreement in respect of certain claw back related losses; and (g) the relevant transfer shall be without recourse to, or warranty from, any Credit Facility Lender or other Finance Party under such Credit Facility Document or Hedge Counterparty under any Hedging Agreements, except for certain limited representation and warranties.

Option to purchase: Senior Creditors

One or more of the Senior Notes Creditors or Additional Unsecured Debt Creditors (the "**Purchasing Senior Creditors**") may, after a Distress Event (as defined in the Intercreditor Agreement), by giving not less than ten days' notice to the Creditor Representatives of the Credit Facility Lenders and (to the extent applicable) the Hedge Counterparties, the trustee for the Senior Secured Notes and the Pari Passu Debt Representative(s) (together, the "**Relevant Representatives**") (provided such notice may not be given until all necessary approvals from the Purchasing Senior Creditors have been obtained), acquire or procure the acquisition by a person nominated by the Purchasing Senior Creditors of all, but not part, of the rights, benefits and obligations in respect of the Credit Facility Lender Liabilities, the Senior Secured Notes Liabilities and the Pari Passu Debt (together for the purposes of this paragraph "—Option to Purchase: Senior Creditors," the "**Secured Debt**").

Any such purchase will be on terms which will include, without limitation that (a) the transfer is lawful; (b) each Relevant Representative, on behalf of the Creditors for which it is the Relevant Representative, is paid an amount in cash equal to the aggregate of: (i) the Liabilities to such creditors outstanding as at the date that amount is to be paid, as determined by such Relevant Representative (acting reasonably) together with certain applicable costs and expenses (including legal fees); and (ii) payment in full of the Hedging Purchase Amount (as defined in the Intercreditor Agreement) in respect of the transaction under the relevant Hedging Agreements together with certain applicable costs and expenses (including legal fees); (c) payment in full in cash of the amount which each such creditor certifies to be necessary to compensate it for any loss on account of funds borrowed, contracted for or utilized to fund any amount included in the Liabilities to be transferred resulting from the receipt of that payment otherwise than on the last day of an interest period as set out in the Credit Facility Documents, the Hedging Agreements, the Senior Secured Notes Documents or Pari Passu Debt Documents; (d) after the transfer, no Primary Creditor (not including any Senior Notes Creditor and any Additional Unsecured Debt Creditor) will be under any actual or contingent liability to any Debtor or any other person under the Intercreditor Agreement, any Credit Facility Document, any Hedging Agreement, any Senior Secured Notes Document or any Pari Passu Debt Document for which it is not holding cash collateral in an amount and on terms reasonably satisfactory to it; (e) the Purchasing Senior Creditors (or, if required by the Primary Creditors making the transfers pursuant to the exercise of this option to purchase, a third party acceptable to all such Primary Creditors) indemnify each such Primary Creditor on the date of the relevant transfer and each Hedge Counterparty under any Hedging Agreement in respect of certain claw back related losses; and (f) the relevant transfer shall be without recourse to, or warranty from, any Primary Creditor (other than a Senior Notes Creditor or Additional Unsecured Debt Creditor), except certain limited representation and warranties.

If more than one Purchasing Senior Creditor wishes to exercise the option to purchase the Secured Debt in accordance with the first paragraph of this section "—Option to Purchase: Senior Creditors," each such Purchasing Senior Creditor shall acquire the Secured Debt pro rata, in the proportion that its credit participation bears to the aggregate credit participations of all the Purchasing Senior Creditors. Any Purchasing Senior Creditors wishing to exercise the option to purchase the Secured Debt shall inform the trustee for the Senior Notes in accordance with the terms of the Senior Notes Indenture or the relevant Additional Unsecured Debt Representative(s) in accordance with the terms of the relevant Additional Unsecured Debt Documents, who will determine (consulting with each other as required) the appropriate share of the Secured Debt to be acquired by each such Purchasing Senior Creditor and who shall inform each such Purchasing Senior Creditor accordingly. Furthermore, the trustee for the Senior Notes or the Additional Unsecured Debt Representative(s) (as applicable) shall promptly inform the Creditor Representatives of the Secured Debt of the intention to exercise the option to purchase the Secured Debt.

Agreement to override

Unless expressly stated otherwise in the Intercreditor Agreement, the Intercreditor Agreement overrides anything in the debt documents to the contrary but will not cure, postpone, waive or negate any default or event of default under any debt document.

Governing law

The Intercreditor Agreement and any non-contractual obligation arising out of or in connection with it will be governed by English law.

Senior Secured Notes

On January 31, 2014, the Senior Secured Notes Issuer issued €600,000,000 aggregate principal amount of $5^1/_4$% senior secured notes due 2019 (the "**Fixed Rate Senior Secured Notes**") and PLN 130,000,000 aggregate principal amount of floating rate senior secured notes due 2019 (the "**Floating Rate Senior Secured Notes**" and together with the Fixed Rate Senior Secured Notes, the "**Senior Secured Notes**"). The Senior Secured Notes are senior debt of the Senior Secured Notes Issuer and rank *pari passu* in right of payment to all of its existing and future senior indebtedness. The proceeds of the offering of the Senior Secured Notes, along with proceeds of the Senior Notes, were used to repay certain third party indebtedness, to pay transaction related fees and expenses and to make certain payments to shareholders.

On March 19, 2015 the €125,000,000 aggregate principal amount of Fixed Rate Senior Secured Notes due 2019 was issued pursuant to the Senior Secured Notes Indenture.

Interest Rates, Payment Dates and Maturity

Interest on the Fixed Rate Senior Secured Notes will accrue at the rate of 5.25% per annum and the Senior Secured Notes Issuer will pay interest on the Fixed Rate Senior Secured Notes semi-annually on February 1 and August 1 of each year, commencing on August 1, 2014. The maturity date of the Fixed Rate Senior Secured Notes is February 1, 2019. Interest on the Floating Rate Senior Secured Notes will accrue at a rate per annum, reset quarterly, equal to WIBOR plus 3.50%. Interest on the Floating Rate Senior Secured Notes will be payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, commencing on May 1, 2014. The maturity date of the Floating Rate Senior Secured Notes is February 1, 2019.

Guarantee and Security

The Senior Secured Notes are guaranteed by the Parent, HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent), the Company, the Senior Notes Issuer and Play 3GNS (the "**Senior Secured Notes Guarantors**"). The guarantees are senior obligations of the Senior Secured Notes guarantors. The Senior Secured Notes Indenture provides that, under certain circumstances, a supplemental indenture and notation of guarantee shall be executed and delivered to the trustee of the Senior Secured Notes pursuant to which all of the obligations of the Senior Secured Notes Issuer under the Senior Secured Notes Indenture and the due and punctual payment of the Senior Secured Notes shall be guaranteed by the relevant entity on the terms and conditions set forth in the Senior Secured Notes Indenture.

The Senior Secured Notes and the guarantees thereof are secured by (i) a pledge over, or assignment by way of security of, all of the issued capital stock (or all transferable partnership interests, as the case may be) in each of the Senior Secured Note Issuer and the Senior Secured Notes Guarantors; (ii) an assignment by way of security or pledge of the proceeds bonds pursuant to which the proceeds of the offerings of the Senior Secured Notes and the Senior Notes were lent; (iii) a pledge over substantially all of the assets (*i.e.*, whole business) of the Company (including, without limitation, bank accounts, material trademarks and other movable property and assets owned by such Senior Secured Notes Guarantors); (iv) a pledge over the bank accounts of the Senior Secured Notes Issuer and the Senior Secured Notes Guarantors; (v) a pledge over receivables (whether owed to third parties or to the Parent or any of its subsidiaries) of the Senior Secured Notes Issuer and each of the Senior Secured Notes Guarantors; and (vi) submission to enforcement by Senior Secured Notes Issuer and each of the Senior Secured Notes Guarantors. The guarantees and security may be released under certain circumstances.

Change of Control and Asset Sale Offers

Upon the occurrence of certain events constituting a "change of control," the Senior Secured Notes Issuer is required to offer to repurchase all outstanding Senior Secured Notes at a purchase price in cash equal to 101% of the aggregate principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. A change of control will not be deemed to have occurred if a specified consolidated leverage ratio is not exceeded as a result of such event. In the event of certain asset sales, after which the proceeds are not reinvested in the form envisaged by the Senior Secured Notes Indenture and as a result of which such proceeds exceed PLN 100.0 million, the Senior Secured Notes Issuer is required to make an offer to repurchase the Senior Secured Notes at 100% of the principal amount.

Optional Redemption

The Fixed Rate Senior Secured Notes are subject to redemption at any time, at the option of the Issuer, in whole or in part, at the following redemption prices (expressed as percentages of the aggregate principal amount), if redeemed on or after the dates indicated below, subject to the rights of holders of Fixed Rate Senior Secured Notes on the relevant record date to receive interest on the relevant interest payment date:

Date	Redemption Price
February 1, 2016	102.625%
February 1, 2017	101.313%
February 1, 2018 and thereafter	100.000%

In addition, at any time prior to February 1, 2016, the Senior Secured Notes Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of Fixed Rate Senior Secured Notes issued under the Senior Secured Notes Indenture at a redemption price of 105.250% of the principal amount for Fixed Rate Senior Secured Notes with the net cash proceeds of certain public equity offerings.

The Floating Rate Senior Secured Notes are subject to redemption at any time, at the option of the Senior Secured Notes Issuer, in whole or in part, at the following redemption prices (expressed as percentages of the aggregate principal amount), if redeemed on or after the dates indicated below, subject to the rights of holders of Floating Rate Senior Secured Notes on the relevant record date to receive interest on the relevant interest payment date:

Date	Redemption Price
February 1, 2015	101.000%
February 1, 2016 and thereafter	100.000%

Covenants and Events of Default

The Senior Secured Notes Indenture contains covenants and events of default typical of instruments similar to the Senior Secured Notes, including limitations on the ability of the Parent and its Restricted Subsidiaries (as defined in the Senior Secured Notes Indenture) to, *inter alia*:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- layer debt;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of the Parent or those of its restricted subsidiaries;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses or engage in prohibited activities;
- consolidate or merge with other entities;

- impair the security interests for the benefit of the holders of the Senior Secured Notes; and
- amend certain documents.

The Senior Secured Notes Indenture also contains certain restrictions on the activities of the Senior Secured Notes Issuer.

The Senior Secured Notes contain various events of default, including, among others, non-payment, breach of certain covenants, breach of other obligations set forth in the Senior Secured Notes Indenture, the Intercreditor Agreement or any note security document related to the Senior Secured Notes after a 60-day grace period, a cross default in relation to certain indebtedness aggregating PLN 100.0 million or more at any time outstanding not being paid prior to the expiration of the grace period provided in such indebtedness or indebtedness becoming due and payable before its specified maturity, failure to pay final judgments in excess of PLN 100.0 million following a grace period, any guarantees under the Senior Secured Notes are found to be unenforceable or invalid, breach of any material representation or warranty or agreement in the security documents securing the Senior Secured Notes or the unenforceability of the security documents securing the Senior Secured Notes (subject to certain limitations and grace periods), certain insolvency, winding-up or related events, the occurrence of which, with respect to certain events of default, would result in the Senior Secured Notes becoming due and payable or, with respect to certain other events of default, would allow noteholders to declare the Senior Secured Notes due and payable.

Senior Notes

On January 31, 2014, the Issuer issued €270,000,000 aggregate principal amount of $6^1/_2$% Senior Notes due 2019. The Senior Notes constitute senior debt of the Senior Notes Issuer and rank *pari passu* in right of payment to all of its existing and future senior indebtedness. The proceeds of the offering of the Notes, along with proceeds of the Senior Secured Notes, were used to repay certain third party indebtedness, to pay transaction related fees and expenses and to make certain payments to shareholders, while €170,000,000 of the proceeds were placed into an escrow account and have subsequently been released and distributed to shareholders.

Interest Rates, Payment Dates and Maturity

The Senior Notes bear interest at a rate of 6.50% per annum. Interest on the Senior Notes is payable semi-annually on February 1 and August 1 of each year, commencing August 1, 2014. The maturity date of the Senior Notes is August 1, 2019.

Guarantee and Security

The Senior Notes are guaranteed on a senior subordinated basis by the Parent, HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent), the Company, the Senior Secured Notes Issuer and Play 3GNS (the "**Senior Notes Guarantors**"). The guarantees by the Senior Notes Guarantors are senior subordinated obligations of the Senior Notes Guarantors and are subject to subordination, payment blockage, standstill provisions and turnover provisions. The Senior Notes Indenture provides that, under certain circumstances, a supplemental indenture and notation of guarantee shall be executed and delivered to the trustee of the Senior Notes pursuant to which all of the obligations of the Senior Notes Issuer under the Senior Notes Indenture and the due and punctual payment of the Senior Notes shall be guaranteed by the relevant entity on the terms and conditions set forth in the Senior Notes Indenture.

The Senior Notes and the guarantee thereof by the Senior Notes Guarantors are secured on a junior priority basis by (i) a pledge over, or assignment by way of security of, all of the issued capital stock in each of the Parent, HoldCo 3 (on May 9, 2016 HoldCo 3 was merged with the Parent), the Company and the Senior Notes Issuer, (ii) an assignment by way of security or pledge of the proceeds bonds pursuant to which the proceeds of the offerings of the Senior Secured Notes and the Senior Notes were lent and (iii) submission to enforcement by each of the Senior Notes Issuer and the Senior Notes Guarantors.

Optional Redemption

The Senior Notes are subject to redemption at any time, at the option of the Senior Notes Issuer, in whole or in part, at the following redemption prices (expressed as percentages of the aggregate principal amount), if redeemed on or after the dates indicated below, subject to the rights of holders of Senior Notes on the relevant record date to receive interest on the relevant interest payment date:

Date	Redemption Price
August 1, 2016	103.250%
August 1, 2017	101.625%
August 1, 2018 and thereafter	100.000%

In addition, at any time prior to August 1, 2016, the Senior Notes Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of Notes (including any additional Senior Notes) issued under the Senior Notes Indenture at a redemption price of 106.500% of the principal amount for the Senior Notes with the net cash proceeds of certain public equity offerings.

Change of Control and Asset Sale Offers

Upon the occurrence of certain events constituting a "change of control," the Senior Notes Issuer is required to offer to repurchase all outstanding Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to the date of purchase. A change of control will not be deemed to have occurred if a specified consolidated leverage ratio is not exceeded as a result of such event. In the event of certain asset sales, after which the proceeds are not reinvested in the form envisaged by the Senior Notes Indenture and as a result of which such proceeds exceed PLN 100 million, the Senior Notes Issuer is required to make an offer to repurchase the Senior Notes at 100% of the principal amount.

Covenants and Events of Default

The Senior Notes Indenture contains covenants and events of default typical of instruments similar to the Senior Notes, including limitations on the ability of the Parent and its Restricted Subsidiaries (as defined in the Senior Notes Indenture) to, *inter alia*:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- layer debt;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of the Parent or those of its restricted subsidiaries;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to and on the transfer of assets to the Parent or any of its restricted subsidiaries;
- sell, lease or transfer certain assets including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- enter into unrelated businesses or engage in prohibited activities;
- consolidate or merge with other entities;
- impair the security interests for the benefit of the holders of the Senior Notes; and
- amend certain documents.

The Senior Notes Indenture also contains certain restrictions on the activities of the Issuer.

The Senior Notes contain various events of default, including, among others, non-payment, breach of certain covenants, breach of other obligations set forth in the Senior Notes Indenture, the Intercreditor Agreement, or any note security document related to the Senior Notes after a 60-day grace period, a cross-default in relation to certain indebtedness aggregating PLN 100.0 million or more at any time outstanding not being paid prior to the expiration of the grace period provided in such indebtedness or indebtedness becoming due and payable before its specified maturity, failure to pay final judgments in excess of PLN 100.0 million following a grace period, any guarantees under the Senior Notes are found to be unenforceable or invalid, breach of any material representation or warranty or agreement in the security documents securing the Senior Notes or the unenforceability of the security documents securing the Senior Notes (subject to certain limitations and grace periods), certain insolvency, winding-up or related events, the occurrence of which, with respect to certain events of default, would result in the Senior Notes becoming due and payable or, with respect to certain other events of default, would allow noteholders to declare the Senior Notes due and payable.

Proceeds Bonds

The proceeds of each of the Senior Secured Notes and the Senior Notes were on-lent among the Group pursuant to certain proceeds bonds. The proceeds bonds are denominated in euro with respect to the proceeds bonds relating to the Fixed Rate Senior Secured Notes and the Senior Notes and in Polish zloty with respect to the proceeds bonds relating to the Floating Rate Senior Secured Notes. Interest on the proceeds bonds will be payable to provide sufficient time in advance to permit the Senior Secured Notes Issuer or the Senior Notes Issuer, as applicable, to make payments of interest on the Senior Secured Notes or the Senior Notes, as applicable. The maturity date of the proceeds bonds will be the same maturity date as the maturity date of the applicable Senior Secured Notes or Senior Notes.

Each proceeds bond provides that the relevant issuer, as the case may be, will pay to the lender thereunder interest and principal that becomes payable on the Senior Secured Notes or Senior Notes, as applicable, and any additional amounts and premium, if any, due thereunder, and shall be required to gross-up certain payments in accordance with the terms thereof if any deductions or holdings are required by law.

The proceeds bonds have been assigned by way of security and/or pledged for the benefit of holders of the Senior Secured Notes or the Senior Notes.

Millennium Revolving Credit Facility

Drawings, purpose, term and interest

The Group has a revolving credit line agreement with Bank Millennium S.A. for the amount of PLN 50 million. Under this agreement, the borrower is the Company.

