P4 sp. z o.o. Group

Consolidated financial statements

prepared in accordance with IFRS,
as adopted by the European Union

as at and for the year ended December 31, 2021

PLAY

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This document is a working translation of the financial statements into English. The Polish version of the financial statements is the only legally binding version of this document. In case of any inconsistencies or discrepancies between the Polish and English versions of these financial statements, the Polish version shall prevail.

Approval of financial statements

We hereby approve the financial statements of the P4 sp. z o.o. Group for the financial year ended December 31, 2021 consisting of the statement of comprehensive income showing total income of PLN 6,017,351 thousand, the statement of financial position with assets and liabilities and equity of PLN 14,894,715 thousand, the statement of changes in equity showing an increase in equity by PLN 837,975 thousand, the statement of cash flows showing an increase in net cash by PLN 436,958 thousand and notes containing a description of material accounting policies and other explanations.

Jean-Marc Harion Management Board President	Piotr Kuriata Management Board Member	
Mikkel Noesgaard Management Board Member	Beata Zborowska Management Board Member	Michał Ziółkowski Management Board Member

Warsaw, March 21, 2022

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of comprehensive income

	Notes	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Operating revenue	4	**7,302,306**	**7,159,846**
Service revenue		5,679,893	5,556,816
Sales of goods and other revenue		1,622,413	1,603,030
Operating expenses		**(5,592,973)**	**(5,565,249)**
Interconnection, roaming and other service costs	2.7, 5	(1,652,114)	(1,828,937)
Contract costs	6	(418,292)	(419,895)
Cost of goods sold		(1,303,172)	(1,324,558)
Employee benefits	2.7, 7	(345,021)	(306,794)
External services	2.7, 8	(788,983)	(585,720)
Depreciation and amortization	2.7, 9	(998,129)	(955,825)
Taxes and fees	2.7	(87,262)	(143,520)
Other operating income	2.7, 10	6,309,832	147,239
thereof: gains from derecognition of financial assets measured at amortized costs	10	*31,101*	*18,572*
Other operating costs	2.7, 10	(333,099)	(200,460)
thereof: impairment of financial assets	10	*(113,286)*	*(178,796)*
Operating profit		**7,686,066**	**1,541,376**
Finance income	11	74,867	11,351
thereof: interest income from assets at amortized cost	11	*70,733*	*6,069*
Finance costs	11	(304,943)	(242,881)
Profit before income tax		**7,455,990**	**1,309,846**
Income tax charge	2.7, 12	(1,461,729)	(317,072)
Net profit		**5,994,261**	**992,774**
Items that will not be reclassified to profit or loss			
Actuarial gains on post-employment benefits		110	-
Income tax relating to items not to be reclassified		(21)	-
Items that may be reclassified subsequently to profit or loss			
Gains on cash flow hedges	24.3	28,396	1,787
Income tax relating to items that may be reclassified	24.3	(5,395)	-
Other comprehensive income, net		**23,090**	**1,787**
Total comprehensive income		**6,017,351**	**994,561**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of financial position

	Notes	December 31, 2021	December 31, 2020	January 1, 2020
			Restated	Restated
ASSETS				
Non-current assets				
Intangible assets	2.7, 13	2,358,310	2,564,068	2,636,691
Property, plant and equipment	2.7, 14	1,785,968	1,521,648	2,276,154
Right-of-use assets	15	3,794,722	346,275	884,548
Contract costs	16	398,787	390,493	374,080
Other long term financial assets	2.7, 18	56,125	171,873	228,837
Long term prepaid expenses	22	47,841	-	-
Deferred tax asset	12	-	3	-
Total non-current assets		**8,441,753**	**4,994,360**	**6,400,310**
Current assets				
Inventories	19	154,824	226,710	169,147
Trade and other receivables	20	748,675	697,426	732,001
Contract assets	21	1,460,945	1,423,556	1,455,922
Current income tax receivables		1,999	701	382
Prepaid expenses	22	68,295	28,895	28,759
Cash and cash equivalents	23	1,278,222	841,259	285,748
Other short-term finance assets	2.7, 18	2,525,402	329,769	6,554
Assets held for sale	2.5	214,600	1,685,380	-
Total current assets		**6,452,962**	**5,233,696**	**2,678,513**
TOTAL ASSETS		**14,894,715**	**10,228,056**	**9,078,823**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	24	48,857	48,857	48,857
Other supplementary capital	24	(191,876)	(198,400)	(198,672)
Other reserves	24	23,090	-	(1,787)
Retained earnings	24	3,413,508	2,605,147	2,352,373
Total equity		**3,293,579**	**2,455,604**	**2,200,771**
Non-current liabilities				
Long-term finance liabilities	25	8,385,515	4,932,605	4,819,953
Long-term provisions	2.7, 26	144,973	149,328	146,181
Deferred tax liability	2.7, 12	169,737	149,838	154,606
Other non-current liabilities		10,318	10,379	10,388
Total non-current liabilities		**8,710,543**	**5,242,150**	**5,131,128**
Current liabilities				
Short-term finance liabilities	25	227,289	206,133	305,649
Trade and other payables	28	1,001,908	955,822	863,831
Contract liabilities	2.7, 30	354,127	323,519	334,978
Current income tax payable	12	1,194,138	79,529	141,466
Accruals	29	110,570	78,242	94,583
Short-term provisions	26	2,561	2,534	6,417
Liabilities directly associated with assets held for sale		-	884,523	-
Total current liabilities		**2,890,593**	**2,530,302**	**1,746,924**
TOTAL LIABILITIES AND EQUITY		**14,894,715**	**10,228,056**	**9,078,823**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of changes in equity