Drawings on this revolving credit line can be used to finance operating activities.

Interest is calculated based on the one-month WIBOR rate *plus* a margin.

Security and Guarantees

The loan is unsecured and is not guaranteed by any member of the Group.

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 arising from unsecured revolving credit line agreements with a repayment term of up to 24 months. For example Bank Millennium S.A.'s claims can not be subordinated to any other unsecured financing arrangements. In addition, Play is obliged to ensure that that at least PLN 25 million of its monthly turnovers is deposited with a bank account held by Bank Millennium S.A.

Events of default

An event of default occurs under the Bank Millennium S.A. revolving credit facility agreement if, among other things: (i) there is any failure in certain notification requirements, (ii) the Group uses the facility for a purpose other than that permitted by the agreement, (iii) if there is a payment default under the Millennium Revolving Credit Facility agreement, (iv) if there is a default under other facility agreements to which Play is a party or (iv) 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 upon 30 days, notice (upon seven days' notice in the event of a threat of Play becoming bankrupt) and is entitled to accelerate any loans outstanding thereunder.

Bank Zachodni WBK Revolving Credit Facility

Drawings, purpose, term and interest

The Group has a revolving credit line agreement with Bank Zachodni WBK S.A. for the amount of PLN 150 million. Under this agreement, the borrower is the Company.

Drawings on this revolving credit line can be used to finance operating activities.

Interest is calculated based on the one-month WIBOR rate *plus* a margin.

Security and Guarantees

The loan is unsecured and is not guaranteed by any member of the Group.

Covenants

The Company undertook under the overdraft facility agreement, inter alia, to: (i) comply with the information obligations under the Revolving Credit Facility Agreement; (ii) use the overdraft facility in accordance with its purpose; (iii) ensure equal treatment of the overdraft facility with any other obligations arising under any other unsecured debt documents, unless during the term of the overdraft facility agreement the Company repays its debt arising under the Revolving Credit Facility Agreement and the Senior Secured Notes; (iii) ensure to maintain the necessary permits and authorisations; (iv) inform the bank about corporate changes and changes in the core business activity of the Company; and (v) duly pay and discharge all due taxes and social security contributions.

Events of default

An event of default occurs under the overdraft facility agreement if, inter alia: (i) the representations and warranties of the Company, which were material to the bank in deciding to make the overdraft facility available to the Company, are determined to be untrue; (ii) the Company violates any obligations under any other finance documents entered into with the bank; (iii) the financial condition of the Company deteriorates as a result of the loss, disposal or encumbrance of the Company's material assets; (iv) a resolution on the transformation or winding up of the Company, or a resolution on the disposal or encumbrance of the Company's enterprise (other than under the Revolving Credit Facility Agreement and the Senior Secured Notes), is adopted without the bank's consent; (v) the Company or any of its creditors files a motion for the Company's bankruptcy; (v) enforcement proceedings against the Company are commenced and the value of the claim being enforced exceeds PLN 500,000 or 0.25% of the Company's annual revenue, whichever amount is lower; or (vi) the Company fails to fulfil certain notification requirements. Following the occurrence of an event of default, the Bank is, inter alia, entitled to terminate the agreement upon 30 days' notice (or upon seven days' notice in the event of a threat of the Company becoming bankrupt) and is entitled to ask for repayment of any amounts outstanding under the overdraft facility.

Early termination

The Company is entitled to terminate the overdraft facility agreement without any costs no earlier than 180 days from the date the overdraft facility agreement becomes effective, and provided that all amounts outstanding under the overdraft facility have been repaid by the Company to the bank.

ANNEX A
BRIEF DESCRIPTION OF THE MATERIAL DIFFERENCES IN THE FINANCIAL CONDITION AND RESULTS OF OPERATIONS BETWEEN THE PIK NOTES ISSUER AND THE PARENT

This Annex to the Report is provided by the management of Play Topco S.A. as required by section 4.03 (a) (2) (e) of the indenture that governs the Senior PIK Toggle Notes.

Play Topco S.A. was incorporated under the laws of Luxembourg on July 17, 2014. On August 6, 2014, Play Topco S.A. became owner of 100% shares in Play Holdings 1 S. à r. l., which in turn holds 100% shares in Play Holdings 2 S. à r. l. The incorporation of Play Topco S.A. did not result in any change of economic substance of the Parent and its subsidiaries (including the Company).

Only for the purpose of this Annex A "**we**," "**us**," "**our**" or "**ourselves**" refers to the PIK Notes Issuer Group.

EBITDA reconciliation

The tables below presents reconciliation of EBITDA and Adjusted EBITDA of Play Topco S.A. and Play Holdings 2 S. à r. l. for the year ended December 31, 2016 and for the three-month period ended December 31, 2016.

Year ended December 31, 2016, PLN in millions

	Play Holdings 2 consolidated	**Play Holdings 1**	**Play Topco**	**Play Topco bridge**	**Play Topco consolidated**
	(a)	(b)	(c)	(b) + (c) = (d)	(a) + (d)
Operating revenue	**6,117.6**	**-**	**-**	**-**	**6,117.6**
Interconnection, roaming and other services costs	(1,495.8)	-	-	-	(1,495.8)
Contract costs, net	(398.9)	-	-	-	(398.9)
Cost of goods sold	(1,366.2)	-	-	-	(1,366.1)
General and administrative expenses	(858.5)	(0.2)	(20.6)	(20.8)	(879.3)
Depreciation and amortization	(634.1)	-	-		(634.1)
Other operating income	70.7	0.0	0.6	0.6	71.2
Other operating costs	(144.4)	-	-	-	(144.4)
Operating profit	**1,290.3**	**(0.2)**	**(20.0)**	**(20.2)**	**1,270.0**
Depreciation and amortization	634.1	-	-	-	634.1
EBITDA	**1,924.3**	**(0.2)**	**(20.0)**	**(20.2)**	**1,904.1**
Costs of advisory services provided by shareholders	35.9	-	-	-	35.9
Valuation of retention programs adjustment and costs of special bonuses	7.2	-	-	-	7.2
Other one off operating costs	67.9	-	17.0	17.0	84.8
Adjusted EBITDA	**2,035.3**	**(0.2)**	**(3.1)**	**(3.3)**	**2,032.0**

Three-month period ended December 31, 2016, PLN in millions, unaudited

	Play Holdings 2 consolidated	Play Holdings 1	Play Topco	Play Topco bridge	Play Topco consolidated
	(a)	(b)	(c)	(b) + (c) = (d)	(a) + (d)
Operating revenue	**1,620.2**	**-**	**-**	**-**	**1,620.2**
Interconnection, roaming and other services costs	(397.5)	-	-	-	(397.5)
Contract costs, net	(104.5)	-	-	-	(104.5)
Cost of goods sold	(347.1)	-	-	-	(347.1)
General and administrative expenses	(242.9)	(0.0)	(2.5)	(2.6)	(245.5)
Depreciation and amortization	(162.4)	-	-	-	(162.4)
Other operating income	17.4	-	-	-	17.4
Other operating costs	(22.4)	-	-	-	(22.4)
Operating profit	**360.8**	**(0.0)**	**(2.5)**	**(2.6)**	**358.2**
Depreciation and amortization	162.4	-	-	-	162.4
EBITDA	**523.2**	**(0.0)**	**(2.5)**	**(2.6)**	**520.6**
Costs of advisory services provided by shareholders	12.1	-	-	-	12.1
Valuation of retention programs adjustment and costs of special bonuses	6.1	-	-	-	6.1
Other one off operating costs	19.2	-	-	-	19.2
Adjusted EBITDA	**560.6**	**(0.0)**	**(2.5)**	**(2.6)**	**558.1**

Net debt reconciliation

On August 6, 2014 Play Topco S.A. issued €415,000,000 $7^{3}/_{4}$% / $8^{1}/_{2}$% Senior PIK Toggle Notes due 2020. The net proceeds of the issuance were distributed to the shareholders of Play Topco S.A.

The following table presents consolidated capitalization of Play Topco S.A. as of December 31, 2016.

Consolidated Capitalization of Play Topco S.A.
As at December 31, 2016

PLAY HOLDINGS 2 S.à r.l	**PLN in millions**	**EUR in millions[1]**	**xLHA Adjusted EBITDA[2]**
Cash and cash equivalents[3]	341.0	77.1	2.58x
Leases	842.7	190.5	0.39x
Other debt	2.7	0.6	0.00x
Senior Secured Notes	3,408.2	770.4	1.58x
of which EUR fixed rate Notes[4]	3,277.1	740.8	1.52x
of which PLN floating rate Notes[4]	131.1	29.6	0.06x
Secured debt	4,253.6	961.5	1.97x
Net secured debt	**3,912.6**	**884.4**	**1.82x**
Senior Unsecured Notes[4]	1,226.6	277.3	0.57x
Total debt	5,480.2	1,238.7	2.54x
Net debt	**5,139.2**	**1,161.7**	**2.38x**

PLAY TOPCO S.A.	**PLN in millions**	**EUR in millions[1]**	**xLHA Adjusted EBITDA[5]**
PIK notes[6]	1,883.4	425.7	**0.89x**
Total debt	7,363.6	1,664.5	**3.49x**
Net debt	**7,022.6**	**1,587.4**	**3.33x**

Currency exchange rate as of December 31, 2016 1 EUR = 4.4240 PLN

(1) LHA Adjusted EBITDA of PLAY HOLDINGS 2 S.à r.l. as of December 31, 2016 of PLN 2,155.4 million, calculated as sum of Adjusted EBITDA of PLN 517.1 million for the three-month period ended September 30, 2016 *and* Adjusted EBITDA of PLN 560.6 million for the three-month period ended December 31, 2016, multiplied by two.

(2) EUR 600 million 5¹/₄% Fixed Rate Senior Secured Notes due 2019 including PLN 57.7 million / EUR 13.0 million of accrued interest and EUR 125 million 5¹/₄% Fixed Rate Senior Secured Notes due 2020 including PLN 12.0 million / EUR 2.7 million of accrued interest.

(3) PLN 130 million Floating Rate Senior Secured Notes due 2019 including PLN 1.1 million of accrued interest.

(4) EUR 270 million 6¹/₂% Senior Notes due 2019 including PLN 32.1 million / EUR 7.3 million of accrued interest.

(5) LHA Adjusted EBITDA of PLAY TOPCO S.A. as of December 31, 2016 of PLN 2,111.4 million, calculated as sum of Adjusted EBITDA for three-month period ended September 30, 2016 of PLN 515.8 million and Adjusted EBITDA for three-month period ended December 31, 2016 of PLN 539.9 million, multiplied by two.

(6) EUR 415 million 7¾% / 8½% Senior PIK Toggle Notes due 2020 including EUR 10.7 million / PLN 47.4 million of accrued interest.

Cash interest reconciliation

Year ended December 31, 2016, PLN in millions, unaudited

	Play Holdings 2 consolidated	Play Holdings 1	Play Topco	Play Topco bridge	Play Topco consolidated
	(a)	(b)	(c)	(b) + (c) = (d)	(a) + (d)
Cash interest expense	**321.1**	**-**	**161.4**	**161.4**	**482.6**

Three-month period ended December 31, 2016, PLN in millions, unaudited

	Play Holdings 2 consolidated	Play Holdings 1	Play Topco	Play Topco bridge	Play Topco consolidated
	(a)	(b)	(c)	(b) + (c) = (d)	(a) + (d)
Cash interest expense	**79.4**	**-**	**42.1**	**42.1**	**121.5**

ANNEX B
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 "4th 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 .... Megabit. Unit of measurement of the volume of data. Equal to 1,048,576 b (bits).

Mb .... Megabytes. Megabyte. Unit of measurement of the volume of data received or sent over a network. Equal to 1,048,576 B (bytes).

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 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. .... Joint stock 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 (s*półka z ograniczoną odpowiedzialnością*).
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.
WiMAX	Worldwide Interoperability for Microwave Access. A wireless network standard with the maximum capacity of approximately 75 Mbps.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Play Holdings 2 S. à r. l.
and its subsidiaries
Consolidated financial statements

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

As at and for the years ended December 31, 2016,
December 31, 2015 and December 31, 2014

Index to the consolidated financial statements

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of financial position

	Notes	December 31, 2016	December 31, 2015 See Note 2.2	December 31, 2014 See Note 2.2
ASSETS				
Non-current assets				
Property, plant and equipment	3	1,089,437	907,747	860,351
Right-of-use assets	4	745,509	767,924	719,313
Intangible assets	5	2,628,786	1,126,772	1,261,636
Assets under construction	6	540,416	393,536	285,466
Contract costs	7	350,681	309,944	257,114
Long term finance receivables	8	341,001	153,441	-
Other long term receivables	9	12,164	11,134	14,336
Finance assets at fair value through profit or loss	10	134,246	19,219	57,611
Deferred tax asset	31	134,446	184,146	281,475
Total non-current assets		**5,976,686**	**3,873,863**	**3,737,302**
Current assets				
Inventories	11	149,685	212,209	194,935
Trade and other receivables	12	1,260,213	876,894	716,015
Contract assets	13	997,780	1,000,880	885,990
Current income tax receivables		-	-	559
Prepaid expenses	14	21,239	41,771	34,670
Cash and cash equivalents	15	340,994	1,556,801	497,981
Total current assets		**2,769,911**	**3,688,555**	**2,330,150**
TOTAL ASSETS		**8,746,597**	**7,562,418**	**6,067,452**
EQUITY AND LIABILITIES				
Capital and reserves attributable to shareholders of the Company				
Share capital	17	52	52	52
Share premium		5,644,191	5,644,191	5,635,996
Retained losses		(4,301,631)	(5,013,619)	(5,563,897)
Total equity		**1,342,612**	**630,624**	**72,151**
Non-current liabilities				
Long-term finance liabilities	18	5,176,417	4,996,618	4,383,193
Long-term provisions	19	47,520	46,472	53,523
Long-term retention programs liabilities	20	150,064	163,040	95,702
Deferred tax liability	31	314	36	-
Other non-current liabilities		10,873	11,379	12,730
Total non-current liabilities		**5,385,188**	**5,217,545**	**4,545,148**
Current liabilities				
Short-term finance liabilities	18	277,150	277,245	278,475
Trade and other payables	21	1,177,581	976,949	836,115
Contract liabilities		44,933	22,322	21,346
Current income tax payable		173,759	61,296	8,078
Accruals	22	54,429	68,539	61,226
Short-term provisions	19	1,006	996	1,653
Short-term retention programs liabilities	20	17,740	22,294	14,129
Deferred income	23	272,199	284,608	229,131
Total current liabilities		**2,018,797**	**1,714,249**	**1,450,153**
TOTAL LIABILITIES AND EQUITY		**8,746,597**	**7,562,418**	**6,067,452**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of comprehensive income

	Notes	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Operating revenue	24	**6,117,558**	**5,436,503**	**4,589,665**
Service revenue		4,492,818	4,059,534	3,398,442
Sales of goods and other revenue		1,624,740	1,376,969	1,191,223
Operating expenses		**(4,753,520)**	**(4,373,058)**	**(3,794,130)**
Interconnection, roaming and other services costs	25	(1,495,831)	(1,330,623)	(1,098,504)
Contract costs, net	26	(398,912)	(376,269)	(318,265)
Cost of goods sold		(1,366,156)	(1,181,221)	(984,781)
General and administrative expenses	27	(858,538)	(887,685)	(852,438)
Depreciation and amortization	28	(634,083)	(597,260)	(540,142)
Other operating income	29	70,662	78,488	64,208
Other operating costs	29	(144,449)	(76,080)	(86,259)
Operating profit		**1,290,251**	**1,065,853**	**773,484**
Finance income	30	134,953	7,576	74,727
Finance costs	30	(499,096)	(367,978)	(432,609)
Profit before income tax		**926,108**	**705,451**	**415,602**
Income tax benefit/(charge)	31	(214,120)	(155,173)	83,259
Net profit for the period		**711,988**	**550,278**	**498,861**
Other comprehensive income for the period		**-**	**-**	**-**
Total comprehensive income for the period		**711,988**	**550,278**	**498,861**

No profit for the current and comparative periods was attributable to non-controlling interest.

No comprehensive income for the current and comparative periods was attributable to non-controlling interest.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of changes in equity

See also Note 2.2	Attributable to the Company's shareholders				
	Share capital	**Share premium**	**Retained losses**	**Total equity**	**Notes**
As at January 1, 2016	**52**	**5,644,191**	**(5,013,619)**	**630,624**	
Net profit for the period	-	-	711,988	711,988	
As at December 31, 2016	**52**	**5,644,191**	**(4,301,631)**	**1,342,612**	17

See also Note 2.2	Attributable to the Company's shareholders				
	Share capital	**Share premium**	**Retained losses**	**Total equity**	**Notes**
As at January 1, 2015	**52**	**5,635,996**	**(5,563,897)**	**72,151**	
Correction of currency translation	-	8,195	-	8,195	
Net profit for the period	-	-	550,278	550,278	
As at December 31, 2015	**52**	**5,644,191**	**(5,013,619)**	**630,624**	17

See also Note 2.2	Attributable to the Company's shareholders				
	Share capital	**Share premium**	**Retained losses**	**Total equity**	**Notes**
As at January 1, 2014	**-**	**-**	**-**	**-**	
Issue of shares	52	-	-	52	
Issue of shares - contribution in kind of P4 Sp. z o.o. and its subsidiaries	-	7,052,087	(6,090,919)	961,168	
Distribution of share premium	-	(1,416,091)		(1,416,091)	
Net profit for the period from the date of Incorporation to December 31, 2014	-	-	527,022	527,022	
As at December 31, 2014	**52**	**5,635,996**	**(5,563,897)**	**72,151**	17

The value of total equity from issue of shares as a result of contribution in kind of P4 Sp. z o.o. and its subsidiaries equals book value of net assets of P4 Sp. z o.o. and its subsidiaries as at the date of contribution.

Consolidated statement of changes in net assets attributable to shareholders of P4 Sp. z o.o.

	Net assets attributable to shareholders of P4 Sp. z o.o.	**Notes**
As at January 1, 2014	**989,330**	
Net loss for the period from 1 January to the Date of Contribution	(28,162)	
Settlement of contribution of P4 Sp. z o.o. and its subsidiaries to Play Group	(961,168)	
As at December 31, 2014	**-**	17

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of cash flows

	Notes	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Profit before income tax		**926,108**	**705,451**	**415,602**
Depreciation and amortization		634,083	597,260	540,142
Changes in contract costs (net)		(40,737)	(52,830)	(58,400)
Interest expense (net)		316,870	302,743	327,362
(Gain)/Loss on valuation of finance assets		(115,027)	38,392	(50,719)
Foreign exchange losses		162,211	19,329	87,924
Gain on disposal of non-current assets		(8,796)	(3,900)	(3,531)
Impairment of non-current assets		6,275	1,664	(1,664)
Change in provisions and retention programs liabilities		(17,118)	61,180	33,851
Changes in working capital and other	33	(249,891)	(26,286)	65,488
Change in contract assets		3,100	(114,890)	(167,223)
Change in contract liabilities		22,611	976	2,498
Cash provided by operating activities		**1,639,689**	**1,529,089**	**1,191,330**
Interest received		81	68	1,901
Income tax paid		(52,241)	(4,213)	(10,539)
Transfers from restricted cash (operating)		-	200	-
Net cash provided by operating activities		**1,587,529**	**1,525,144**	**1,182,692**
Proceeds from sale of non-current assets		5,511	7,832	7,632
Proceeds from loans given		-	79	26
Purchase of fixed assets and intangibles and prepayments for assets under construction		(2,195,861)	(436,787)	(456,869)
Loans given		(17,851)	-	(55)
Purchase of debt securities (Notes issued by Play Topco S.A.)		(141,056)	(143,993)	-
Transfer to other finance assets		-	-	(720,256)
Transfer from other finance assets		-	-	705,184
Net cash used in investing activities		**(2,349,257)**	**(572,869)**	**(464,338)**
Proceeds from finance liabilities	34	385,000	543,772	3,816,016
Distribution of share premium		-	-	(1,416,091)
Repayment of finance liabilities and relating finance costs	34	(839,168)	(436,965)	(2,927,907)
Transfers from restricted cash		-	-	134,722
Other proceeds from financing activities		-	-	22,488
Other payments relating to financing activities		-	-	(22,435)
Net cash provided by/(used in) financing activities		**(454,168)**	**106,807**	**(393,207)**
Net change in cash and cash equivalents		**(1,215,896)**	**1,059,082**	**325,147**
Effect of exchange rate change on cash and cash equivalents		89	(62)	59
Cash and cash equivalents at the beginning of the period		**1,556,801**	**497,781**	**172,575**
Cash and cash equivalents at the end of the period	32	**340,994**	**1,556,801**	**497,781**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Notes

1. The Company and the Play Group

Play Holdings 2 S. à r. l. (the "Company") was incorporated under Luxembourg law on January 10, 2014 ("Date of Incorporation"). The Company's registered office is in Luxembourg. The Company and its subsidiaries (together, the "Play Group" or the "Group") operate in the mobile telecommunications sector in Poland.

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

The Company's immediate parent is Play Holdings 1 S. à r. l., wholly owned by Play Topco S.A., which is controlled by Tollerton Investments Limited, owning 50.3% of Play Topco S.A. shares.
49.7% of Play Topco S.A.'s shares are owned by Telco Holdings S.à r.l.

These consolidated financial statements comprise:
- consolidated statement of financial position;
- consolidated statement of comprehensive income;
- consolidated statement of changes in equity;
- consolidated statement of changes in net assets attributable to shareholders of P4 Sp. z o.o.;
- consolidated statement of cash flows;
- summary of significant accounting policies and other notes

as at and for the years ended December 31, 2016, December 31, 2015 and December 31, 2014, further "consolidated financial statements".

Subsidiaries of the Company
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, 2016	**As at December 31, 2015**	**As at December 31, 2014**
<u>Subsidiaries held directly and indirectly:</u>					
Play Holdings 3 S. à r. l.	Luxembourg	Holding	merged with Play Holdings 2	100%	100%
Play Finance 1 S.A.	Luxembourg	Financing	100%	100%	100%
Play Finance 2 S.A.	Luxembourg	Financing	100%	100%	100%
P4 Sp. z o.o.	Poland	Operating	100%	100%	100%
Glenmore Investments Sp. z o.o.	Poland	Strategy	merged with P4	merged with P4	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	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".

On January 23, 2014 ("Date of Contribution"), 100% of shares in P4 Sp. z o.o. were contributed in kind to the Company's capital. See also Note 17. Due to the fact that the contribution of shares in P4 to Play Holdings 2 S. à r. l. was not a business combination and did not result in any change of economic substance of the Group, the consolidated financial statements of Play Holdings 2 S. à r. l. and its subsidiaries comprise full year ended December 31, 2014 as comparative period.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

2. Summary of significant accounting policies

2.1 Basis of preparation

These consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") issued and effective as at December 31, 2016. For the purpose of these consolidated financial statements the Group has early adopted the following 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 19 'Defined Benefit Plans: Employee Contributions'	November 21, 2013	July 1, 2014	February 1, 2015	Permitted	Fully implemented
Improvements to IFRS 2010-2012 Cycle	December 12, 2013	July 1, 2014	February 1, 2015	Permitted	Fully implemented
Amendments to IFRS 11: 'Accounting for Acquisitions of Interests in Joint Operations'	May 6, 2014	January 1, 2016	January 1, 2016	Permitted	Fully implemented
Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	May 12, 2014	January 1, 2016	January 1, 2016	Permitted	Fully implemented
Amendments to IAS 16 and IAS 41: Bearer Plants	June 30, 2014	January 1, 2016	January 1, 2016	Permitted	Fully implemented
Amendments to IAS 27: Equity Method in Separate Financial Statements	August 12, 2014	January 1, 2016	January 1, 2016	Permitted	Fully implemented
Improvements to IFRS 2012-2014 Cycle	September 25, 2014	January 1, 2016	January 1, 2016	Permitted	Fully implemented
Amendments to IAS 1: Disclosure Initiative	December 18, 2014	January 1, 2016	January 1, 2016	Permitted	Fully implemented
IFRS 15: 'Revenue from Contracts with Customers', including amendments and clarifications	May 28, 2014; September 11, 2015; 12 April 2016	January 1, 2018	January 1, 2018	Permitted	Fully implemented; early adopted
IFRS 16: 'Leases'	January 13, 2016	January 1, 2019	Not endorsed yet	Permitted	Fully implemented; early adopted
Amendments to IFRS 10, IFRS 12 and IAS 28: Investment Entities: Applying the Consolidation Exception	December 18, 2014	January 1, 2016	September 22, 2016	Permitted	Fully implemented

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ended December 31, 2016 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	Not endorsed yet	-	Assessment in progress
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	Deferred indefinitely	-	Assessment in progress
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 IAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	January 19, 2016	January 1, 2017	Not endorsed yet	-	Assessment in progress
Amendments to IAS 7 Disclosure Initiative	January 29, 2016	January 1, 2017	Not endorsed yet	-	Assessment in progress
Clarifications to IFRS 15 Revenue from Contracts with Customers	April 12, 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	Not endorsed yet	-	Assessment in progress
Annual Improvements to IFRS Standards 2014-2016 Cycle	December 8, 2016	January 1, 2018 / January 1, 2017	Not endorsed yet	-	Assessment in progress
IFRIC Interpretation 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 Investment Property	December 8, 2016	January 1, 2018	Not endorsed yet	-	Assessment in progress

The Group has issued consolidated financial statements for the same period (“Historical Financial Statements”), i.e. year ended December 31, 2016 that were authorized for issuance on January 31, 2017 (“Historical YE16 FS”).

The main differences between these sets of consolidated financial statements comprise of early adoption of IFRS 15 and IFRS 16 as further described in Note 2.2.

These consolidated financial statements were approved for issuance by the Management Board of the Company on January 31, 2017.

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

The consolidated financial statements are prepared under the historical cost convention except for liabilities relating to retention programs and derivatives which are valued at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed below and in Note 2.30.

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

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

2.2 Changes in accounting policies

As indicated in Note 2.1 the Group has early adopted IFRS 15 and IFRS 16 which resulted in changes in accounting policies and consequently in differences to the financial data as presented in the Historical YE16 FS. The main differences between these sets of financial statements are explained below.

IFRS 15 Adjustments
For mobile devices sold in bundled packages, the Group 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 signing a contract. Under IFRS 15, the total consideration in the contract (e.g. for mobile devices, telecommunication services and activation fees) is allocated to all products and services – e.g. mobile devices and mobile telecommunications services – based on their relative stand-alone selling prices. This resulted in a shift from service revenue to revenue from sales of goods (IFRS 15 [8]) and creation of contract assets (IFRS 15 [5]), which includes also some items previously presented as trade and other receivables (IFRS 15 [4]).

IFRS 15 requires also reclassification of some items previously presented in deferred income (IFRS 15 [7]) to contract liabilities (IFRS 15 [6]). Contract liabilities are then netted off against contract assets on a contract-by-contract basis.

In the previous years the Group capitalized so called 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 (IFRS 15 [11]),
- commission on sale,
- dispatch cost directly attributable to a contract.

The subscriber acquisition and retention costs were capitalized (IFRS 15 [9]) and recognized as intangible assets, - IFRS 15 [1] and amortized in depreciation and amortization (IFRS 15 [12]).

Under IFRS 15 the Group capitalizes solely costs of commissions paid to acquire or retain subscribers who enter into a fixed term or mix contract. Capitalized costs of commissions constitute "contract cost" asset (IFRS 15 [2]) and are depreciated on a straight-line basis in the operating expenses in the "contract costs, net" line (IFRS 15 [10]).

IFRS 16 Adjustments

Under previous accounting standard IAS 17 'Lease' the Group was required to classify its leases as either finance leases or operating leases and account for those two types of leases differently (both 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 the new standard 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 (IFRS 16 [B]) and a lease liability (IFRS 16 [C]) 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 use of leased assets, previously presented in general and administrative expenses (IFRS 16 [D]) are now capitalized and depreciated in depreciation and amortization (IFRS 16 [E]). The discount on lease liability is periodically unwound into finance costs (IFRS 16 [F]).

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 (IFRS 16 [A]).

The following tables present the impact of changes resulting from the early adoption of IFRS 15 and IFRS 16 on Historical Financial Statements for the year ended December 31, 2016, December 31, 2015 and December 31, 2014.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

STATEMENT OF FINANCIAL POSITION	December 31, 2016 Historical YE16 FS	Change	December 31, 2016	December 31, 2015 Historical YE16 FS	Change	December 31, 2015	December 31, 2014 Historical YE16 FS	Change	December 31, 2014	Ref.
ASSETS										
Non-current assets										
Property, plant and equipment	1,147,708	(58,271)	1,089,437	993,083	(85,336)	907,747	941,595	(81,244)	860,351	IFRS 16 [A]
Right-of-use assets	-	745,509	745,509	-	767,924	767,924	-	719,313	719,313	IFRS 16 [B]
Intangible assets	3,730,884	(1,102,098)	2,628,786	2,241,951	(1,115,179)	1,126,772	2,259,234	(997,598)	1,261,636	IFRS 15 [1]
Assets under construction	540,416	-	540,416	393,536	-	393,536	285,466	-	285,466	
Contract costs	-	350,681	350,681	-	309,944	309,944	-	257,114	257,114	IFRS 15 [2]
Long term finance receivables	341,001	-	341,001	153,441	-	153,441	-	-	-	
Other long term receivables	12,164	-	12,164	11,134	-	11,134	14,336	-	14,336	
Finance assets at fair value through profit or loss	134,246	-	134,246	19,219	-	19,219	57,611	-	57,611	
Deferred tax asset	142,862	(8,416)	134,446	181,935	2,211	184,146	291,011	(9,536)	281,475	
Total non-current assets	**6,049,281**	**(72,595)**	**5,976,686**	**3,994,299**	**(120,436)**	**3,873,863**	**3,849,253**	**(111,951)**	**3,737,302**	
Current assets										
Inventories	149,685	-	149,685	212,209	-	212,209	194,935	-	194,935	IFRS 15 [3]
Trade and other receivables	1,396,361	(136,148)	1,260,213	1,017,269	(140,375)	876,894	746,260	(30,245)	716,015	IFRS 15 [4]
Contract assets	-	997,780	997,780	-	1,000,880	1,000,880	-	885,990	885,990	IFRS 15 [5]
Current income tax receivables	-	-	-	-	-	-	559	-	559	
Prepaid expenses	22,985	(1,746)	21,239	44,304	(2,533)	41,771	34,791	(121)	34,670	IFRS 15 [3]
Cash and cash equivalents	340,994	-	340,994	1,556,801	-	1,556,801	497,981	-	497,981	
Total current assets	**1,910,025**	**859,886**	**2,769,911**	**2,830,583**	**857,972**	**3,688,555**	**1,474,526**	**855,624**	**2,330,150**	
TOTAL ASSETS	**7,959,306**	**787,291**	**8,746,597**	**6,824,882**	**737,536**	**7,562,418**	**5,323,779**	**743,673**	**6,067,452**	

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	December 31, 2016 Historical YE16 FS	Change	December 31, 2016	December 31, 2015 Historical YE16 FS	Change	December 31, 2015	December 31, 2014 Historical YE16 FS	Change	December 31, 2014	Ref.
EQUITY AND LIABILITIES										
Capital and reserves attributable to shareholders of the Company										
Share capital	52	-	52	52	-	52	52	-	52	
Share premium	5,644,191	-	5,644,191	5,644,191	-	5,644,191	5,635,996	-	5,635,996	
Retained losses	(4,337,511)	35,880	(4,301,631)	(5,004,186)	(9,433)	(5,013,619)	(5,604,550)	40,653	(5,563,897)	
Total equity	**1,306,732**	**35,880**	**1,342,612**	**640,057**	**(9,433)**	**630,624**	**31,498**	**40,653**	**72,151**	
Non-current liabilities										
Long-term finance liabilities	4,521,023	655,394	5,176,417	4,353,543	643,075	4,996,618	3,795,168	588,025	4,383,193	IFRS 16 [C]
Long-term provisions	47,520	-	47,520	46,472	-	46,472	53,523	-	53,523	
Long-term retention programs liabilities	150,064	-	150,064	163,040	-	163,040	95,702	-	95,702	
Deferred tax liability	314	-	314	36	-	36	-	-	-	
Other non-current liabilities	10,873	-	10,873	11,379	-	11,379	12,730	-	12,730	
Total non-current liabilities	**4,729,794**	**655,394**	**5,385,188**	**4,574,470**	**643,075**	**5,217,545**	**3,957,123**	**588,025**	**4,545,148**	
Current liabilities										
Short-term finance liabilities	125,091	152,059	277,150	120,617	156,628	277,245	119,541	158,934	278,475	IFRS 16 [C]
Trade and other payables	1,192,199	(14,618)	1,177,581	987,345	(10,396)	976,949	842,193	(6,078)	836,115	
Contract liabilities	-	44,933	44,933	-	22,322	22,322	-	21,346	21,346	IFRS 15 [6]
Current income tax payable	173,759	-	173,759	61,296	-	61,296	8,078	-	8,078	
Accruals	54,429	-	54,429	68,539	-	68,539	61,226	-	61,226	
Short-term provisions	1,006	-	1,006	996	-	996	1,653	-	1,653	
Short-term retention programs liabilities	17,740	-	17,740	22,294	-	22,294	14,129	-	14,129	
Deferred income	358,556	(86,357)	272,199	349,268	(64,660)	284,608	288,338	(59,207)	229,131	IFRS 15 [7]
Total current liabilities	**1,922,780**	**96,017**	**2,018,797**	**1,610,355**	**103,894**	**1,714,249**	**1,335,158**	**114,995**	**1,450,153**	
TOTAL LIABILITIES AND EQUITY	**7,959,306**	**787,291**	**8,746,597**	**6,824,882**	**737,536**	**7,562,418**	**5,323,779**	**743,673**	**6,067,452**	