		Attributable to equity holders of the parent				
	Notes	**Share capital**	**Other supplementary capital**	**Other reserves**	**Retained earnings**	**Total equity**
As at January 1, 2021 (restated)		**48,857**	**(198,400)**	**-**	**2,605,147**	**2,455,604**
Net profit for the period		-	-	-	5,994,261	5,994,261
Other comprehensive income, net						
Actuarial gains on post-employment benefits with relating income tax		-	-	89	-	89
Gains on cash flow hedges with relating income tax	18.1, 24.3	-	-	23,001	-	23,001
Total comprehensive income		**-**	**-**	**23,090**	**5,994,261**	**6,017,351**
Recognition of costs of equity-settled incentive and retention programs	27	-	6,524	-	-	6,524
Increase of other reserves	24.4	-	-	2,846,490	(2,846,490)	-
Dividend payment	24.4	-	-	(2,846,490)	(2,339,410)	(5,185,900)
As at December 31, 2021		**48,857**	**(191,876)**	**23,090**	**3,413,508**	**3,293,579**

		Attributable to equity holders of the parent				
	Notes	**Share capital**	**Other supplementary capital**	**Other reserves**	**Retained earnings**	**Total equity**
As at January 1, 2020 (restated)		**48,857**	**(198,672)**	**(1,787)**	**2,352,373**	**2,200,771**
Net profit for the period		-	-	-	992,774	992,774
Other comprehensive income, net						
Gains on cash flow hedges	18.1, 24.3	-	-	1,787	-	1,787
Total comprehensive income		**-**	**-**	**1,787**	**992,774**	**994,561**
Recognition of costs of equity-settled incentive and retention programs	27	-	272	-	-	272
Dividend payment	24.4	-	-	-	(740,000)	(740,000)
As at December 31, 2020, restated		**48,857**	**(198,400)**	**-**	**2,605,147**	**2,455,604**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Consolidated statement of cash flows

	Notes	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Profit before income tax		**7,455,990**	**1,309,846**
Depreciation and amortization		998,129	955,825
Change in contract costs	32	(8,295)	(16,412)
Interest expense (net)		232,133	221,367
Gain on finance instruments at fair value		(1,507)	(2,898)
Foreign exchange (gains)/losses		(399)	12,839
Gain on disposal of non-current assets and termination of lease contracts		(5,990,470)	(3,102)
Impairment of non-current assets		5,077	698
Change in provisions		(9,164)	26,198
Change in share premium from equity-settled retention programs		6,524	272
Changes in working capital and other	32	(21,603)	30,239
Change in contract assets	32	(37,390)	32,367
Change in contract liabilities	32	30,482	(21,738)
Cash provided by operating activities		**2,659,507**	**2,545,501**
Interest received		4,163	93
Income tax paid		(337,174)	(396,407)
Net cash provided by operating activities		**2,326,496**	**2,149,187**
Proceeds from sale of non-current assets		5,369	4,346
Purchase of fixed assets and intangibles and prepayments for assets under construction		(851,278)	(810,367)
Cash inflows related to sale of passive infrastructure	2.5	6,894,645	-
Cash outflows related to assets held for sale	2.5	(200,565)	-
Acquisition of subsidiaries, net of cash and cash equivalents acquired	2.6	-	(23,662)
Proceeds from finance receivables		5,093	4,068
Loans given	18	(2,509,193)	-
Purchase of debt securities	18	(1,281,780)	(321,000)
Deposit paid in the auction for telecommunications licenses		-	(182,000)
Deposit returned in the auction for telecommunications licenses		-	182,000
Net cash used in investing activities (including notes purchased and loans granted)		**2,062,291**	**(1,146,615)**
Dividends (paid)		(3,379,458)	(740,000)
Proceeds from finance liabilities	25	4,050,000	1,920,000
Repayment of finance liabilities	25	(4,315,026)	(1,418,371)
Paid interest relating to finance liabilities	25	(249,423)	(198,047)
Paid other costs relating to finance liabilities	25	(58,562)	(12,689)
Other proceeds from financing activities		640	1,680
Net cash used in financing activities		**(3,951,829)**	**(447,427)**
Net change in cash and cash equivalents		**436,958**	**555,145**
Effect of exchange rate change on cash and cash equivalents		(151)	358
Cash and cash equivalents at the beginning of the period		**841,251**	**285,748**
Cash and cash equivalents at the end of the period	31	**1,278,058**	**841,251**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Notes and explanations

1. P4 and P4 Group

P4 sp. z o.o. (hereafter referred to as “P4” or the “Company”) was established under Polish law on September 6, 2004 under the name of Netia Mobile sp. z o.o. The Company was registered on September 15, 2004. On October 13, 2005, by resolution of the Shareholder Meeting, the Company name was amended from Netia Mobile sp. z o.o. to P4 sp. z o.o. The Company's registered office is in Warsaw, Poland at ul. Wynalazek 1.

The Company's business activity embraces the provision of mobile and fixed telecommunications services, sales of mobile devices and managing a distribution network of mobile telecommunications products. On March 16, 2007 P4 started providing mobile telecommunications services using the brand “PLAY”.

As at December 31, 2021 the Company was controlled directly by Iliad Purple S.A.S. with its registered office in Paris (hereafter referred to as “Iliad Purple”), which held a 100% stake in the Company. On December 22, 2021, there was a cross-border merger between Iliad Purple and the Company's existing Shareholder, controlled by Iliad Purple, Play Communications S.A. (hereinafter referred to as "Play Communications", "PC S.A."). Iliad Purple S.A.S. is a 100% subsidiary of Iliad S.A. with its registered office in Paris, controlled by Xavier Niel.

The Company and its subsidiaries (together, the “P4 Group” or the “Group”) operate in the mobile and fixed telecommunications services sector in Poland. The Group's business activity embraces the provision of mobile and fixed telecommunications services, sales of mobile devices and managing a distribution network of mobile telecommunications products under the brand “PLAY” and “VIRGIN”. The Group has also been providing telecommunication services based on the fiber optic network and IT services through its own collocation centers under the “3S” brand.

These financial statements comprise:
- consolidated statement of financial position;
- consolidated statement of comprehensive income;
- consolidated statement of changes in equity;
- consolidated statement of cash flows;
- summary of significant accounting policies and other notes

as at and for the year ended December 31, 2021 and the comparative period, i.e. the year ended December 31, 2020, hereafter the “Financial Statements”.