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

STATEMENT OF COMPREHENSIVE INCOME	Year ended December 31, 2016 Historical YE16 FS	Change	Year ended December 31, 2016	Year ended December 31, 2015 Historical YE16 FS	Change	Year ended December 31, 2015	Year ended December 31, 2014 Historical YE16 FS	Change	Year ended December 31, 2014	Ref.
Operating revenue	**6,037,534**	**80,024**	**6,117,558**	**5,362,702**	**73,801**	**5,436,503**	**4,392,378**	**197,287**	**4,589,665**	
Service revenue	5,393,914	(901,096)	4,492,818	4,981,892	(922,358)	4,059,534	4,161,080	(762,638)	3,398,442	IFRS 15 [8]
Sales of goods and other revenue	643,620	981,120	1,624,740	380,810	996,159	1,376,969	231,298	959,925	1,191,223	IFRS 15 [8]
Operating expenses	**(4,808,555)**	**55,035**	**(4,753,520)**	**(4,304,384)**	**(68,674)**	**(4,373,058)**	**(3,688,996)**	**(105,134)**	**(3,794,130)**	
Interconnection, roaming and other services costs	(1,495,831)	-	(1,495,831)	(1,330,623)	-	(1,330,623)	(1,098,504)	-	(1,098,504)	
Other subscriber acquisition and retention costs not eligible for capitalization	(80,579)	80,579		(81,403)	81,403		(77,571)	77,571		IFRS 15 [9]
Contract costs, net	-	(398,912)	(398,912)	-	(376,269)	(376,269)	-	(318,265)	(318,265)	IFRS 15 [10]
Cost of goods sold	(632,160)	(733,996)	(1,366,156)	(377,879)	(803,342)	(1,181,221)	(233,465)	(751,316)	(984,781)	IFRS 15 [11]
General and administrative expenses	(1,020,406)	161,868	(858,538)	(1,046,712)	159,027	(887,685)	(1,005,183)	152,745	(852,438)	IFRS 16 [D]
Depreciation and amortization, including:	(1,579,579)	945,496	(634,083)	(1,467,767)	870,507	(597,260)	(1,274,273)	734,131	(540,142)	
Amortization of subscriber acquisition and retention costs assets	(1,062,153)	1,062,153	-	(985,595)	985,595	-	(842,719)	842,719	-	IFRS 15 [12]
Depreciation of right-of-use assets	-	(147,907)	(147,907)	-	(150,768)	(150,768)	-	(144,328)	(144,328)	IFRS 16 [E]
Other operating income	57,222	13,440	70,662	70,426	8,062	78,488	55,966	8,242	64,208	
Other operating costs	(136,298)	(8,151)	(144,449)	(71,480)	(4,600)	(76,080)	(77,726)	(8,533)	(86,259)	
Operating profit	**1,149,903**	**140,348**	**1,290,251**	**1,057,264**	**8,589**	**1,065,853**	**681,622**	**91,862**	**773,484**	
Finance income	156,484	(21,531)	134,953	18,041	(10,465)	7,576	86,841	(12,114)	74,727	
Finance costs	(436,219)	(62,877)	(499,096)	(308,021)	(59,957)	(367,978)	(368,354)	(64,255)	(432,609)	IFRS 16 [F]
Profit before income tax	**870,168**	**55,940**	**926,108**	**767,284**	**(61,833)**	**705,451**	**400,109**	**15,493**	**415,602**	
Income tax benefit/(charge)	(203,493)	(10,627)	(214,120)	(166,920)	11,747	(155,173)	86,202	(2,943)	83,259	
Net profit for the period	**666,675**	**45,313**	**711,988**	**600,364**	**(50,086)**	**550,278**	**486,311**	**12,550**	**498,861**	
Total comprehensive income for the period	**666,675**	**45,313**	**711,988**	**600,364**	**(50,086)**	**550,278**	**486,311**	**12,550**	**498,861**	

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

STATEMENT OF CASH FLOW	Year ended December 31, 2016 Historical YE16 FS	Change	Year ended December 31, 2016	Year ended December 31, 2015 Historical YE16 FS	Change	Year ended December 31, 2015	Year ended December 31, 2014 Historical YE16 FS	Change	Year ended December 31, 2014	Ref.
Profit before income tax	**870,168**	**55,940**	**926,108**	**767,284**	**(61,833)**	**705,451**	**400,109**	**15,493**	**415,602**	
Depreciation and amortization	1,579,579	(945,496)	634,083	1,467,767	(870,507)	597,260	1,274,273	(734,131)	540,142	IFRS 15 [12], IFRS 16 [E]
Changes in contract costs (net)	-	(40,737)	(40,737)	-	(52,830)	(52,830)	-	(58,400)	(58,400)	IFRS 15 [2]
Interest expense (net)	236,175	80,695	316,870	232,841	69,902	302,743	253,798	73,564	327,362	IFRS 16 [F]
(Gain)/Loss on valuation of finance assets	(115,027)	-	(115,027)	38,392	-	38,392	(50,719)	-	(50,719)	
Foreign exchange losses	158,498	3,713	162,211	18,809	520	19,329	85,119	2,805	87,924	
Gain on disposal of non-current assets	(2,830)	(5,966)	(8,796)	(3,143)	(757)	(3,900)	(2,529)	(1,002)	(3,531)	
Impairment of non-current assets	55,800	(49,525)	6,275	48,679	(47,015)	1,664	42,291	(43,955)	(1,664)	IFRS 15 [1]
Change in provisions and retention programs liabilities	(17,118)	-	(17,118)	61,180	-	61,180	33,851	-	33,851	
Changes in working capital and other	(218,138)	(31,753)	(249,891)	(129,056)	102,770	(26,286)	32,223	33,265	65,488	
Change in contract assets	-	3,100	3,100	-	(114,890)	(114,890)	-	(167,223)	(167,223)	IFRS 15 [5]
Change in contract liabilities	-	22,611	22,611	-	976	976	-	2,498	2,498	IFRS 15 [6]
Cash provided by operating activities	**2,547,107**	**(907,418)**	**1,639,689**	**2,502,753**	**(973,664)**	**1,529,089**	**2,068,416**	**(877,086)**	**1,191,330**	
Interest received	20,794	(20,713)	81	10,533	(10,465)	68	14,015	(12,114)	1,901	
Income tax paid	(52,241)	-	(52,241)	(4,213)	-	(4,213)	(10,539)	-	(10,539)	
Transfers from restricted cash (operating)	-	-	-	200	-	200	-	-	-	
Net cash provided by operating activities	**2,515,660**	**(928,131)**	**1,587,529**	**2,509,273**	**(984,129)**	**1,525,144**	**2,071,892**	**(889,200)**	**1,182,692**	
Proceeds from sale of non-current assets	5,511	-	5,511	7,832	-	7,832	7,632	-	7,632	
Proceeds from loans given	-	-	-	79	-	79	26	-	26	
Purchase of fixed assets and intangibles and prepayments for assets under construction	(3,292,662)	1,096,801	(2,195,861)	(1,587,827)	1,151,040	(436,787)	(1,507,279)	1,050,410	(456,869)	IFRS 15 [1]
Loans given	(17,851)	-	(17,851)	-	-	-	(55)	-	(55)	
Purchase of debt securities (Notes issued by Play Topco S.A.)	(141,056)	-	(141,056)	(143,993)	-	(143,993)	-	-	-	
Transfer to other finance assets	-	-	-	-	-	-	(720,256)	-	(720,256)	
Transfer from other finance assets	-	-	-	-	-	-	705,184	-	705,184	
Net cash used in investing activities	**(3,446,058)**	**1,096,801**	**(2,349,257)**	**(1,723,909)**	**1,151,040**	**(572,869)**	**(1,514,748)**	**1,050,410**	**(464,338)**	

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

STATEMENT OF CASH FLOW - continued	Year ended December 31, 2016 Historical YE16 FS	Change	Year ended December 31, 2016	Year ended December 31, 2015 Historical YE16 FS	Change	Year ended December 31, 2015	Year ended December 31, 2014 Historical YE16 FS	Change	Year ended December 31, 2014	Ref.
Proceeds from finance liabilities	385,000	-	385,000	543,772	-	543,772	3,816,016	-	3,816,016	
Distribution of share premium	-	-	-	-	-	-	(1,416,091)	-	(1,416,091)	
Repayment of finance liabilities and relating finance costs	(670,498)	(168,670)	(839,168)	(270,054)	(166,911)	(436,965)	(2,766,697)	(161,210)	(2,927,907)	IFRS 16 [C]
Transfers from restricted cash	-	-	-	-	-	-	134,722	-	134,722	
Other proceeds from financing activities	-	-	-	-	-	-	22,488	-	22,488	
Other payments relating to financing activities	-	-	-	-	-	-	(22,435)	-	(22,435)	
Net cash provided by/(used in) financing activities	**(285,498)**	**(168,670)**	**(454,168)**	**273,718**	**(166,911)**	**106,807**	**(231,997)**	**(161,210)**	**(393,207)**	
Net change in cash and cash equivalents	**(1,215,896)**	**-**	**(1,215,896)**	**1,059,082**	**-**	**1,059,082**	**325,147**	**-**	**325,147**	
Effect of exchange rate change on cash and cash equivalents	89	-	89	(62)	-	(62)	59	-	59	
Cash and cash equivalents at the beginning of the period	**1,556,801**	**-**	**1,556,801**	**497,781**	**-**	**497,781**	**172,575**	**-**	**172,575**	
Cash and cash equivalents at the end of the period	**340,994**	**-**	**340,994**	**1,556,801**	**-**	**1,556,801**	**497,781**	**-**	**497,781**	

STATEMENT OF CHANGES IN EQUITY	Year ended December 31, 2016 Historical YE16 FS	Change	Year ended December 31, 2016	Year ended December 31, 2015 Historical YE16 FS	Change	Year ended December 31, 2015	Year ended December 31, 2014 Historical YE16 FS	Change	Year ended December 31, 2014
Share capital opening balance	52	-	52	52	-	52	-	-	-
Share capital closing balance	**52**	**-**	**52**	**52**	**-**	**52**	**52**	**-**	**52**
Share premium opening balance	5,644,191	-	5,644,191	5,635,996	-	5,635,996	-	-	-
Share premium closing balance	**5,644,191**	**-**	**5,644,191**	**5,644,191**	**-**	**5,644,191**	**5,635,996**	**-**	**5,635,996**
Retained losses opening balance	(5,004,186)	(9,433)	(5,013,619)	(5,604,550)	40,653	(5,563,897)	-	-	-
Net profit for the period	666,675	45,313	711,988	600,364	(50,086)	550,278	519,578	7,444	527,022
Retained losses closing balance	**(4,337,511)**	**35,880**	**(4,301,631)**	**(5,004,186)**	**(9,433)**	**(5,013,619)**	**(5,604,550)**	**40,653**	**(5,563,897)**
Total equity opening balance	640,057	(9,433)	630,624	31,498	40,653	72,151	-	-	-
Net profit for the period	666,675	45,313	711,988	600,364	(50,086)	550,278	519,578	7,444	527,022
Total equity closing balance	**1,306,732**	**35,880**	**1,342,612**	**640,057**	**(9,433)**	**630,624**	**31,498**	**40,653**	**72,151**

Changes to Equity and Net assets attributable to shareholders of P4 sp. z o.o. relate to net impact on net profit and retained losses of the adjustments described above.

2.3 Consolidation

Subsidiaries, i.e. those entities which the Play Group has a control over, are consolidated. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.
Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date at fair value and the amount of any non-controlling interest in the acquiree. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

2.4 Foreign currency translation

2.4.1 Functional and presentation currency

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

2.4.2 Transactions and balances

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

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

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

Currency	**December 31, 2016**	**December 31, 2015**	**December 31, 2014**
EUR	4.4240	4.2615	4.2623
GBP	5.1445	5.7862	5.4648
USD	4.1793	3.9011	3.5072
XDR	5.6716	5.4092	5.0768

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

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

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

2.5 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 expenditures that are 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 cost of assets to their residual values over their estimated useful lives, 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

Fixed assets under construction are not depreciated.

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 disposals are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

2.6 Right-of-use assets and lease liabilities

The Group is a party to lease contracts for, among others:
a) land for telecommunication 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' adopted early.

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

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 telecommunication 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.

Lessor – accounting
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 Group 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.

Currently, the Group is a party of sublease transaction for which underlying right-of-use assets (comprising in particular office and point-of-sale space) are re-leased by the Group. These transactions are classified as operating lease and payments made are recognized on a straight-line basis over the period of the lease. Any variable elements resulting from the change of indexes or other factors being the basis for the rental fee are recognized directly in the profit and loss.

2.7 Intangible assets

2.7.1 Licenses

Licenses are stated at cost less accumulated amortization and accumulated impairment losses. Amortization of the license commences once the related network is capable of operating in the manner intended by the Group and is calculated on a straight-line basis until the end of the grant period.

2.7.2 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 recognized as assets 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.

2.7.3 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.

2.7.4 Intangible assets under construction

Intangible assets under construction represent mainly software under development and are presented in Assets under construction.

2.8 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 a 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 for the retention contract term. Amortization period of the contract cost relating to previous contract is 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.

2.9 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.

2.10 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 end customer or on the date when the equipment was sold to end customer without telecommunications services 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 end customer without relating service agreement and revenue from sale of goods and corresponding cost of sale are recognized in statement of comprehensive income.

2.11 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.

2.12 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 conditioned 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.

2.13 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 received.

2.14 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.

Cash and cash equivalents are carried at nominal value in the statement of financial position.

2.15 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.

2.16 Retirement benefits

The Play Group makes contributions 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.

2.17 Retention programs

The Play Group operates cash-settled share-based retention programs. Membership in programs is granted to board members and key employees of the Group.

Under the terms of the programs, Members of the Management Board of P4 and Key Personnel of the Group are entitled to remuneration paid in cash which value is dependent on the fair value of P4 as at the disposal of the shares by the shareholder or shareholders (liquidity event).

Liabilities relating to 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 statement of comprehensive income.

2.18 Financial liabilities

Financial liabilities are recognized initially at fair value, net of the transaction costs incurred. Bank loans, finance lease liabilities and debt securities liabilities are subsequently stated at amortized cost; any difference between proceeds (net 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.

2.19 Embedded derivatives

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.

2.20 Trade liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

2.21 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.

2.22 Deferred income

Deferred income on sales of 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.

2.23 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 customer or the amount is due.

2.24 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 recognized mainly from the following telecommunications services and goods:

- voice and SMS telecommunications;
- data transfer;
- 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 P4’s 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 2.8). The consideration (transaction price) is allocated between separate goods and services in a bundle based on their relative stand-alone selling prices. The stand-alone selling prices for mobile devices are determined based on the standard list prices at which the Group sells them separately (without a service contract). Stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services.

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 airtime 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 P4 to its distributors, constitutes commission earned by the distributors, who act as agents. P4 acts as a principal in such agreements. The costs of prepaid commissions are treated as other service costs (see also Note 2.30.7). The revenue from the sale of prepaid products is deferred until an end-user commences using the product, and recognized in the profit or loss as telecommunication services are provided, based on the actual airtime usage at an agreed tariff, or upon expiration of the obligation to provide the service. Revenues from the value added services are recognized in the amount of full consideration if P4 acts as principal in the relation with the customer or in the amount of the commission earned if P4 acts as agent.

Interconnection revenues are derived from calls and other traffic that originate in other operators' networks but use P4's network. P4 receives interconnection 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.

International roaming revenues are derived from calls and other traffic generated by foreign operators' customers in P4's network. P4 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 telecommunication 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 airtime services) or monthly instalments 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 we act as an agent in the transaction) or in the gross amount billed to a subscriber (when we act as a principal).

2.25 Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

2.26 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 balance sheet date in countries where the Company and its subsidiaries operate and generate taxable income.
Income tax payable represents the amounts payable at the balance sheet date. If the amount paid on account of current income tax is greater than the amount finally determined, the excess is recognized in the balance sheet as an income tax receivables.

2.27 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, the Company or its subsidiaries have 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.

2.28 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.

2.28.1 Currency risk

A significant portion of the Group's borrowings is denominated in EUR. International roaming costs and revenue are recorded in foreign currencies, including XDR. Also some operating costs are born in foreign currencies, mainly EUR. 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, year ended December 31, 2015 and year ended December 31, 2014.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The table below presents split of assets and liabilities balances into currencies in which they are denominated:

Year ended December 31, 2016

	EUR	GBP	USD	XDR	PLN	Total
Long term receivables - debt securities	322,641	-	-	-	-	322,641
Long term loans	18,360	-	-	-	-	18,360
Other long term receivables before the impairment provision	1,359	-	-	-	11,213	12,572
Trade and other receivables before the impairment provision	15,542	81	2,871	11,918	1,372,992	1,403,404
Cash and cash equivalents	19,054	187	736	-	321,017	340,994
Assets	**376,956**	**268**	**3,607**	**11,918**	**1,705,222**	**2,097,971**
Long-term finance liabilities	4,444,183	-	4,025	-	728,209	5,176,417
Long-term retention programs liabilities	133,163	-	-	-	16,901	150,064
Other non-current liabilities	-	-	-	-	10,873	10,873
Short-term finance liabilities	124,913	-	774	-	151,463	277,150
Trade and other payables	98,303	-	4,780	29,146	1,045,352	1,177,581
Short-term retention programs liabilities	10,913	-	-	-	6,827	17,740
Liabilities	**4,811,475**	**-**	**9,579**	**29,146**	**1,959,625**	**6,809,825**

Year ended December 31, 2015

	EUR	GBP	USD	XDR	PLN	Total
Long term receivables - debt securities	153,441	-	-	-	-	153,441
Other long term receivables before the impairment provision	1,230	-	-	-	10,876	12,106
Trade and other receivables before the impairment provision	8,852	349	239	9,247	951,177	969,864
Cash and cash equivalents	48,232	-	855	-	1,507,714	1,556,801
Assets	**211,755**	**349**	**1,094**	**9,247**	**2,469,767**	**2,692,212**
Long-term finance liabilities	4,272,911	-	-	-	723,707	4,996,618
Long-term retention programs liabilities	150,744	-	-	-	12,296	163,040
Other non-current liabilities	-	-	-	-	11,379	11,379
Short-term finance liabilities	125,148	-	-	-	152,097	277,245
Trade and other payables	189,154	34	7,867	21,386	758,508	976,949
Short-term retention programs liabilities	22,294	-	-	-	-	22,294
Liabilities	**4,760,251**	**34**	**7,867**	**21,386**	**1,657,987**	**6,447,525**

Year ended December 31, 2014

	EUR	GBP	USD	XDR	PLN	Total
Long term receivables - debt securities	-	-	-	-	-	-
Other long term receivables before the impairment provision	1,040	-	-	-	14,462	15,502
Trade and other receivables before the impairment provision	4,834	830	86	6,255	788,955	800,960
Cash and cash equivalents	11,851	-	1,344	-	484,786	497,981
Assets	**17,725**	**830**	**1,430**	**6,255**	**1,288,203**	**1,314,443**
Long-term finance liabilities	3,704,223	-	-	-	678,970	4,383,193
Long-term retention programs liabilities	95,702	-	-	-	-	95,702
Other non-current liabilities	-	-	-	-	12,730	12,730
Short-term finance liabilities	117,717	-	-	-	160,758	278,475
Trade and other payables	115,218	-	99	11,720	709,078	836,115
Short-term retention programs liabilities	-	-	-	-	14,129	14,129
Liabilities	**4,032,860**	**-**	**99**	**11,720**	**1,575,665**	**5,620,344**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

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:

	Change in EUR rate	Effect on result before tax
December 31, 2016	+5%	(217,248)
	-5%	217,248
December 31, 2015	+5%	(222,707)
	-5%	222,707
December 31, 2014	+5%	(196,539)
	-5%	196,539

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 more sensitive to movement in EUR/PLN exchange rates in 2016 and 2015 than in 2014 mainly because of the increased amount of euro-denominated debt and retention programs liabilities, partially off-set by the increase in euro-denominated receivables due to purchase of debt securities. Effect on equity would comprise effect on profit before tax as well as corresponding tax effect.

2.28.2 Interest rate risk

In the year ended December 31, 2016 and December 31, 2015 and in the year ended December 31, 2014, the exposure on interest rate risk related primarily to bonds and finance leases with floating interest rates.

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

	Increase / decrease in basis points (EURIBOR 3M / WIBOR 1M, 3M)	Effect on result before tax
Year ended December 31, 2016	+50	(661)
	-50	661
Year ended December 31, 2015	+50	(659)
	-50	659
Year ended December 31, 2014	+50	(1,753)
	-50	1,753

The result is less sensitive to changes in interest rates in 2016 and in 2015 than in 2014 because of lower amount of floating rate debt (the Group refinanced its floating rate bank loans mostly with fixed rate bonds in January 2014). 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 3M WIBOR PLN and a 50 basis points change in the 1M WIBOR PLN interest rates had occurred during the whole period and had been applied to the appropriate floating rate liabilities during the year ended December 31, 2016, year ended December 31, 2015 and year ended December 31, 2014.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

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, year ended December 31, 2015 and year ended December 31, 2014.

2.28.3 Credit risk

Except for balances listed below, the Play Group has no significant concentrations of credit risk because the Group has an extensive portfolio of receivables of low individual amounts.

The table below shows the balance of three major counterparties at the end of the reporting period and the percentage that the balance represents in total Group's trade and other receivables:

	December 31, 2016	
	%	Balance
Counterparty A	7.0%	97,276
Counterparty B	2.1%	29,402
Counterparty C	1.9%	25,975
	10.9%	**152,653**

	December 31, 2015	
	%	Balance
Counterparty A	4.2%	43,217
Counterparty B	2.6%	26,294
Counterparty C	2.3%	23,220
	9.1%	**92,731**

	December 31, 2014	
	%	Balance
Counterparty A	5.0%	39,049
Counterparty D	2.5%	19,152
Counterparty E	2.0%	15,545
	9.5%	**73,746**

A substantial part of the Group's receivables consists of billing receivables. 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.

Cash is deposited only in high credit quality financial institutions.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Management and control of credit risk regarding receivables from counterparties A, B, C, D, and E 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 code of civil procedure, bill of exchange);
- insurance of trade receivables in external institutions;
- periodical monitoring of different caution signals: lack of payment, lack of new orders for mobile devices;
- immediate response in case of appearance of any caution signals.

2.28.4 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.

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

December 31, 2016

	Liabilities payable within:			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Notes	252,910	4,948,341	-	5,201,251
Lease	179,033	530,224	466,007	1,175,264
Other debt	1,150	1,522	-	2,672
	433,093	**5,481,958**	**464,136**	**6,379,187**

December 31, 2015

	Liabilities 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
	427,035	**5,553,792**	**433,931**	**6,414,758**

December 31, 2014

	Liabilities payable within:			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Notes	217,417	4,629,618	-	4,847,035
Lease	195,855	510,511	360,277	1,066,643
	413,272	**5,140,129**	**360,277**	**5,913,678**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

2.28.5 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 and to maintain an optimal capital structure to reduce the cost of capital.

2.29 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 2.30.1 and 2.30.3 respectively.

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

2.30 Critical accounting estimates and judgments

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

2.30.1 Valuation of the liabilities relating to retention programs

The main input used for the valuation of retention programs liabilities is the fair value of the Group. The fair value of the Group as at December 31, 2016, December 31, 2015 and December 31, 2014 was established using the multiply method on the basis of business projections for years 2017–2019, 2016-2018 and 2015-2017 respectively.

The estimated fair value of the Group as at December 31, 2016 has changed in comparison to December 31, 2015 and December 31, 2014.

The following table lists other major inputs to the models used for the plans:

	December 31, 2016	**December 31, 2015**	**December 31, 2014**
Liquidity event date	December 31, 2018	December 31, 2018	December 31, 2017
Volatility	25%	34%	27%
Probability that liquidity event will not occur till liquidity event date mentioned above	50%	50%	50%

Had the major inputs remained the same as at December 31, 2015, the value of retention programs liabilities as at December 31, 2016 and relating costs for the year ended December 31, 2016 would be higher by PLN 7,824 thousand.

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

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

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

2.30.3 Valuation of early redemption options

For purposes of valuation of early redemption options to fair value the Group applies valuation model which is designed based on Black-Derman-Toy model (BDT) framework. BDT model is a one-factor model and is one of the most used yield-based models to valuate bonds and interest rate (American-style) options.

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

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

Thus critical valuation inputs of the option are as follows:

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

The above inputs are unobservable inputs.

Due to the nature of embedded derivative (American-style call option on debt instrument which is not quoted on active markets) and due to designed valuation model that uses unobservable inputs subject to significant assumptions the analyzed early redemption options are categorized within Level 3 of fair value hierarchy. The tables below present results of sensitivity analysis of early redemption options’ valuations (separately for each Notes’ category) to changes of key unobservable valuation inputs (key risk factors).

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Early redemption option embedded in Senior Notes:

Risk factor	**decrease**		**Actual (base)**	**increase**	
Credit spread	**-0.50%**	**-0.25%**	**3.44%**	**+0.25%**	**+0.50%**
Option fair value	66,157	58,412	50,723	43,763	37,949
Impact on profit before tax	15,434	7,688	-	(6,960)	(12,774)
Risk free rate	**-0.00%**	**-0.00%**	**0.00%**	**+1.00%**	**+2.00%**
Option fair value	50,726	50,725	50,723	44,404	41,930
Impact on profit before tax	3	2	-	(6,320)	(8,794)

Early redemption option embedded in Senior Secured Notes:

Risk factor	**decrease**		**Actual (base)**	**increase**	
Credit spread	**-0.50%**	**-0.25%**	**2.93%**	**+0.25%**	**+0.50%**
Option fair value	109,988	96,712	83,522	70,418	57,398
Impact on profit before tax	26,465	13,190	-	(13,104)	(26,124)
Risk free rate	**-0.00%**	**-0.00%**	**0.00%**	**+0.50%**	**+1.00%**
Option fair value	83,523	83,523	83,522	69,833	64,337
Impact on profit before tax	1	0	-	(13,690)	(19,186)

Actual (base) values of risk factors are presented as at December 31, 2016. Actual value for risk free rate is presented as average rate of quoted yields (only those above zero) for full yearly periods from December 31, 2016 to given Notes maturity.

Decrease / increase of each risk factor is presented in nominal values, e.g. 0.50% decrease of credit spread from credit spread base value of 5% means that credit spread would fall from 5.00% to 4.50%.

Decrease / increase of risk free rate means parallel shift of zero coupon risk free curve down / up. It is assumed, that risk free rate could not fall below zero. So the maximum decrease is assumed up to the amount of 1Y risk free rate or zero.

Magnitude of decrease / increase of risk factors was determined as reasonable and possible to occur.

Change of option value is positively correlated to changes of volatility (i.e. the greater the volatility of risk free rate, the greater the option value) and negatively correlated to changes of credit spread and risk free rate levels. However, by risk free rate close or equal nil, the impact of the changes of volatility is insignificant. Option value is mostly sensitive to change of credit spread. Potential change of the Group's rating in the future will trigger change of benchmark for credit spread calculation and therefore such event will also have an impact on option value calculated from applied valuation model.

2.30.4 Valuation of the assets retirement obligation provision

As at December 31, 2016 the assets retirement obligation provision was calculated using discount rate of 3.62% (3.00% as at December 31, 2015 and 2.95% as at December 31, 2014), representing interest rate of 10-years treasury bonds as at that date.

The discount period equals the average remaining useful life of the fixed assets that will be subject to retirement obligation. The discount period applied for the calculation in the years ended December 31, 2016 and December 31, 2015 has changed in comparison to December 31, 2014.

2.30.5 Deferred tax

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

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

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

2.30.6 Impairment of Play Group's long-lived assets

Under IAS 36 "Impairment of Assets" the Group is obliged to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the Play Group must estimate the recoverable amount of the asset or of the cash generating unit ("CGU") to which the asset belongs. As at December 31, 2016, no impairment indicators were identified.

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

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

The key assumptions for the calculations are presented below:

- The EUR/PLN exchange rate is on the level of 4.3 PLN for 1 EUR;
- Play Market Share in Customer Base is expected to increase during the forecast period;
- Play new subscribers added ("gross adds") are expected to decrease slightly during the forecast period as the Polish mobile market becomes more saturated over time;
- The costs of national roaming/network sharing and interconnection costs assumed by the Group in the financial projections are the best estimate of rates taking into account actual rates as per the agreements with national roaming/network sharing providers, roll-out speed and coverage targets with traffic growth assumption as well as market opportunities to lower national roaming/network sharing rates;
- Unit subscriber acquisition cost (calculated on cash basis) is expected to remain stable;
- Unit subscriber retention cost (calculated on cash basis) is expected to decrease;
- ARPU Outbound (monthly revenue from retail usage per average subscriber) is expected to increase slightly which reflects planned customer mix;
- The discount rate used (of 9.91%) reflects the risks specific to the Play Group's operations;
- The growth rate used to extrapolate cash flow projections beyond the forecast period (2022 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, 2016. As a result no impairment loss has been recognized.

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

The mobile telecommunications industry is subject to significant governmental regulation and supervision and future changes in such regulations or telecommunication 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, including possible significant changes in mobile technology, the actual recoverable amount of the CGU may differ significantly in the future from the Play Group's current estimates.

However,

- If the total number of new subscribers added by P4 ("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.

2.30.7 Deferred charges - distribution costs of prepaid products

Costs of distribution of prepaid products are deferred until the service is provided, i.e. a pre-paid product is delivered to an end-user, and expensed at that time. However, as P4 has no means of knowing the exact moment at which the prepaid products are delivered to end-users, due to the vast majority of sales being through independent third party channels, it is estimated that the distribution services are rendered when pre-paid products are first activated in P4's billing system. The distribution costs of prepaid products that were not activated after a pre-determined period from the date of delivering the products to the distributors are treated as incurred and expensed at that time.

2.30.8 Impairment of billing receivables

For billing receivables, the impairment provision is calculated on the basis of the collectability ratio in previous periods, including revenue from sale of billing receivables. The collectability ratio used for calculation as at December 31, 2016 is higher than in comparative periods.

2.30.9 Significant judgments and estimates relating to application of IFRS 15

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

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

The significant judgments in the relation to the above are described in Note 2.24. The transaction price is calculated as total consideration receivable from the customer over the Adjusted Contract Term, described in Note 2.8.

The significant judgments in relation to recognition and measurement of contract costs are described in Note 2.8.

Significant financing component

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

Material right considerations

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

Agent vs. principal considerations in relation to cooperation with dealers

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

a) the Group bears primary responsibility for fulfilling the promise to provide the specified good and service – the Group is responsible for delivering airtime services to the end-customer and organizes the process of repairs of the equipment within the guarantee period,
b) prices of services and prices of equipment to customers are determined by the Group and not by the dealer;
c) dealers are remunerated in the form of commissions;
d) credit risk related to consideration for service and in case of instalment sales model also credit risk related to consideration for equipment is borne by the Group.

2.30.10 Significant judgments and estimates relating to application of IFRS 16

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

For lease contracts with indefinite term or with option to extend the lease on the same commercial terms 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 telecommunication towers in case of lease of land on which the tower is located) or determines the length of the contract to be equal to the average or typical market contract term of particular type of lease. The same economic useful life is applied to determine the depreciation rate of right-of-use assets.

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

2.31 Segment reporting

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

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

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

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

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Operating profit	**1,290**	**1,066**	**773**
Add depreciation and amortization	634	597	540
Add advisory services provided by shareholders	36	28	21
Add valuation of retention programs and special bonuses	7	93	84
Add one-off taxes and fees	0	-	14
Add One-off salaries and social security	2	-	-
Add One-off advertising and promotion expenses	0	-	-
Add one-off finance and legal services	7	3	4
Add one-off cost/(reversal) of provisions	20	(11)	(5)
Add one-off impairment of overdue receivables	13	-	4
Add one-off other operating costs	25	9	0
Adjusted EBITDA	**2,035**	**1,786**	**1,436**

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

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

3. Property, plant and equipment

	Land	Buildings	Computers	Telecommunications network and equipment	Motor vehicles	Other fixed assets	Total
Cost							
As at January 1, 2016	46	796,404	101,546	905,081	-	60,098	1,863,175
Transfers and reclassifications	-	65,409	29,239	234,843	345	65,363	395,199
Disposals	-	(3,228)	(5,218)	(72,982)	-	(3,443)	(84,871)
As at December 31, 2016	**46**	**858,585**	**125,567**	**1,066,942**	**345**	**122,018**	**2,173,503**
Accumulated depreciation							
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)
As at December 31, 2016	**4**	**390,861**	**96,046**	**548,752**	**323**	**47,894**	**1,083,880**
Accumulated impairment							
As at January 1, 2016	-	-	-	-	-	-	-
Impairment charge	-	-	34	-	-	152	186
As at December 31, 2016	**-**	**-**	**34**	**-**	**-**	**152**	**186**
Net book value as at December 31, 2016	**42**	**467,724**	**29,487**	**518,190**	**22**	**73,972**	**1,089,437**

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

During the year ended December 31, 2016 the Group has not capitalized any interest expense or exchange rate differences.

As at December 31, 2016 contractual commitments for purchase of property, plant and equipment and intangible assets amount to PLN 85,724 thousand.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Land	Buildings	Computers	Telecommunications network and equipment	Motor vehicles	Other fixed assets	Total
Cost							
As at January 1, 2015	46	691,837	111,593	926,038	-	49,616	1,779,130
Transfers and reclassifications	-	111,530	4,967	187,824	-	23,332	327,653
Disposals	-	(6,963)	(15,014)	(208,781)	-	(12,850)	(243,608)
As at December 31, 2015	**46**	**796,404**	**101,546**	**905,081**	**-**	**60,098**	**1,863,175**
Accumulated depreciation							
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)
As at December 31, 2015	**4**	**360,362**	**88,999**	**471,981**	**-**	**34,082**	**955,428**
Net book value as at December 31, 2015	**42**	**436,042**	**12,547**	**433,100**	**-**	**26,016**	**907,747**

During the year ended December 31, 2015 the Group has not capitalized any interest expense or exchange rate differences.

As at December 31, 2015 contractual commitments for purchase of property, plant and equipment and intangible assets amount to PLN 75,585 thousand.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Land	Buildings	Computers	Telecommunications network and equipment	Motor vehicles	Other fixed assets	Total
Cost							
As at January 1, 2014	46	538,300	94,599	824,453	-	45,640	1,503,038
Additions	-	101	-	-	-	-	101
Transfers and reclassifications	-	163,228	19,136	219,932	-	6,114	408,410
Disposals	-	(9,792)	(2,142)	(118,347)	-	(2,138)	(132,419)
As at December 31, 2014	**46**	**691,837**	**111,593**	**926,038**	**-**	**49,616**	**1,779,130**
Accumulated depreciation							
As at January 1, 2014	3	196,798	68,578	518,551	-	30,406	814,336
Charge	1	83,841	10,678	114,922	-	8,575	218,017
Transfers and reclassifications	-	106	13,366	-	-	-	13,472
Disposals	-	(6,717)	(1,903)	(116,773)	-	(1,653)	(127,046)
As at December 31, 2014	**4**	**274,028**	**90,719**	**516,700**	**-**	**37,328**	**918,779**
Accumulated impairment							
As at January 1, 2014	-	-	245	4,132	-	-	4,377
Reversal of impairment charge	-	-	(28)	(2,640)	-	-	(2,668)
Utilization of impairment charge	-	-	(217)	(1,492)	-	-	(1,709)
As at December 31, 2014	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Net book value as at December 31, 2014	**42**	**417,809**	**20,874**	**409,338**	**-**	**12,288**	**860,351**

During the year ended December 31, 2014 the Group capitalized PLN 546 thousand of interest expense and PLN 224 thousand of exchange rate differences arising from foreign currency borrowings relating to purchases of property, plant and equipment and intangible assets regarded as an adjustment to interest costs. The rate used to determine the amount of borrowing costs eligible for capitalization was 4.20%, which is the effective interest rate of the CDB borrowing.