The Consolidated Financial Statements include the accounts of the Company and the following subsidiaries:

Entity	**Location**	**Principal activity**	**Ownership and percentage of voting rights**	
			December 31, 2021	**December 31, 2020**
Play Finance 1 S.A.	Luxembourg	Financing	100%	100%
3GNS sp. z o.o. *	Poland	Holding	-	100%
Play 3GNS sp. z o.o. (previously Play 3GNS Spółka z ograniczoną odpowiedzialnością sp. k.) *	Poland	Brand management	-	100%
3S S.A.	Poland	Telecommunications	100%	100%
3S Data Center S.A.	Poland	IT	100%	100%
3S BOX S.A.	Poland	IT	100%	100%
Virgin Mobile Polska sp. z o.o.	Poland	Telecommunications	100%	100%

(*) On December 31, 2021, 3GNS sp. z o.o. and Play 3GNS sp. z o.o. were merged with P4 as surviving entity.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

2. Basis of preparation

These Financial Statements were authorized for issue by the Company's Management Board on March 21, 2022 and are subject to authorization by the Shareholder Meeting.

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

The Financial Statements have been prepared under the historical cost convention except for derivatives which are measured at fair value and equity items relating to equity-settled incentive and retention programs, which are measured at fair value at the grant date.

The preparation of Financial Statements in conformity with IFRS requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the Financial Statements are disclosed in Note 2.4.

2.1 New standards, interpretations and amendments to existing standards

These Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") issued and effective as at December 31, 2021.

The accounting policies applied in the Financial Statements have not changed as compared to the policies applied in the Financial Statements for the year ended December 31, 2020, except for new standards and interpretations as described in the table below:

Amendment	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Group's assessment of the regulation
Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9	25.06.2020	01.01.2021	01.01.2021	No impact
Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7) – Phase 2	27.08.2020	01.01.2021	01.01.2021	Insignificant impact
Amendment to IFRS 16: COVID-19-Related Rent Concessions after June 30, 2021	31.03.2021	01.01.2021	01.01.2021	Insignificant impact

(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, 2021 and have not been adopted early:

Amendment	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Group's assessment of the regulation
Amendments to IFRS 3 Amendments to IAS 37 Amendments to IAS 16 Amendments arising from the IFRS 2018-2020 improvements	14.05.2020	01.01.2022	01.01.2022	Insignificant impact
IFRS 17: Insurance contracts and amendments to IFRS 17	18.05.2017	01.01.2023	01.01.2023	No impact
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	12.02.2021	01.01.2023	01.01.2023	Assessment in progress
Amendments to IAS 8: Definition of Accounting Estimates	12.02.2021	01.01.2023	01.01.2023	Assessment in progress
Amendment to IAS 1: classification of liabilities as current or non-current	23.01.2020	01.01.2023	Not endorsed yet	Assessment in progress
Amendments to IAS 12 *Income Taxes*: Deferred Tax related to Assets and Liabilities arising from a Single Transaction	07.05.2021	01.01.2023	Not endorsed yet	Assessment in progress
Amendments to IFRS 17 Insurance contracts: initial adoption of IFRS 17 and IFRS 9 - comparable data	09.12.2021	01.01.2023	Not endorsed yet	Assessment in progress

2.2 Going concern

The Financial Statements disclose all matters of which the Group is aware and which are relevant to the Group's ability to continue as a going concern, including all significant events and the Group's plans. The Group generates positive cash flows from operating activities which can be used to perform all mandatory payments under the financing agreements and to finance further development of telecommunications infrastructure as well as expected dividend payments by the Company. Accordingly, the 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.

Due to the outbreak of COVID-19 pandemic the Group operated in unusual business circumstances during 2020 and 2021 as it had to close temporarily some points of sales (from mid-March to early May 2020) and faced the introduced restrictions concerning, among others, the functioning of shopping centers during 2021, which resulted in lower revenue from sales of goods. Still, the Group believes that these circumstances do not affect the going concern assumption for the Group's operations, because the financial results achieved in 2020 and 2021 from the Group's core activities (without the non-recurring sale transaction of passive infrastructure – see Note 2.5) prove that the Group's business is largely resilient to the effects of the pandemic. The Group carefully monitors the situation and undertakes necessary initiatives to minimize the impact of the pandemic on its operations.

2.3 Fair value estimation

The fair value of the finance 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 level of the fair value hierarchy within which the fair value measurements are categorized are disclosed in respective Notes to the Financial Statements relating to items valued at fair value. For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group enters into derivative financial instruments, principally financial institutions with investment grade credit ratings. Since there are no market prices available for the derivative financial instruments (interest rate swaps, foreign exchange forward contracts) in the portfolio assigned to Level 2 of the fair value hierarchy due to the fact that they are not listed on the market, the fair values are calculated using standard financial valuation models, based entirely on observable inputs. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, yield curves of the respective currencies, currency basis spreads between the respective currencies, interest rate curves and forward rate curves of the underlying commodity. The changes in counterparty credit risk had no material effect on the hedge effectiveness assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.
The fair values of financial instruments at December 31, 2021 are presented in Note 17.

The nominal values of liabilities and receivables less the allowance for expected credit losses with a maturity up to one year are assumed to approximate their fair values.

2.4 Critical accounting estimates and judgments

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

2.4.1 Recognition of revenue

The application of IFRS 15 requires the Group to make judgements that affect the determination of the amount and timing of revenue from contracts with customers See also Note 4. These include:

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

The stand-alone selling prices for mobile devices are estimated as a cost of sale plus margin. The stand-alone selling prices for telecommunications services are set based on prices for non-bundled offers with the same range of services. The transaction price is calculated as total consideration receivable from the customer over the Adjusted Contract Term, which is the period after which the Group expects to offer a subsequent retention contract to a customer, which is usually a few months before the contractual term lapses.