As at December 31, 2014 contractual commitments for purchase of property, plant and equipment and intangible assets amount to PLN 130,808 thousand.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

4. Right-of-use assets

	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: Computers	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Other fixed assets	Total
Cost							
As at January 1, 2016	113,374	1,104,525	89,116	92,219	26,097	-	1,425,331
Additions	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)
As at December 31, 2016	**132,530**	**1,174,013**	**82,525**	**74,056**	**25,767**	**718**	**1,489,609**
Accumulated depreciation							
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)
As at December 31, 2016	**44,524**	**572,474**	**58,716**	**54,518**	**13,203**	**665**	**744,100**
Net book value as at December 31, 2016	**88,006**	**601,539**	**23,809**	**19,538**	**12,564**	**53**	**745,509**

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 3,810 thousand in current period.

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 current period.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: Computers	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Other fixed assets	Total
Cost							
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)
As at December 31, 2015	**113,374**	**1,104,525**	**89,116**	**92,219**	**26,097**	**-**	**1,425,331**
Accumulated depreciation							
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)
As at December 31, 2015	**35,875**	**501,646**	**44,821**	**61,681**	**13,384**	**-**	**657,407**
Net book value as at December 31, 2015	**77,499**	**602,879**	**44,295**	**30,538**	**12,713**	**-**	**767,924**

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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: Computers	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Other fixed assets	Total
Cost							
As at January 1, 2014	82,676	903,203	44,216	95,591	23,870	-	1,149,556
Additions	15,483	82,846	-	6,758	-	-	105,087
Asset retirement obligation	-	8,397	-	-	-	-	8,397
Transfers and reclassifications	-	(334)	19,439	4,429	7,224	-	30,758
Disposals	-	(20,359)	(177)	(714)	(3,973)	-	(25,223)
As at December 31, 2014	**98,159**	**973,753**	**63,478**	**106,064**	**27,121**	**-**	**1,268,575**
Accumulated depreciation							
As at January 1, 2014	20,262	344,921	20,057	42,851	12,307	-	440,398
Charge	7,120	89,609	18,846	20,660	6,895	-	143,130
Charge from asset retirement obligation	-	1,198	-	-	-	-	1,198
Transfers and reclassifications	-	(106)	(13,366)	-	-	-	(13,472)
Disposals	-	(17,171)	(178)	(672)	(3,971)	-	(21,992)
As at December 31, 2014	**27,382**	**418,451**	**25,359**	**62,839**	**15,231**	**-**	**549,262**
Net book value as at December 31, 2014	**70,777**	**555,302**	**38,119**	**43,225**	**11,890**	**-**	**719,313**

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 3,464 thousand in the year ended December 31, 2014.

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 12,353 thousand in the year ended December 31, 2014.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

5. Intangible assets

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2016	1,061,522	781,608	238,301	21,626	2,103,057
Additions	1,718,433	-	-	-	1,718,433
Transfers and reclassifications	-	56,871	-	8,408	65,279
Disposals	-	(7,524)	-	(130)	(7,654)
As at December 31, 2016	**2,779,955**	**830,955**	**238,301**	**29,904**	**3,879,115**
Accumulated amortization					
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)
As at December 31, 2016	**557,879**	**672,922**	**-**	**14,931**	**1,245,732**
Accumulated impairment					
As at January 1, 2016	-	-	-	-	-
Impairment charge	-	-	-	4,597	4,597
As at December 31, 2016	**-**	**-**	**-**	**4,597**	**4,597**
Net book value as at December 31, 2016	**2,222,076**	**158,033**	**238,301**	**10,376**	**2,628,786**

The transfers recorded during year ended December 31, 2016 relate mainly to transfers from assets under construction to intangible assets due to the completion of computer software.

On August 23, 2005 P4 was granted by 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 P4 started providing mobile telecommunications services and started to amortize the 2100 MHz license from March 1, 2007. The license is amortized over the period for which it was granted. As at December 31, 2016 the carrying value of the 2100 MHz license was PLN 131,049 thousand.

On December 9, 2008 P4 was granted a reservation of the 900 MHz frequency for the period from December 9, 2008 to December 31, 2023. P4 started to amortize the 900 MHz license from January 2009. The license is amortized over the period for which it was granted. As at December 31, 2016 the carrying value of the 900 MHz license was PLN 101,593 thousand.

On February 13, 2013, P4 was granted a reservation of the 1800 MHz frequency for the period from February 13, 2013 to December 31, 2027. The license is amortized over the period for which it was granted. As at December 31, 2016 the carrying value of the 1800 MHz license was PLN 377,793 thousand.

On January 25, 2016, P4 was granted a reservation of the 800 MHz frequency. On June 23, 2016, the UKE President issued new decisions on reservation of 800 MHz frequency and changed the allocation of the frequency blocks among operators (P4 was allocated the Block C instead of the Block D). The reservation is granted till June 22, 2031. The license is amortized over the period for which it was granted. As at December 31, 2016 the carrying value of the 800 MHz license was PLN 1,403,106 thousand.

On January 25, 2016, P4 was granted a reservation of the 2600 MHz frequency for the period from January 25, 2016 to January 24, 2031. The license is amortized over the period for which it was granted. As at December 31, 2016 the carrying value of the 2600 MHz license was PLN 208,535 thousand.

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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2015	1,061,522	764,901	238,301	17,934	2,082,658
Additions	-	-	-	-	-
Transfers and reclassifications	-	27,368	-	6,937	34,305
Disposals	-	(10,661)	-	(3,245)	(13,906)
As at December 31, 2015	**1,061,522**	**781,608**	**238,301**	**21,626**	**2,103,057**
Accumulated amortization					
As at January 1, 2015	309,688	497,586	-	13,748	821,022
Charge	70,700	95,931	-	2,538	169,169
Transfers and reclassifications	-	-	-	-	-
Disposals	-	(10,661)	-	(3,245)	(13,906)
As at December 31, 2015	**380,388**	**582,856**	**-**	**13,041**	**976,285**
Accumulated impairment					
As at January 1, 2015	-	-	-	-	-
Impairment charge	-	-	-	-	-
Utilization of impairment charge	-	-	-	-	-
As at December 31, 2015	**-**	**-**	**-**	**-**	**-**
Net book value as at December 31, 2015	**681,134**	**198,752**	**238,301**	**8,585**	**1,126,772**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2014	1,061,522	647,287	238,604	17,438	1,964,851
Additions	-	-	-	-	-
Transfers and reclassifications	-	125,767	-	1,953	127,720
Disposals	-	(8,153)	(303)	(1,457)	(9,913)
As at December 31, 2014	**1,061,522**	**764,901**	**238,301**	**17,934**	**2,082,658**
Accumulated amortization					
As at January 1, 2014	238,989	401,291	-	12,356	652,636
Charge	70,699	104,278	-	2,868	177,845
Charge correction resulted from reversal of impairment charge	-	-	-	-	-
Transfers and reclassifications	-	-	-	-	-
Disposals	-	(7,983)	-	(1,476)	(9,459)
As at December 31, 2014	**309,688**	**497,586**	**-**	**13,748**	**821,022**
Accumulated impairment					
As at January 1, 2014	-	-	-	-	-
Impairment charge	-	-	-	-	-
Utilization of impairment charge	-	-	-	-	-
As at December 31, 2014	**-**	**-**	**-**	**-**	**-**
Net book value as at December 31, 2014	**751,834**	**267,315**	**238,301**	**4,186**	**1,261,636**

The movements in goodwill recorded during the year ended December 31, 2014 result from the disposal of part of business acquired in 2013.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

6. Assets under construction

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Cost			
As at January 1	395,385	286,447	346,155
Additions	611,065	504,908	509,217
Radio network	391,279	259,467	328,845
Core network and network operations center	72,978	73,096	63,801
IT	116,452	111,418	96,989
Other capital expenditures	30,356	60,927	19,582
Transfers and reclassifications	(462,530)	(395,063)	(566,888)
Disposals	(806)	(907)	(2,037)
As at December 31	**543,114**	**395,385**	**286,447**
Accumulated impairment			
As at January 1	1,849	981	1,579
Impairment charge	1,491	1,686	977
Utilization of impairment provision	(642)	(818)	(1,575)
As at December 31	**2,698**	**1,849**	**981**
Net book value as at December 31	**540,416**	**393,536**	**285,466**

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 under construction amounting to PLN 10,140 as at December 31, 2016, PLN 0 as at December 31, 2015 and PLN 10,744 as at December 31, 2014.

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

7. Contract costs

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Cost			
As at January 1	605,668	484,039	384,688
Additions	421,951	395,403	342,704
Disposals	(324,052)	(273,774)	(243,353)
As at December 31	**703,567**	**605,668**	**484,039**
Accumulated amortization			
As at January 1	295,724	226,925	185,974
Charge (including impairment)	381,214	342,573	284,304
Disposals (including impairment)	(324,052)	(273,774)	(243,353)
As at December 31	**352,886**	**295,724**	**226,925**
Net book value as at December 31	**350,681**	**309,944**	**257,114**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

8. Long term finance receivables

	December 31, 2016	December 31, 2015	December 31, 2014
Long term receivables - debt securities			
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	-	-
Long term loans			
Loans given to Play Topco due in 2019	18,360	**-**	**-**
	341,001	**153,441**	**-**

Debt securities
On February 26, 2015, the Group purchased EUR 18,047 thousand in aggregate principal amount of A Series Bonds issued by Play Topco S.A. On August 26, 2015, the Group purchased EUR 16,260 thousand in aggregate principal amount of B Series Bonds issued by Play Topco S.A. On February 25, 2016, the Group purchased EUR 15,950 thousand in aggregate principal amount of C Series Bonds issued by Play Topco S.A. On August 26, 2016, the Group purchased EUR 16,550 thousand in aggregate principal amount of D Series Bonds issued by Play Topco S.A. The purpose of the bonds 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 Play Topco S.A. The notes mature on February 28, 2020 (Repurchase Date). Interest on the A, B and C Series Bonds is calculated at the rate of 8.22% per annum and interest on the D Series is calculated at the rate of 6,11% per annum. Interest accrued on all tranches is payable on the Bonds Repurchase Date.

The bonds receivables are measured at amortized cost using the effective interest rate. The effective interest rate on tranches A, B and C was 8.23% and on tranche D amounted to 6.12% as at December 31, 2016. As at December 31, 2015 the effective interest rate on tranches A and B amounted to 8.23%.

The carrying amount of the bonds receivables approximates its fair value. The discount rate for the fair value calculation approximates the effective interest rate.
Critical assumptions and implemented valuation techniques for measuring the fair value are as follows:

- fair value of bonds is determined as future cash flows from repayment of notes and interest discounted to valuation date,
- interest is calculated using risk free rate increased by credit spread,
- risk free rate is 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 is determined as implied credit spread from most actual debt issue of Play Topco S.A. and adjusted by the actual change in broad market credit index for corporations with rating as of Play Topco S.A. (actually CDS index for entities rated “CCC” is assumed as a benchmark),
- the discount rate is an effective interest rate of cash flows with recalculated interest value.

Loans given
On September 5, 2016, the Group granted a loan to Play Topco S.A. in the total available amount of EUR 5,000 thousand. The actual amount drawn as at December 31, 2016 totaled EUR 4,150 thousand. Interest on the loan is calculated at the rate of 6M EURIBOR plus margin. The repayment of the loan is due in 2019.

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

9. Other long-term receivables

	December 31, 2016	December 31, 2015	December 31, 2014
Long-term receivables	12,572	12,106	15,502
Impairment of long-term receivables	(408)	(972)	(1,166)
	12,164	**11,134**	**14,336**

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

10. Finance assets at fair value through profit or loss

Finance assets at fair value through profit or loss comprise early redemption options separated from Senior Secured Notes Indenture and Senior Notes Indenture (see Note 2.30.2 and Note 2.30.3).

	December 31, 2016	December 31, 2015	December 31, 2014
Senior Secured Notes	83,522	8,580	38,948
Senior Notes	50,724	10,639	18,663
	134,246	**19,219**	**57,611**

Critical terms with respect to redemption price and portion of principal amount available for early redemption at particular price are 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 is 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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

(ii) at any time on or after August 1, 2016 the Issuer is 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 is additionally increased by the amount of accrued and unpaid interests as to redemption date.

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

	Senior Secured Notes	**Senior Notes**	**Total**
Valuation as at January 1, 2016	8,580	10,639	19,219
Valuation as at December 31, 2016	83,522	50,724	134,246
Impact of change in fair value on profit or loss for the year ended December 31, 2016	**74,942**	**40,085**	**115,027**
Valuation as at January 1, 2015	38,948	18,663	57,611
Valuation as at December 31, 2015	8,580	10,639	19,219
Impact of change in fair value on profit or loss for the year ended December 31, 2015	**(30,368)**	**(8,024)**	**(38,392)**
Valuation as at initial recognition date (January 31, 2014)	4,768	2,124	6,892
Valuation as at December 31, 2014	38,948	18,663	57,611
Impact of change in fair value on profit or loss for the year ended December 31, 2014	**34,180**	**16,539**	**50,719**

11. Inventories

	December 31, 2016	**December 31, 2015**	**December 31, 2014**
Goods for resale	121,686	166,643	153,716
Goods in dealers' premises	39,619	34,611	31,149
Prepaid deliveries	2	18,158	16,573
Impairment of goods for resale	(11,622)	(7,203)	(6,503)
	149,685	**212,209**	**194,935**

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

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

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Beginning of period	**7,203**	**6,503**	**4,494**
- charged to income statement	5,985	1,421	2,457
- utilized	(1,566)	(721)	(448)
End of period	**11,622**	**7,203**	**6,503**

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

12. Trade and other receivables

	December 31, 2016	December 31, 2015	December 31, 2014
Trade receivables	1,400,747	967,401	797,439
Impairment of trade receivables	(143,191)	(92,970)	(84,945)
Trade receivables (net)	**1,257,556**	**874,431**	**712,494**
VAT and other government receivables	2,127	2,161	3,061
Loans given	274	-	80
Other receivables	256	302	380
Other receivables (net)	**2,657**	**2,463**	**3,521**
	1,260,213	**876,894**	**716,015**

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. In current period the Group has increased sales in the installment model, which resulted in a significant increase in balance of receivables recognized at the contract inception.

As of December 31, 2016 trade receivables of PLN 143,191 thousand (December 31, 2015: PLN 92,970 thousand and December 31, 2014: PLN 84,945 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, 2016 trade receivables of PLN 174,225 thousand (December 31, 2015: PLN 161,408 thousand and December 31, 2014: PLN 140,277 thousand) were past due but not impaired. These relate to a number of dealers or 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, 2016	December 31, 2015	December 31, 2014
Current	1,083,331	713,023	572,217
Overdue 0 to 3 months	119,339	91,819	80,452
Overdue 3 to 6 months	17,511	18,436	12,169
Overdue over 6 months	37,375	51,153	47,656
	1,257,556	**874,431**	**712,494**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above. The Group does not hold any collateral as security.

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

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Beginning of period	**92,970**	**84,945**	**80,433**
- charged to income statement	50,221	8,165	5,785
- write-downs applied		(140)	(1,273)
End of period	**143,191**	**92,970**	**84,945**

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.

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

13. Contract assets

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

Impairment of contract assets results from disconnecting the customer due to breach of the contract.

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.

14. Prepaid expenses

	December 31, 2016	December 31, 2015	December 31, 2014
Distribution and selling costs	8,815	9,612	8,745
Security deposits paid to UKE	-	20,000	20,000
Network and IT maitenance	2,626	749	728
Other	9,798	11,410	5,197
	21,239	**41,771**	**34,670**

As of December 31, 2016, 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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

15. Cash and cash equivalents

	December 31, 2016	December 31, 2015	December 31, 2014
Petty cash	702	493	809
Balances deposited with banks	339,336	1,555,755	496,761
Restricted cash	-	-	200
Other cash assets	956	553	211
	340,994	**1,556,801**	**497,981**

16. Other finance assets

Transfers to/from other finance assets were presented as investing activity in the consolidated statement of cash flows in the year ended December 31, 2014.

On January 31, 2014, proceeds from Senior Notes of EUR 170,000 thousand were deposited into escrow account and recognized as other finance assets. See also Note 18.1.3.

The release of the escrowed proceeds to the Group was subject to the satisfaction of certain conditions, including a deleveraging event or certain M&A transaction. On July 8, 2014, the escrowed proceeds were released in connection with an M&A transaction.

17. Shareholders' equity and net assets attributable to shareholders of P4 Sp. z o.o.

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

On January 23, 2014, the share capital was increased by 1 share with a par value of EUR 1. It was paid up in full by a way of a contribution in kind consisting of 100% shares in P4 Sp. z o.o. The value of the contribution in excess of the par value of the share was allocated to the share premium of the Company.

During the year ended December 31, 2014, the Company distributed share premium in the amount of PLN 1,407,896 thousand, using the proceeds from Senior Notes issued on January 31, 2014. See Note 18.1.3. In the year ended December 31, 2015 the Group changed the exchange rate applied to currency translation of the EUR amount of distributed share premium from the exchange rate as at the date of distribution to the historical rate as at the date of the equity contribution, which resulted in a correction of PLN 8,195 thousand disclosed in the Consolidated statement of changes in equity.

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.

The net assets attributable to shareholders of P4 Sp. z o.o. presented in these consolidated financial statements as at January 1, 2014 were the net assets generated by P4 and its subsidiaries in the period before the Date of Contribution of P4 and its subsidiaries to Play Group and were wholly attributable to the then shareholders of P4 Sp. z o.o. (Tollerton Investments Limited and NTP S.à r.l. - superseded by Telco Holdings S.à r.l.).