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

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

Agent vs. principal considerations in relation to cooperation with dealers
The Group cooperates with a network of dealers who sell contract services (including these bundled with handsets) and prepaid services. The Group has assessed that the dealers act as agents (and therefore do not control the goods or services before they are provided to the end-customer) in this process, for the following reasons:

a) the Group bears primary responsibility for fulfilling the promise to provide the specified good and service – the Group is responsible for delivering telecommunications services to the end-customer and organizes the process of repairs of the equipment within the guarantee period,
b) prices of services and equipment delivered to customers are determined by the Group and not by the dealer;
c) dealers are remunerated in the form of commissions;
d) credit risk related to consideration for service and in case of instalment sales model also credit risk related to consideration for equipment is borne by the Group.

2.4.2 Valuation of lease liabilities and right-of-use assets

The application of IFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities (see Note 25.3) and the valuation of right-of-use assets (see Note 15). These include: determining contracts in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Group generally comprises non-cancellable period of lease contracts, periods covered by an option to extend the lease if the Group is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Group is reasonably certain not to exercise that option. The same term is applied as economic useful life of right-of-use assets to calculate amortization of right-of-use assets.
For leases with indefinite term the Group estimates the non-cancellable period of such types of leases to be equal to the average or typical market contract term of particular type of lease. When assessing the lease term, the Group takes into account penalty payments specified in the contract as well as materiality of possible economic outflows related to termination of the contracts. The Group will continue to monitor these assumptions in the future as a result of a review of the industry practice and the evolution of the accounting interpretations in relation to estimation of the lease terms among peer telecommunications entities.

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

2.4.3 Impairment of financial assets

The Group recognizes an allowance for expected credit losses in an amount equal to the expected credit losses over the life of the financial instrument for trade receivables, contract assets, lease receivables, cash and cash equivalents. For notes receivable, the Group recognizes an allowance for expected credit losses equal to 12 months expected credit losses at the current reporting date if there has been no significant increase in risk since initial recognition of the instrument. The expected credit loss is calculated as expected gross carrying amount of the financial asset at valuation date multiplied by expected credit loss rate.

When measuring expected credit loss for billing receivables the Group uses collectability ratio from previous periods including information on recoverability through the process of sales of overdue invoices as well as forward looking information.

For other trade receivables the Group performs assessment for each individual debtor taking into account the probability of default or delinquency in payments and the probability that debtor will enter into financial difficulties or bankruptcy. The Group relies on reasonable and supportable information regarding debtors available at the assessment date, including the information about securities, e.g. guarantees, deposits and insurance.

When calculating the impairment allowance for contract assets the Group takes into consideration the risk of uncollectibility of payments from customers which would be used to settle the outstanding contract assets balance, e.g. when the customer is disconnected as a result of breach of the contract. The Group uses professional judgement to calculate probability–weighted estimate of credit losses over the expected life of contract assets.

In connection with the announcement of the state of COVID-19 pandemic in March 2020, the Group assessed its potential impact on credit risk relating to trade receivables and contract assets. The Group concluded that recoverability of these assets may deteriorate and, as at March 31, 2020, recognized an additional impairment loss of PLN 18,893 thousand for trade receivables and PLN 13,096 thousand for contract assets.

As at December 31, 2021, the expected credit loss for trade receivables decreased, primarily as a result of using a higher recoverability rate for receivables through sales compared to the rates adopted in 2020. Based on the sales transactions completed in 2021 and observation of market conditions for debt sales, the Group has assumed higher recoverability as at December 31, 2021 compared to December 31, 2020 (see also Note 10).

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

With respect to notes issued in December 2019 and December 2020 (see Notes 25.2.1 and 25.2.2) the Group had 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 Notes issued in December 2019 and December 2020 for accounting and valuation purposes.

2.4.5 Valuation of the assets retirement obligation provision

The assets retirement obligation provision relates primarily to the obligation to dismantle the active and passive portions of the telecommunications infrastructure from leased properties.

In 2020, based on the observation of the current market conditions, the Group increased the estimated unit costs of dismantling telecommunications constructions from leased properties, which increased the balance of the assets retirement obligation provision by PLN 163,643 thousand and the corresponding increase in the net carrying amount of right-of-use assets (see also Note 26).

As December 31, 2021 the assets retirement obligation provision (see Note 26) was calculated using a discount rate of 3.76% for the active infrastructure and 3.94% for the passive infrastructure (0.42% as of December 31, 2020), equal to the interest rate as at the reporting date for treasury bonds with maturities near the assumed retirement date.

2.4.6 Deferred tax

As part of the process of preparing the Financial Statements, the Group is required to estimate the P4 Group's income taxes (see Note 12). This process involves estimating the P4 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 P4 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. Material estimates are required in order to calculate the asset. 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 P4 Group operates and the stability of local legislation are also considered.

2.4.7 Impairment of non-current assets

According to 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 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, 2021, no impairment indicators were identified.

In accordance with the provisions of IAS 36, goodwill recognized on the acquisition of the Germanos Group, the 3S Group and Virgin Mobile Polska sp. z o.o., as well as intangible assets with indefinite useful life were tested for impairment as at December 31, 2021. The goodwill was allocated to the CGU identified as the entire on future resource allocation are made for the entire P4 Group. The goodwill was allocated to the CGU identified as the entire P4 Group, as the performance is assessed and decisions on future resource allocation are made for the entire P4 Group.

The recoverable amount of a CGU was determined based on value in use calculations. These calculations are based on the P4 Group's latest available financial projections for the years 2022-2026.

The assumptions used in the calculation include, among others: usage revenue, handset margin, customer acquisition and retention costs, interconnection revenues/costs, national and international roaming costs and operating expenses (among others remuneration costs, marketing costs and costs of settlements with OTP).The pre-tax discount rate used (10.58% at December 31, 2021, 10.06% at December 31, 2020) reflects the risks typical of the P4 Group's business. The growth rate used to extrapolate cash flow projections beyond the forecast period (from 2027 onwards) is conservatively determined at 0% (as at December 31, 2020: 0%).

The amounts assigned to each of these parameters reflect the Group's past experience adjusted for expected changes during the period covered by the financial projections, but may be affected by unforeseeable political, economic or legal changes.

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, 2021. 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. P4 Group's business model is based on an extensive, modern and cost-efficient telecommunications network of its own and providing near-nation-wide coverage supplemented by additional access to the network achieved thanks to a national roaming agreement with another mobile telecommunications operator. The future success of the P4 Group's business model is dependent on many factors. The macroeconomic conditions of Poland, European Union and globally, 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 5G technology offered by the P4 Group, possible significant changes in mobile technology, access to sufficient distribution channels and the impact of possible new entrants in the form of mobile network operators (MNOs) and mobile virtual network operators (MVNOs), as well as over–the–top (OTT) service providers, may all impact the P4 Group's ability to generate revenues. Risks associated with rapidly growing demand for radio network capacity, and uncertainties over the market regulator's approach to new entrants relative to market incumbents, the development of unit costs of subscriber devices, and the volatility of operating expenses, in particular network maintenance costs, and market levels of mobile devices subsidies, all generate uncertainties over achievable profit margins.

The mobile telecommunications industry is subject to significant governmental regulation and supervision and future changes in such regulations or telecommunications law may have an adverse impact on the P4 Group's revenues, require the Group to make additional expenditures and otherwise have a material adverse effect on the Group's business, financial condition and results of operations.

As a result of these and other uncertainties the actual recoverable amount of the CGU may differ significantly in the future from the P4 Group's current estimates.

However,

- If usage revenue in the projection period was lower than the Group's assumptions by: 1% in 2022, 3% in 2023 and 5% in 2024 and subsequent years, the Group would not recognize any impairment against the cash-generating unit.
- If inflationary pressures were to cause an increase in operating expenses (excluding the costs of settlements with OTP) by approximately 4 percentage points in 2023-2026 higher than the Group's projected increase, no impairment charge would be recognized for the CGU.
- 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.

2.5 Sale of passive infrastructure

On 31 March 2021, as a result of an agreement signed by the Group's owner, Iliad Purple S.A.S. with Cellnex Poland sp. z o.o. (described in Note 12 of the P4 Group Annual Consolidated Financial Statements for 2020), P4 signed a passive infrastructure sale agreement with On Tower Poland sp. z o.o. ("OTP").

At the same time, P4 signed long-term maintenance agreements with On Tower Poland sp. z o.o. for a period of 20 years, with the option of extending them for further 10-year periods, on the basis of which P4 will use the sold-off passive infrastructure for its telecommunications activities. The Group accounts for leases of space on sold infrastructure as leases under IFRS 16 (see Note 25.3).

The gain on the sale of passive infrastructure (excluding infrastructure classified as "BTS", as described below) in the amount of PLN 5,387,549 thousand was classified as a non-recurring transaction under "Other operating income" (see Note 10).

Under the transaction, a portion of the passive infrastructure built mainly in 2020-2021 was valued on the basis of the "Built to Suit" ("BTS") program. As part of this program, further base stations built by the Company will be sold in the future to On Tower Poland sp. z o.o. Revenues and expenses related to the implementation of the BTS program as well as under the concluded service agreements are presented in other operating income and expenses in the "Partnership income" and "Partnership expenses" lines (see Note 10).

The expenditures for passive infrastructure held for sale in future periods under the partnership with OTP, in the amount of PLN 214,600 thousand, were presented in the statement of financial position as current assets in the "Assets held for sale" item.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The following table summarizes the value of assets sold in the non-recurring transaction and the corresponding liabilities:

	Year ended December 31, 2021
Property, plant and equipment	805,808
Right-of-use assets	730,982
Goodwill	40,602
Long-term receivables	1,917
Trade and other receivables	86
Prepaid expenses	5
Cash and cash equivalents	19,183
Short-term lease liabilities	(644,935)
Assets retirement provision	(192,238)
Trade and other payables	(2,471)
Cost of assets and liabilities sold	**758,939**

The carrying amounts as of December 31, 2020 of the assets planned to be sold in the above transaction are presented in the statement of financial position as of December 31, 2020 under the headings "Available-for-sale assets and "Liabilities directly associated with assets held for sale" and are described in detail in the 2020 annual financial statements in Note 12.

Proceeds equal to the sales price less cash transferred as part of the transaction are presented in the statement of cash flows in the line item “Proceeds from disposal of passive infrastructure”. This line also includes proceeds from the sale of passive infrastructure under the BTS program.

The capital expenditures of PLN 200,565 thousand incurred in 2021 for passive infrastructure elements sold in 2021 and held for sale in future periods, are presented in the statement of cash flows in the line item “Expenditures for assets held for sale".

2.6 Changes in the composition of the Group

Acquisition of UPC

On September 22, 2021 P4 sp. z o.o. entered into a Sale and Purchase Agreement regarding 100% of the shares in UPC Polska sp. z o.o. with the existing shareholder belonging to the Liberty Global group. The cash value of the acquisition (on a cash-free and debt free basis) was set at PLN 7 billion, which corresponds to a 2020 EBITDAaL multiplier of 9.3x before synergies and approximately 7x including revenue and cost synergies.

On March 10, 2022, the Group obtained the approval of the European Commission for the acquisition of shares in UPC Polska sp. z o.o. The closing of the transaction is scheduled at the beginning of the second quarter of 2022.

UPC Polska sp. z o.o. is one of the largest Internet service providers in Poland. In 2020, it generated PLN 1.7 billion in revenue and PLN 757 million in EBITDAaL. Based on 2020 financials, the combined revenue of Play and UPC Polska is PLN 9 billion and the combined EBITDAaL is PLN 3.1 billion.

The acquisition of UPC will be accounted for as business combination according to IFRS 3. The preliminary purchase price allocation will be disclosed in the consolidated financial statements for H1 2022. Potential goodwill will be calculated as the excess of the purchase price paid over the fair value of the net assets acquired.

Merger with subsidiaries

On December 31, 2021, 3GNS sp. z o.o. and Play 3GNS Sp. z o.o. were merged with P4 sp. z o.o.

Acquisition of Virgin Mobile Polska
On August 9, 2020, the Group acquired 100% of shares in Virgin Mobile Polska sp. z o.o. („VMP") for a cash consideration in the amount of PLN 34,174 thousand.