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

18. Finance liabilities

	December 31, 2016	December 31, 2015	December 31, 2014
Long-term finance liabilities			
Long-term notes liabilities	4,505,269	4,333,232	3,775,543
Long-term lease liabilities	669,635	663,386	607,650
Other debt	1,513	-	-
	5,176,417	**4,996,618**	**4,383,193**
Short-term finance liabilities			
Short-term notes liabilities	102,941	99,234	89,087
Lease liabilities	173,079	178,011	189,388
Other debt	1,130	-	-
	277,150	**277,245**	**278,475**
	5,453,567	**5,273,863**	**4,661,668**

18.1 Notes

	December 31, 2016	December 31, 2015	December 31, 2014
Long-term notes liabilities			
EUR 5.25% Senior Secured Notes due 2019	2,631,938	2,525,394	2,516,028
PLN Floating Rate Senior Secured Notes due 2019	129,297	128,546	127,878
EUR 6.5% Senior Notes due 2019	1,183,033	1,135,512	1,131,637
2015 EUR 5.25% Senior Secured Notes due 2019	561,001	543,780	-
	4,505,269	**4,333,232**	**3,775,543**
Short-term notes liabilities			
Accrued interest related to notes	102,941	99,234	89,087
	102,941	**99,234**	**89,087**

18.1.1 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 mature on February 1, 2019. Interest on the Fixed Rate Senior Secured Notes is calculated at the rate of 5.25% per annum and is payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2014.

Proceeds from Fixed Rate Senior Secured Notes were used for the repayment of CDB and Alior Bank loans – see also Note 18.2.

The notes liability is measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 22,462 thousand as at December 31, 2016 (PLN 31,506 thousand as at December 31, 2015 and PLN 41,352 thousand as at December 31, 2014). The effective interest rate was 5.77% as at December 31, 2016, December 31, 2015 and December 31, 2014.

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

Critical assumptions and implemented valuation techniques for measuring the fair value are as follows:

- fair value of notes is determined as future cash flows from repayment of notes and interest discounted to valuation date,
- interest is calculated using risk free rate increased by credit spread,
- risk free rate is 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 is determined as implied credit spread from most actual debt issue of the Group and adjusted by the actual change in broad market credit index for corporations with rating as of the Group (actually CDS index for entities rated “BB” is assumed as a benchmark),
- the discount rate is an effective interest rate of cash flows with recalculated interest value.

18.1.2 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 mature on February 1, 2019. Interest on the Floating Rate Senior Secured Notes is calculated based on the 3M WIBOR rate plus margin and is payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, commencing on May 1, 2014.
Proceeds from Floating Rate Senior Secured Notes were used mainly for the repayment of CDB and Alior Bank loans – see also Note 18.2.

The notes liability is measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 703 thousand as at December 31, 2016 (PLN 1,454 thousand as at December 31, 2015 and PLN 2,122 thousand as at December 31, 2014). The effective interest rate was 5.70% as at December 31, 2016 (5.82% as at December 31, 2015 and 6.13% as at December 31, 2014).

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

18.1.3 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 mature on August 1, 2019. Interest on the Senior Notes is calculated at the rate of 6.50% per annum and is payable semi-annually in arrears on February 1 and August 1, commencing on August 1, 2014.

Proceeds from Senior Notes of EUR 170,000 thousand were initially deposited into escrow account and on July 8, 2014, the escrowed proceeds were released in connection with an M&A transaction. The proceeds were used for distribution of share premium. See also Note 17.

The notes liability is measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes were included in the calculation of the effective interest rate. The balance of unamortized expenses amounted to PLN 11,447 thousand as at December 31, 2016 (PLN 15,092 thousand as at December 31, 2015 and PLN 19,184 thousand as at December 31, 2014). The effective interest rate was 7.04% as at December 31, 2016, December 31, 2015 and December 31, 2014.

The carrying amount of the notes liability approximates its fair value. The discount rate for the fair value calculation approximates the effective interest rate. Critical assumptions and implemented valuation techniques for measuring the fair value are the same as for EUR 5.25% Senior Secured Notes due 2019 described above.

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

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

The notes liability is measured at amortized cost using the effective interest rate. Nominal expenses incurred in relation to the notes, adjusted by the value of premium, were included in the calculation of the effective interest rate. As a result of the purchase of notes at a premium the balance of unamortized expenses was negative and amounted to PLN 8,001 thousand as at December 31, 2016 (PLN 11,091 thousand 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 approximates its fair value. The discount rate for the fair value calculation approximates the effective interest rate. Critical assumptions and implemented valuation techniques for measuring the fair value are the same as for EUR 5.25% Senior Secured Notes due 2019 described above.

18.2 Bank loans

18.2.1 Revolving Credit Facility

The Play Group has 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 can 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 should be repaid until January 31, 2018. Interest is calculated based on relevant LIBOR, EURIBOR or WIBOR rate (depending on the currency drawn and the interest period) plus margin.

As at December 31, 2016, the Revolving Credit Facility agreement was fully available.

18.2.2 Bank Zachodni WBK loan

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

The bank loan in the amount of PLN 150,000 thousand was available until May 10, 2016, and next reduced to PLN 75,000 thousand with availability until May 31, 2017. Interest is calculated based on 1M WIBOR rate plus margin.

As at December 31, 2016, the revolving credit line in Bank Zachodni WBK S.A. was fully available.

18.2.3 Millennium Bank loan

The Play Group has a revolving credit line agreement with Bank Millennium S.A. for the amount of PLN 50,000 thousand. The funds are available to finance working capital needs.

The bank loan is available until November 12, 2017. Interest is calculated based on 1M WIBOR rate plus margin.

As at December 31, 2016, the revolving credit line in Millennium Bank was fully available.

18.2.4 CDB loan

The Play Group had loan agreements with China Development Bank totaling EUR 890,000 thousand with the maximum outstanding amount capped at EUR 640,000 thousand which was the aggregate amount of all CDB Loan Facilities outstanding on any date.

The loan was used for the extension of Play Group’s telecommunication network and for certain defined operating activities.

The loan was repayable in quarterly installments; the last installment was due in October, 2018. Interest was calculated based on 1M, 2M, 3M EURIBOR rate plus margin.

The loan was fully repaid on January 31, 2014, using proceeds from Senior Secured Notes issued on January 31, 2014.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

18.2.5 Alior Bank loan

The Play Group had a credit agreement with Alior Bank S.A. for the amount of PLN 395,000 thousand. The purpose of the facility was to finance acquisition of the new telecommunications licenses and for general operational expenses relating to these licenses.

The amount of PLN 395,000 thousand was drawn down on June 24, 2013 and was used to finance the reservation of three blocks of 1800 MHz frequency.

The loan was repayable in quarterly installments; the first installment was due in September 2015, the last installment was due in June, 2018. Interest was calculated based on 3M WIBOR rate plus margin.
The loan was fully repaid on January 31, 2014, using proceeds from Senior Secured Notes issued on January 31, 2014.

18.2.6 Bank Pekao loan

The Play Group had a revolving credit line agreement with Bank Pekao S.A. for the amount of PLN 150,000 thousand. The funds were used to finance operating activities. Interest was calculated based on 1M WIBOR rate plus margin. The bank loan was fully repaid and closed on January 27, 2014.

18.2.7 BZ WBK loan

The Play Group had a revolving credit line agreement with Bank Zachodni WBK S.A. for the amount of PLN 120,000 thousand. The funds were used to finance operating activities. Interest was calculated based on 1M WIBOR rate plus margin. The bank loan was fully repaid and closed on January 24, 2014.

18.3 Leases

	December 31, 2016	December 31, 2015	December 31, 2014
Long-term lease liabilities			
Telecommunication sites	564,680	536,813	492,522
Points of sale	33,390	35,657	41,262
Dark fiber optic cable	10,581	16,475	18,887
Collocation centers	16,931	20,163	16,572
Offices & Warehouse	29,813	33,967	18,782
Computers and telecommunication equipment	9,803	15,300	15,690
Motor vehicles	4,437	5,011	3,935
	669,635	**663,386**	**607,650**
Short-term lease liabilities			
Telecommunication sites	109,607	108,415	103,317
Points of sale	22,290	24,914	27,641
Dark fiber optic cable	9,162	9,992	13,143
Collocation centers	6,234	5,690	4,702
Offices & Warehouse	4,766	7,617	10,132
Computers and telecommunication equipment	15,136	16,128	25,346
Motor vehicles	5,884	5,255	5,107
	173,079	**178,011**	**189,388**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

18.4 Assets pledged as security for finance liabilities

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

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

The Senior Notes are secured by:

- junior-priority security interests over the following property and assets:
  - a pledge over the issued and outstanding capital stock of each of the Senior Notes Issuer (Play Finance 1 S.A.), P4 Sp. z o.o., Play 3GNS spółka z ograniczoną odpowiedzialnością sp. k., Play Holdings 2 S. à r. l. and Play Holdings 3 S. à r. l. before merger with Play Holdings 2 S. à r. l.; and
  - a pledge or assignment of the Senior Notes Proceeds Bonds (intergroup notes issued by Glenmore Investments Sp. z o.o. before merger with P4 Sp. z o.o. subscribed for by Play Finance 1 S.A.).

19. Provisions

	December 31, 2016	December 31, 2015	December 31, 2014
Assets retirement provision	38,902	38,255	31,640
Other long-term provisions	8,618	8,217	21,883
Short-term provisions	1,006	996	1,653
	48,526	**47,468**	**55,176**

Movements of the provisions are as follows:

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2016	**38,255**	**8,217**	**996**	**47,468**
Increase	1,021	592	20,443	**22,056**
Decrease:	(374)	(191)	(20,433)	**(20,998)**
- reversal of provisions	(374)	(191)	-	**(565)**
- utilization	-	-	(20,433)	**(20,433)**
As at December 31, 2016	**38,902**	**8,618**	**1,006**	**48,526**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2015	**31,640**	**21,883**	**1,653**	**55,176**
Increase	7,129	602	47	**7,778**
Decrease:	(514)	(14,268)	(704)	**(15,486)**
- reversal of provisions	(514)	(10,848)	-	**(11,362)**
- utilization	-	(3,420)	(704)	**(4,124)**
As at December 31, 2015	**38,255**	**8,217**	**996**	**47,468**

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2014	**22,741**	**26,359**	**1,549**	**50,649**
Increase	9,345	1,334	118	**10,797**
Decrease:	(446)	(5,810)	(14)	**(6,270)**
- reversal of provisions	(446)	(5,199)	(14)	**(5,659)**
- utilization	-	(611)	-	**(611)**
As at December 31, 2014	**31,640**	**21,883**	**1,653**	**55,176**

20. Retention programs liabilities

During the year ended December 31, 2016 and during the comparative periods, the Play Group operated following cash-settled share-based retention programs:

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

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. In the year ended December 31, 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 current 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 are 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, 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 are entitled to receive additional payments. The number of rights granted under the plan was 2,181 as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.

As at December 31, 2016 share appreciation rights of the EGA MB Plan have already vested.

The Company has an option to settle the plan in equity, but intends to settle the plan in cash.

The fair value of share appreciation rights is estimated using a geometric Brownian motion process (a Monte Carlo model).

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. In the year ended December 31, 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 are entitled to receive amounts calculated as number of rights multiplied by the value of one right which is 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, as at December 31, 2015 and as at December 31, 2014.

As at December 31, 2016 share appreciation rights of the PSA 1 Plan have already vested.

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 are entitled to receive amounts calculated as number of rights multiplied by the value of one right which is 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 cannot be greater than the limit set in agreement. The number of rights granted under the plan was 727 as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.

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 are entitled to receive amounts defined in the agreement.

In case of the distribution of equity to shareholders program members are entitled to receive interim payments.

The PSA 2 Plan and PSA 3 Plan vest: 20% on January 1, 2013, 20% on January 1, 2014, 20% on January 1, 2015, 20% on January 1, 2016, 20% on January 1, 2017 (or when liquidity event occurs) if the program member has not resigned or been dismissed by the Group until these dates.

The Company has an option to settle the plan in equity, but intends to settle the plan in cash.

The fair value of share appreciation rights of PSA 1, PSA 2 and PSA 3 Plans is estimated using a geometric Brownian motion process (a Black-Scholes model).

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 is 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 is 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 cannot be greater than the limit

set in agreement. Percentage granted under the plan was 0.20% as at December 31, 2016, as at December 31, 2015 and as at December 31, 2014.
In case of the distribution of equity to shareholders program member is entitled to receive interim payments.

The SF 1 Plan and SF 2 Plan vest: 20% on April 1, 2013, 20% on April 1, 2014, 20% on April 1, 2015, 20% on April 1, 2016, 20% on April 1, 2017 (or when liquidity event occurs) if the program member has not resigned or been dismissed by the Group until these dates.

The fair value of share appreciation rights of SF 1 and SF 2 Plans is estimated using a geometric Brownian motion process (a Black-Scholes model).

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 June 30, 2016, as at December 31, 2015 and as at December 31, 2014.

The fair value of share appreciation rights was estimated using a geometric Brownian motion process (a Monte Carlo model).

VDP 1
Under the VDP 1 the members of the Group's key personnel were granted share appreciation rights by P4 during the year 2010 and 2011. In accordance with the conditions of the VDP 1, the program members were entitled to receive amounts calculated as number of rights granted under the plan multiplied by the value of one right, if they have not resigned or been dismissed by the Group before liquidity event date or by the end of the program. 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, 2012. Therefore value of one right was calculated taking into account the increase in fair value of P4's equity until December 31, 2012.

Amounts due under VDP 1 plan were paid out to program members in the year ended December 31, 2013 and in the year ended December 31, 2014.

VDP 2
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 are 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 is 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

Under the VDP 3 the members of the Group's key personnel were granted share appreciation rights by P4 in June and August 2015. In accordance with the conditions of the VDP 3, the program members are 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 is 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 ends on December 31, 2017.
The VDP 3 vests gradually from grant date to the date when program ends if the program member has not resigned or been dismissed by the Group until this date. The fair value of share appreciation rights is estimated using a geometric Brownian motion process (a Black-Scholes model).

The following table illustrates the number of, and movements in VDP1, VDP 2 and VDP 3 share appreciation rights (not in thousands) during the periods:

	Year ended December 31, 2016	**Year ended December 31, 2015**		**Year ended December 31, 2014**	
	VDP Plan 3	VDP Plan 2	VDP Plan 3	VDP Plan 1	VDP Plan 2
As at January 1	**20,443,338**	**12,085,617**	**-**	**-**	**11,935,517**
Granted during the period	228,334	-	20,490,000	-	320,000
Granted in prior periods (correction)	-	70,601	-	184,320	-
Forfeited during the period	(964,578)	-	(46,662)	-	(169,900)
Exercised during the period	-	(12,156,218)	-	(184,320)	-
As at December 31	**19,707,094**	**-**	**20,443,338**	**-**	**12,085,617**
Exercisable at December 31	-	-	-	-	12,085,617

Fair value of the programs:

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

	Long-term retention programs liabilities	Short-term retention programs liabilities
As at January 1, 2016	**163,040**	**22,294**
Exercised during the period	-	(24,701)
Changes in valuation during the period	7,171	-
Transferred during the period	(20,147)	20,147
As at December 31, 2016	**150,064**	**17,740**
Vested at December 31, 2016	132,721	10,806

	Long-term retention programs liabilities	Short-term retention programs liabilities
As at January 1, 2015	**95,702**	**14,129**
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
As at December 31, 2015	**163,040**	**22,294**
Vested at December 31, 2015	145,390	10,670

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Long-term retention programs liabilities	Short-term retention programs liabilities
As at January 1, 2014	**71,609**	**-**
Granted during the period	230	-
Granted in prior periods (correction)	-	150
Forfeited during the period	(801)	-
Exercised during the period	-	(45,465)
Changes in valuation during the period	84,108	-
Transferred during the period	(59,444)	59,444
As at December 31, 2014	**95,702**	**14,129**
Vested at December 31, 2014	80,410	14,129

21. Trade and other payables

	December 31, 2016	December 31, 2015	December 31, 2014
Trade payables	761,621	670,060	628,889
Investment payables	320,617	194,600	145,288
Government payables	89,991	109,613	59,390
Employee payables	104	35	55
Other	5,248	2,641	2,493
	1,177,581	**976,949**	**836,115**

22. Accruals

Accruals include accruals for bonuses and unused holidays.

23. Deferred income

	December 31, 2016	December 31, 2015	December 31, 2014
Airtime from pre-paid products	133,276	140,908	96,831
Fees related to post-paid contracts	138,923	143,700	132,090
Other	-	-	210
	272,199	**284,608**	**229,131**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

24. Operating revenue

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

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Service revenue	**4,492,818**	**4,059,534**	**3,398,442**
Usage revenue	3,432,026	3,180,086	2,761,257
Interconnection revenue	1,060,792	879,448	637,185
Sales of goods and other revenue	**1,624,740**	**1,376,969**	**1,191,223**
	6,117,558	**5,436,503**	**4,589,665**

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Usage revenue by category			
Retail contract revenue	2,679,081	2,459,003	2,128,590
Retail prepaid revenue	639,991	642,894	587,362
Other revenue	112,954	78,189	45,305
	3,432,026	**3,180,086**	**2,761,257**

The increase in usage revenue was primarily due to growth in the reported contract subscriber base connected with the continued success of the Group's subscriber acquisition and retention strategy. Interconnection revenue increased as a result of growing volume of traffic incoming to the Group's network from other network operators due to the increase in the subscriber base as well as due to the general increase in the traffic per user.

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Revenue recognized in the reporting periods that was included in the contract liability balance at the beginning of the period	16,438	18,616	16,445

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

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.