2.7 Correction of the error and presentation changes applied in the financial statements

The Group has made the following changes associated with error correction and presentation changes:

A. The Group recognized a correction of an error relating to charges associated with the reemission of TV programs and audiovisual content in 2016-2020 which, according to the Group's expectations, will be subject to payment.

B. In the statement of comprehensive income, the line item "General and administrative expenses" presented in the previous financial statements has been split into "Employee benefits", "External services" and "Taxes and fees".

C. Assets under construction previously presented on a separate line in the statement of financial position have been presented in the "Intangible assets" and "Property, plant and equipment" categories, respectively.

D. In the statement of financial position the items: "Long-term finance receivables", "Long-term receivables" and "Other long-term finance assets" have been aggregated to one item "Other long-term finance assets" and items: "Short-term finance receivables" and "Other short-term finance assets" to "Other short-term finance assets".

E. In the statement of financial position, the items previously presented: "Contract liabilities" and "Deferred income" were aggregated into a single line item "Contract liabilities".

F. In the statement of comprehensive income, the gain on sale of receivables and penalty note income were separated from "Other operating costs" and moved to "Other operating income".

G. In the statement of comprehensive income, the items "Short-term financial liabilities" and "Other short-term financial liabilities" have been aggregated to "Short-term financial liabilities".

The presentation changes are intended to increase the transparency and usability of the data presented as well as to align with the common practices applied in the telecommunications industry.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The impact of the correction of error and presentation changes on the statement of comprehensive income, the statement of financial position, the statement of cash flows, and the statement of changes in equity for the comparative period is shown below:

STATEMENT OF COMPREHENSIVE INCOME	**Year ended December 31, 2020 Historical data**	**Change**	**Ref.**	**Year ended December 31, 2020 Restated**
Operating expenses	**(5,539,923)**	**(25,326)**		**(5,565,249)**
Interconnection, roaming and other service costs	(1,803,611)	(25,326)	A	(1,828,937)
General and administrative expenses	(1,036,034)	1,036,034	B	-
Employee benefits	-	(306,794)	B	(306,794)
External services	-	(585,720)	B	(585,720)
Taxes and fees	-	(143,520)	B	(143,520)
Other operating income	110,374	36,865	F	147,239
Other operating costs	(163,413)	(37,047)	A, F	(200,460)
Operating profit	**1,566,884**	**(25,508)**		**1,541,376**
Profit before income tax	**1,335,354**	**(25,508)**		**1,309,846**
Income tax charge	(321,884)	4,812	A	(317,072)
Net profit	**1,013,470**	**(20,696)**		**992,774**
Other comprehensive income, net	**1,787**	**-**		**1,787**
Total comprehensive income	**1,015,257**	**(20,696)**		**994,561**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

STATEMENT OF FINANCIAL POSITION	December 31, 2020 Historical data	Change	Ref.	December 31, 2020 Restated	January 1, 2020 Historical data	Change	Ref.	January 1, 2020 Restated
ASSETS								
Intangible assets	2,493,950	70,118	C	2,564,068	2,598,138	38,553	C	2,636,691
Property, plant and equipment	1,329,506	192,142	C	1,521,648	2,028,801	247,353	C	2,276,154
Assets under construction	262,260	(262,260)	C	-	285,906	(285,906)	C	-
Long-term finance receivables	145,380	(145,380)	D	-	201,998	(201,998)	D	-
Long-term receivables	14,054	(14,054)	D	-	15,252	(15,252)	D	-
Other long-term finance assets	12,439	159,434	D	171,873	11,587	217,250	D	228,837
Total non-current assets	**4,994,360**	**-**		**4,994,360**	**6,400,310**	**-**		**6,400,310**
Short-term finance receivables	322,767	(322,767)	D	-	294	(294)	D	-
Other short-term finance assets	7,002	322,767	D	329,769	6,260	294	D	6,554
Total current assets	**5,233,696**	**-**		**5,233,696**	**2,678,513**	**-**		**2,678,513**
TOTAL ASSETS	**10,228,056**	**-**		**10,228,056**	**9,078,823**	**-**		**9,078,823**

	December 31, 2020 Historical data	Change	Ref.	December 31, 2020 Restated	January 1, 2020 Historical data	Change	Ref.	January 1, 2020 Restated
EQUITY AND LIABILITIES								
Retained earnings	2,687,865	(82,718)	A	2,605,147	2,414,395	(62,022)	A	2,352,373
Total equity	**2,538,322**	**(82,718)**		**2,455,604**	**2,262,793**	**(62,022)**		**2,200,771**
Long-term provisions	48,004	101,324	A	149,328	70,364	75,817	A	146,181
Deferred tax liability	168,444	(18,606)	A	149,838	168,401	(13,795)	A	154,606
Total non-current liabilities	**5,159,432**	**82,718**		**5,242,150**	**5,069,106**	**62,022**		**5,131,128**
Short-term finance liabilities	206,133	-		206,133	300,964	4,685	G	305,649
Other short-term finance liabilities	-	-		-	4,685	(4,685)	G	-
Contract liabilities	115,096	208,423	E	323,519	101,826	233,152	E	334,978
Deferred income	208,423	(208,423)	E	-	233,152	(233,152)	E	-
Total current liabilities	**2,530,302**	**-**		**2,530,302**	**1,746,924**	**-**		**1,746,924**
TOTAL LIABILITIES AND EQUITY	**10,228,056**	**-**		**10,228,056**	**9,078,823**	**-**		**9,078,823**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

STATEMENT OF CASH FLOW	Year ended December 31, 2020 Historical data	Change	Ref.	Year ended December 31, 2020 Restated
Profit before income tax	**1,335,354**	**(25,508)**		**1,309,846**
Change in provisions	690	25,508	A	26,198
Net cash provided by operating activities	**2,149,187**	**-**		**2,149,187**
Net cash used in investing activities (including notes purchased and loans granted)	**(1,146,615)**	**-**		**(1,146,615)**
Net cash used in financing activities	**(447,427)**	**-**		**(447,427)**

STATEMENT OF CHANGES IN EQUITY	Year ended December 31, 2020 Historical data	Change	Ref.	Year ended December 31, 2020 Restated
Retained losses opening balance	2,414,395	(62,022)	A	2,352,373
Net profit	1,013,470	(20,696)	A	992,774
Retained losses closing balance	**2,687,865**	**(82,718)**		**2,605,147**
Total equity opening balance	2,262,793	(62,022)	A	2,200,771
Net profit	1,013,470	(20,696)	A	992,774
Total equity closing balance	**2,538,322**	**(82,718)**		**2,455,604**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

3. Financial risk management

The P4 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. During the current year, there were no significant changes in financial risk management.

3.1 Credit risk

A substantial part of the Group's receivables consists of billing receivables of low individual amounts. According to Group's principles the risk connected with billing receivables is limited by a number of procedures. These procedures include: verification of the financial standing of potential subscribers before signing the contract, imposing credit limits, payment monitoring, sending payment reminders and receivables collection.

Apart from billing receivables, the Group also has receivables from interconnect and international roaming partners, MVNOs, handsets dealers and other. The table below shows the balance of three major counterparties at the end of the reporting period and comparative periods and the percentage that the balance represents in total Group's trade and other receivables:

	December 31, 2021	
	%	Balance
Counterparty A	6.2%	46,426
Counterparty B	4.8%	35,588
Counterparty C	3.7%	27,799
	14.7%	**109,813**

	December 31, 2020	
	%	Balance
Counterparty A	7.1%	49,722
Counterparty B	5.7%	39,613
Counterparty C	5.5%	38,288
	18.3%	**127,623**

Management and control of credit risk regarding receivables other than billing receivables, including the receivables from counterparties A, B, C is based on:

- investigation of financial standing in relation to the Group's business partners (current and potential); investigation of individual credit limit needs of business partners;
- security of credit limits by using hard security instruments (deposits, bank guarantees) and soft security instruments (submission for execution based on clause 777 of Polish code of civil procedure, bill of exchange);
- insurance of trade receivables in external institutions;
- periodical monitoring of different warning signals: lack of payment, lack of new orders;
- immediate response in case of appearance of any warning signals.

Except for balances listed above, the P4 Group has no significant concentrations of credit risk because the Group has an extensive portfolio of receivables of low individual amounts.

Cash is deposited only in leading financial institutions with an investment grade rating.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

3.2 Interest rate risk

In 2021 the exposure on interest rate risk was related primarily to floating rate borrowings under the Term and Revolving Facilities Agreement (TFRA) (Note 25.1.1). The risk has been partially mitigated by interest rate swaps concluded in December 2021, designated to fix the interest rate in relation to 43% of the Term and Revolving Facilities Agreement amount for a three-year period (see Note 18.1).

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

	Increase / decrease in basis points (WIBOR)	**Effect on profit before tax**
Year ended December 31, 2021	+50	(16,250)
	-50	16,250
Year ended December 31, 2020	+50	(21,599)
	-50	21,599

Sensitivity to possible changes in interest rates in 2021 decreased compared to 2020 as a result of concluded interest rate swaps. 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 WIBOR PLN interest rates has been applied to the appropriate floating rate liabilities as at the end of the reporting period.

Interest risk of the Group is regularly monitored by the Group. The following instruments may be used to minimize the interest rate risk relating to the Group:
- Forward rate agreements (FRAs);
- Interest rate swaps;
- Interest rate options.

3.3 Currency risk

While most of the Group's revenue is earned in PLN, the Group is still exposed to currency risk since some operating expenses are denominated in foreign currencies, mainly EUR. Also, international roaming costs and revenue are recorded in foreign currencies.

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

Currency risk is regularly monitored by the Group. The following instruments may be used to minimize the currency risk relating to the Group's foreign exchange transactions:
- forward foreign exchange contracts (also Non Delivery Forwards);
- foreign currency swaps (also Non Delivery Swaps);
- foreign currency options with an approved currency option hedging plan.

The Group did not enter into any forward currency contracts of significant value in 2021 and 2020.

The tables below present the items of assets and liabilities with balances in foreign currencies as at December 31, 2021 and December 31, 2020, by currencies in which they are denominated; the values below are translated into PLN.

December 31, 2021	PLN (in thousands)	EUR presented in PLN (in thousands)	other currencies presented in PLN (in thousands)	**Total**
Long-term receivables before the impairment provision	12,534	2,134	-	14,668
Trade and other receivables before the impairment provision	820,339	29,817	-	850,156
Current income tax receivables	1,877	122	-	1,999
Cash and cash equivalents	1,272,507	4,150	1,565	1,278,222
Assets	**2,107,257**	**36,223**	**1,565**	**2,145,045**
Long-term finance liabilities	8,281,716	99,694	4,105	8,385,515
Long-term provisions	128,875	16,098	-	144,973
Short-term finance liabilities	195,980	27,919	3,390	227,289
Trade and other payables	910,050	91,858	-	1,001,908
Liabilities	**9,516,621**	**235,569**	**7,495**	**9,759,685**

December 31, 2020	PLN (in thousands)	EUR presented in PLN (in thousands)	other currencies presented in PLN (in thousands)	**Total**
Long-term receivables before the impairment provision	12,464	1,958	-	14,422
Trade and other receivables before the impairment provision	800,241	15,585	274	816,100
Current income tax receivables	575	126	-	701
Cash and cash equivalents	831,444	6,186	3,629	841,259
Assets	**1,644,724**	**23,855**	**3,903**	**1,672,482**
Long-term finance liabilities	4,858,320	71,033	3,252	4,932,605
Short-term finance liabilities	177,397	25,866	2,870	206,133
Trade and other payables	823,759	125,001	7,062	955,822
Liabilities directly associated with assets held for sale	872,497	10,656	1,370	884,523
Liabilities	**6,731,973**	**232,556**	**14,554**	**6,979,083**

Other assets and liabilities are denominated in PLN.

The following table demonstrates the sensitivity to a reasonably possible change in the EUR exchange rate, with all other variables held constant. As the balances denominated in other foreign currencies are relatively insignificant, the changes in the exchange rates other than EUR would not have any material impact on the Financial Statements.