	December 31, 2016	**December 31, 2015**
Transaction price allocated to the remaining performance obligation		
2016	-	1,536,445
2017	1,512,888	321,201
2018	460,961	8,154
2019	77,923	-
2020	99	-
	2,051,871	**1,865,800**

The Group applied IFRS 15 retrospectively using the practical expedient in paragraph C5c of IFRS 15, under which the Group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Group expects to recognize that amount as revenue for all reporting periods presented before the date of initial application.

25. Interconnection, roaming and other service costs

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Interconnection costs	(1,154,265)	(1,002,357)	(776,466)
National roaming/network sharing	(176,255)	(160,045)	(179,632)
Other services costs	(165,311)	(168,221)	(142,406)
	(1,495,831)	**(1,330,623)**	**(1,098,504)**

26. Contract costs, net

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Contract costs incurred	(439,649)	(429,099)	(376,665)
Subscriber acquisition and retention costs capitalized	421,951	395,403	342,704
Amortization and impairment of contract costs	(381,214)	(342,573)	(284,304)
	(398,912)	**(376,269)**	**(318,265)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

27. General and administrative expenses

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Employee benefits	**(227,476)**	**(307,699)**	**(286,895)**
Salaries	(194,237)	(189,188)	(178,833)
Social security	(26,067)	(25,387)	(24,291)
Special bonuses	-	388	(84)
Retention programs	(7,172)	(93,512)	(83,687)
External services	**(567,041)**	**(525,524)**	**(498,589)**
Network maintenance, leased lines and energy	(119,443)	(111,642)	(109,486)
Advertising and promotion expenses	(198,068)	(181,011)	(170,062)
Customer relations costs	(65,702)	(66,573)	(66,781)
Office and points of sale maintenance	(15,736)	(15,940)	(14,286)
IT expenses	(29,509)	(30,088)	(28,871)
People related costs - cars, trainings and other	(18,925)	(19,169)	(18,857)
Finance and legal services	(19,902)	(18,532)	(19,469)
Advisory services provided by shareholders	(35,898)	(27,677)	(21,213)
Other external services	(63,858)	(54,892)	(49,564)
Taxes and fees	**(64,021)**	**(54,462)**	**(66,954)**
	(858,538)	**(887,685)**	**(852,438)**

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, 2016, the year ended December 31, 2015 and the year ended December 31, 2014, 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 these statutory rates.

28. Depreciation and amortization

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Depreciation and amortization			
Depreciation of property, plant and equipment	(209,074)	(277,323)	(217,969)
Amortization of intangibles	(277,102)	(169,169)	(177,845)
Depreciation of right-of-use assets	(147,907)	(150,768)	(144,328)
	(634,083)	**(597,260)**	**(540,142)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

29. Other operating income and other operating costs

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Other operating income			
Income from early contract termination	30,969	30,255	23,046
Gain on disposal of non-current assets	8,796	3,900	3,531
Reversal of impairment of other non-current assets	-	-	2,668
Reversal of provisions	-	10,706	5,199
Income from subleasing of right-of-use assets	7,474	7,305	7,236
Interest income on trade receivables and cash	8,216	14,918	12,939
Other miscellaneous operating income	15,207	11,404	9,589
	70,662	**78,488**	**64,208**
Other operating costs			
Impairment of other non-current assets	(6,275)	(1,664)	(1,004)
Impairment of contract assets	(49,202)	(51,394)	(50,161)
Bad debt	(53,325)	(14,171)	(30,609)
Other miscellaneous operating costs	(31,028)	(6,483)	(4,149)
Exchange rate losses	(4,619)	(2,368)	(336)
	(144,449)	**(76,080)**	**(86,259)**

30. Finance income and finance costs

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
Finance income			
Interest income, including:	19,926	7,576	1,520
- on restricted finance assets	-	-	*206*
Net gain on finance assets at fair value through profit or loss	115,027	-	50,719
Other	-	-	22,488
	134,953	**7,576**	**74,727**
Finance costs			
Interest expense, including:	(336,796)	(310,319)	(328,935)
- on lease liabilities	(60,656)	*(61,066)*	*(63,744)*
Net loss on finance assets at fair value through profit or loss	-	(38,392)	-
Exchange rate losses	(162,300)	(19,267)	(81,239)
Other	-	-	(22,435)
	(499,096)	**(367,978)**	**(432,609)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

31. Taxation

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Current tax charge	(164,142)	(57,808)	(18,790)
Deferred tax benefit/(charge)	(49,978)	(97,365)	102,049
Income tax benefit/(charge)	**(214,120)**	**(155,173)**	**83,259**

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

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Profit before income tax	**926,108**	**705,451**	**415,602**
Tax calculated at tax rates applicable to profit (19%)	(175,961)	(134,036)	(78,964)
Effect of difference between tax rates in Cyprus and Luxembourg and in Poland	(13,002)	2,101	7,495
Expenses not subject to tax	(25,097)	(25,052)	(6,275)
Income not subject to tax	42,010	11,358	19,465
Previous years tax income included in current year accounting profit	-	315	78
Adjustments relating to previous years tax	(27,491)	(13,764)	(3,642)
Change in unrecognized deferred tax asset arising from tax losses	(882)	4,896	(32,586)
Effect of tax revaluation of the trademark	-	-	188,020
Taxable costs not included in accounting profit	-	8,136	10
Taxable income not included in accounting profit	(13,728)	(9,062)	(10,315)
Minimum Luxembourg income tax	-	(27)	(27)
Adjustment linked to closing exchange rate	31	(38)	-
Income tax benefit/(charge)	**(214,120)**	**(155,173)**	**83,259**

Most of the Play Group’s taxable revenue is generated in Polish tax jurisdiction. The corporate income tax rate applicable to subsidiaries incorporated in Poland is 19%. The corporate income tax rate applied to the Company and the subsidiaries incorporated in Luxembourg is 29.22%. The corporate income tax rate applied to the subsidiary incorporated in Cyprus for the year ended December 31, 2014 was 2.5% (the subsidiary based in Cyprus, Play Brand Management Ltd, merged with another subsidiary, P4 Sp. z o.o., in December 2014).

The line “Effect of difference between tax rates in Cyprus and Luxembourg and in Poland” consists of the effect of different tax rates used in Luxembourg and Poland (and Cyprus in 2014).

The line “Adjustment linked to closing exchange rate” refers to adaptation the exchange rates used for Luxembourg tax purposes to be in line with the exchange rates published by the European Central Bank.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Deferred income tax

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

As at December 31, 2016 deferred income tax was recognized according to the Group's estimation which assumes that the Group will achieve taxable profits in the future. The estimation is based upon long term financial projections and the budget for the year 2016.

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

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

	December 31, 2016	December 31, 2015	December 31, 2014
Temporary differences:			
net deductible timing differences	705,167	906,564	1,229,628
unutilized tax loss carry-forwards	10,861	69,305	285,689
	716,028	**975,869**	**1,515,317**
Potential deferred income tax net asset arising from:			
net deductible timing differences	133,894	172,235	233,629
unutilized tax loss carry-forwards	3,045	13,863	54,726
	136,939	**186,098**	**288,355**
Recognized deferred income tax assets	**134,446**	**184,146**	**281,475**
Recognized deferred income tax liability	**(314)**	**(36)**	**-**
Not recognized deferred income tax assets	**2,807**	**1,988**	**6,880**

As at 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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The deferred tax assets and liabilities consist of the following:

Deferred tax assets

	Tax loss carry forward	Provisions and deferred income	Contract liabilities	Fixed and intangible assets	Inventories	Liabilities	Other items	**Total**
As at January 1, 2014	**136,633**	**58,845**	**3,581**	**93,969**	**6,329**	**210,698**	**6,753**	**516,808**
credited / (charged) to the income statement	(88,787)	12,594	475	187,109	4,452	24,484	(5,035)	135,292
As at December 31, 2014	**47,846**	**71,439**	**4,056**	**281,078**	**10,781**	**235,182**	**1,718**	**652,100**
credited / (charged) to the income statement	(35,971)	(24,709)	185	(6,718)	(2,257)	38,419	(1,538)	(32,589)
As at December 31, 2015	**11,875**	**46,730**	**4,241**	**274,360**	**8,524**	**273,601**	**180**	**619,511**
credited / (charged) to the income statement	(11,637)	(10,880)	4,296	(84,586)	(8,524)	47,260	(142)	(64,213)
As at December 31, 2016	**238**	**35,850**	**8,537**	**189,774**	**-**	**320,861**	**38**	**555,298**

Deferred tax liabilities

	Fixed and intangible assets	Right-of-use assets	Contract costs	Prepaid expenses	Contract assets	Receivables	Inventories	Liabilities	Other items	**Total**
As at January 1, 2014	**(10,040)**	**(122,702)**	**(37,756)**	**(1,521)**	**(136,566)**	**(8,255)**	**(6,753)**	**(13,762)**	**(27)**	**(337,382)**
credited / (charged) to the income statement	649	1,469	(11,096)	(118)	(31,772)	3,644	3,143	1,951	(1,113)	(33,243)
As at December 31, 2014	**(9,391)**	**(121,233)**	**(48,852)**	**(1,639)**	**(168,338)**	**(4,611)**	**(3,610)**	**(11,811)**	**(1,140)**	**(370,625)**
credited / (charged) to the income statement	(1,799)	(8,459)	(10,037)	293	(21,829)	(27,830)	(4,256)	9,812	(671)	(64,776)
As at December 31, 2015	**(11,190)**	**(129,692)**	**(58,889)**	**(1,346)**	**(190,167)**	**(32,441)**	**(7,866)**	**(1,999)**	**(1,811)**	**(435,401)**
credited / (charged) to the income statement	(422)	(883)	(7,740)	3	589	17,751	7,497	(102)	(2,458)	14,235
As at December 31, 2016	**(11,612)**	**(130,575)**	**(66,629)**	**(1,343)**	**(189,578)**	**(14,690)**	**(369)**	**(2,101)**	**(4,269)**	**(421,166)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The Polish tax system has restrictive provisions for the grouping of tax losses for multiple legal entities under common control, such as those of the Play Group. Thus, each of the Play Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation. In Luxembourg tax losses can be carried forward indefinitely. In Poland tax losses are permitted to be utilized over five years with utilization restricted to 50% of the loss per annum.

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

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

	December 31, 2016	**December 31, 2015**	**December 31, 2014**
Cash and cash equivalents in statement of financial position	340,994	1,556,801	497,981
Restricted cash	-	-	(200)
Cash and cash equivalents in statement of cash flows	**340,994**	**1,556,801**	**497,781**

Transfers to/from other finance assets were presented as investing activity in the consolidated statement of cash flows in the year ended December 31, 2014.

On January 31, 2014, proceeds from Senior Notes of EUR 170,000 thousand were deposited into escrow account and recognized as other finance assets. See also Note 18.1.3.

The release of the escrowed proceeds to the Group was subject to the satisfaction of certain conditions, including a deleveraging event or certain M&A transaction. On July 8, 2014, the escrowed proceeds were released in connection with an M&A transaction.

33. Changes in working capital and other

	Year ended December 31, 2016	**Year ended December 31, 2015**	**Year ended December 31, 2014**
(Increase)/decrease of inventories	62,524	(17,274)	(37,869)
Increase of receivables	(389,430)	(160,693)	(26,698)
(Increase)/decrease of prepaid expenses	6,532	(7,130)	(21,636)
Increase of payables excluding investment payables	98,538	94,173	145,641
Increase/(decrease) of accruals	(14,110)	7,313	(4,369)
Increase of deferred income	(12,409)	55,474	10,422
(Increase)/decrease of long term receivables	(1,030)	3,202	(1,278)
Increase/(decrease) of other non-current liabilities	(506)	(1,351)	1,275
	(249,891)	**(26,286)**	**65,488**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

34. Cash flows relating to finance liabilities

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Proceeds from finance liabilities			
loans	385,000	-	-
notes	-	543,772	3,816,016
	385,000	**543,772**	**3,816,016**
Repayment of finance liabilities and relating finance costs			
loans	(392,647)	(3,706)	(2,544,361)
- principal	*(385,000)*	-	*(2,499,536)*
- interests	*(4,328)*	-	*(24,801)*
- other	*(3,319)*	*(3,706)*	*(20,024)*
notes	(252,433)	(234,857)	(185,643)
- interests	*(252,433)*	*(226,065)*	*(108,562)*
- other	-	*(8,792)*	*(77,081)*
leases	(192,717)	(198,402)	(197,903)
other debt	(1,371)	-	-
- principal	*(1,358)*	-	-
- interests	*(13)*	-	-
	(839,168)	**(436,965)**	**(2,927,907)**

35. Commitments

35.1 2100 MHz and 900 MHz license requirements

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

35.2 1800 MHz license requirements

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

35.3 800 MHz license requirements

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

35.4 2600 MHz license requirements

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

36. Contingencies and legal proceedings

36.1 Tax contingent liability

Play Group conducts its operations mainly in the area of Polish tax jurisdiction. Regulations relating to value-added tax, corporate income tax, and payroll (social) taxes change often. The lack of reference to well-established regulations results in a lack of clarity and consistency in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems. The tax authorities may at any time inspect the books and records and may impose additional tax assessments with penalty interest and penalties within 5 years from the end of the year in which a tax is due.

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

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

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

36.2 Universal service liability to Orange Polska S.A.

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

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

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

On May 24, 2011 the President of UKE issued decisions that granted Orange Polska S.A. a subsidy towards the incurred costs regarding the provision of the universal service for the period 2006-2009 in the total amount of PLN 66,994 thousand (the total amount requested by Orange Polska S.A. was PLN 803,653 thousand). On January 10, 2012 the President of UKE issued decisions that granted Orange Polska S.A. a subsidy towards the incurred costs regarding the provision of the universal service for the year 2010 in the amount of PLN 55,102 thousand (the amount requested by Orange Polska S.A. was PLN 269,436 thousand). On September 17, 2013 the President of UKE issued a decision that granted Orange Polska S.A. a subsidy towards the incurred costs regarding the provision of the universal service for the period from January to May 2011 in the amount of PLN 14,903 thousand (the amount requested by Orange Polska S.A. was PLN 33,839 thousand).

Based on those decisions the Group has prepared the estimation of P4's share in the universal service contributions for the years 2006-2009, 2010 and 2011. Accordingly the provision has been recognized in these consolidated financial statements.

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. On December 13, 2016 UKE issued Decisions relating P4's contribution to universal service for the years 2007 and 2008 and set the amount of P4's contribution at the level which is in line with the provisions recognized in these consolidated financial statements. Decisions relating to P4's contribution to universal service for the years 2009, 2010 and 2011 are expected in the first quarter of 2017.

36.3 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 Group assesses the risk of the outcome that would be unfavorable for P4 as low.

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

President of the Office of Competition and Consumer Protection (UOKiK) in its decision of November 23, 2011 imposed a fine of PLN 10,706 thousand on P4 for the participation in the anti-competitive agreement aimed at coordination of the business relations with Info-TV-FM Sp. z o.o., including exchange of information pertaining to evaluation of Info-TV-FM's wholesale offer and agreeing public questioning the said offer. District Court in Warsaw in its judgment of June 19, 2015 repealed UOKiK's decision. The Group believes that the Appeal Court in Warsaw should uphold the said judgment. Therefore the provision for potential penalty resulting from the proceeding has been released in the year ended December 31, 2015.

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 800/2600 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 President UKE'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. It is difficult to assess the legal risk at this stage.

There is a number of other proceedings involving the Group initiated among others by UKE or UOKiK. As at December 31, 2016, the Group recognized provisions for known and quantifiable risks related to these proceedings, which represent the Group's best estimate of the amounts, which are more likely than not to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. Information regarding the amount of the provisions has not been separately disclosed, as in the opinion of the Group such disclosure could prejudice the outcome of the pending cases.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

37. Related party transactions

37.1 Transactions with Shareholders and with entities related via Shareholders

	December 31, 2016	December 31, 2015	December 31, 2014
Loans given	18,634	-	80
Long term receivables - debt securities	322,641	153,441	-
Trade receivables	59	286	-
Other long-term receivables	25	-	-
Trade and other payables	4,928	1,678	-

	Year ended December 31, 2016	Year ended December 31, 2015	Year ended December 31, 2014
Distribution of share premium	-	-	(1,416,091)
Advisory services provided by shareholders	(35,898)	(27,677)	(21,213)
Other operating income	390	239	-
Recharge of operating costs	45	100	-
Other operating costs	(118)	-	-
Interest income	19,845	7,242	-
Other finance income	-	-	22,488
Other finance cost	-	-	(22,435)

37.2 Remuneration of Management and Supervisory Board

Cost of remuneration (including accrued bonuses) of members of Management Boards of Group entities incurred for the year ended December 31, 2016 amounted to PLN 8,690 thousand (PLN 9,950 thousand for the year ended December 31, 2015 and PLN 9,184 thousand for the year ended December 31, 2014).

Cost of remuneration of members of Supervisory Board of P4 incurred during the year ended December 31, 2016 amounted to PLN 2,518 thousand (for the year ended December 31, 2015 PLN 2,349 thousand and for the year ended December 31, 2014 PLN 2,141 thousand).

Additionally, the members of the P4's Management Board participated in the retention programs (see Note 20). The valuation of the programs resulted in income in the amount of PLN 3,380 thousand for the year ended December 31, 2016, cost of PLN 74,939 thousand for the year ended December 31, 2015 and cost of PLN 55,532 thousand for the year ended December 31, 2014. Relating costs and income are included in general and administrative expenses in the consolidated statement of comprehensive income.

Apart from the transactions mentioned above the Group is not aware of any other material transactions related to members of the Supervisory Board or the Management Board of P4, Play Holdings 2 S. à r. l. or supervisory or management bodies of any other entities within the Group.

38. Events after the reporting period

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