	Change in EUR rate	**Effect on profit before tax**
December 31, 2021	+5%	(9,967)
	-5%	9,967
December 31, 2020	+5%	(10,435)
	-5%	10,435

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 would comprise effect on profit before tax resulting from assets and liabilities valuation, as well as corresponding deferred tax effect.

The sensitivity to EUR/PLN exchange rate changes in 2021 remained at a similar level as in 2020.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

3.4 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, including maintaining open and unutilized credit facilities.
As at December 31, 2021 the Group had a credit limit of PLN 2,000,000 thousand available under the Term and Revolving Facilities Agreement (see also Note 25.1.1), which was fully undrawn. In addition, under the loan agreements concluded with BGK (see Note 25.1.3) and Banco Santander (see Note 25.1.5), as at December 31, 2021 the Group had available and undrawn financing in the amount of PLN 500,000 thousand and PLN 464,400 thousand, respectively,

The liquidity risk management process involves forecasting future cash flows on an ongoing basis and securing funds to finance them at specified maturity dates.

Liquidity risk is regularly measured by analyzing the maturities of contractual cash flows from finance liabilities.

The tables below present the maturities of undiscounted cash flows under each category of finance liabilities at contractual amounts (i.e. excluding the impact of transaction costs), including projected interest accrued at a variable rate, which were calculated based on the interest rates applicable as of December 31, 2021 and 2020, respectively.

December 31, 2021	**Undiscounted contractual cash flows payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Bank loans	136,325	3,931,360	-	4,067,685
Notes	54,950	1,481,092	-	1,536,042
Lease	393,914	1,398,358	4,153,147	5,945,419
Other debt	10,407	4,571	-	14,978
	595,596	**6,815,381**	**4,153,147**	**11,564,124**

December 31, 2020	**Undiscounted contractual cash flows payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Bank loans	188,908	3,491,479	-	3,680,387
Notes	25,500	107,306	1,275,418	1,408,224
Lease	112,631	249,198	85,586	447,415
Other debt	6,209	1,332	-	7,541
Liabilities directly associated with assets held for sale	137,500	467,974	224,243	829,717
	470,748	**4,317,289**	**1,585,247**	**6,373,284**

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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

3.6 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, to enable the repayment of debt and to maintain an optimal capital structure to reduce the cost of capital. In the process of capital management, the Group takes into account, among other things, the projected net financial result, the schedule of repayment of finance liabilities, financial market conditions and planned dividend payments. The Group defines capital as the sum of equity and net debt. The Group monitors net debt using indicator calculated for the entire P4 Group. The P4 Group includes in net debt the borrowings at carrying amounts, less cash and cash equivalents.

The table below presents the value of net debt (calculated according to the principles above) for the P4 Group:

	December 31, 2021	**December 31, 2020**
Syndicated bank loans	3,486,077	3,522,864
Notes	1,249,787	1,248,538
Leases	3,862,321	359,795
Other debt	14,619	7,541
Total debt	**8,612,804**	**5,138,738**
Cash and cash equivalents	1,278,222	841,259
Net debt	**7,334,582**	**4,297,479**

This document is a working translation of the financial statements into English. The Polish version of the financial statements is the only legally binding version of this document. In case of any inconsistencies or discrepancies between the Polish and English versions of these financial statements, the Polish version shall prevail.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

4. Operating revenue

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

	Year ended December 31, 2021	Year ended December 31, 2020
Service revenue	**5,679,893**	**5,556,816**
Usage revenue	4,378,091	4,115,684
Interconnection revenue	1,301,802	1,441,132
Sales of goods and other revenue	**1,622,413**	**1,603,030**
	7,302,306	**7,159,846**

	Year ended December 31, 2021	Year ended December 31, 2020
Usage revenue by category		
Retail contract revenue	3,353,971	3,193,166
Retail prepaid revenue	772,068	677,906
Other usage revenue	252,052	244,612
	4,378,091	**4,115,684**

Other usage revenue consists mainly of revenues from MVNOs to whom the Group provides telecommunications services and revenues generated from services rendered to subscribers of foreign mobile operators that have entered into international roaming agreements with the Group. The increase in retail revenue in 2021 is primarily due to an increase in ARPU (average revenue per customer) and an increase in the active subscriber base.

The vast majority of sales revenue is realized in Poland. Revenue from sales of goods and other revenue relates to the sale of goods at a specific point in time, while revenue from the sale of services relates to services transferred over time.

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

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

	December 31, 2021	December 31, 2020
Transaction price allocated to the remaining performance obligation to be satisfied within:		
1 year	2,071,930	2,018,740
later than 1 year and not later than 2 years	854,251	894,102
later than 2 years and not later than 3 years	106,137	110,971
later than 3 years	3,961	1,951
	3,036,279	**3,025,764**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

5. Interconnection, roaming and other service costs

	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Interconnection costs	(1,236,916)	(1,424,363)
National roaming/network sharing	(133,333)	(144,993)
Other service costs	(281,865)	(259,581)
	(1,652,114)	**(1,828,937)**

The high interconnection costs in 2020 were caused by increased traffic between operators as a result of the COVID-19 pandemic and the lockdown.

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 providers of content (e.g. TV, VoD, music) in transactions in which the Group acts as a principal. The increase in other service costs in 2021 compared to 2020 was mainly due to higher international roaming costs caused by the loosening of restrictions in movement of people across the border of Poland in connection with the COVID-19 pandemic.

6. Contract costs, net

	Year ended December 31, 2021	Year ended December 31, 2020
Contract costs incurred	(426,587)	(436,306)
Contract costs capitalized	398,611	405,089
Amortization and impairment of contract costs	(390,316)	(388,678)
	(418,292)	**(419,895)**

The contract costs presented above are costs to obtain contracts with customers (sales commissions).

7. Employee benefits

	Year ended December 31, 2021	Year ended December 31, 2020
Salaries	(293,246)	(267,037)
Social security	(45,251)	(39,485)
Equity settled incentive and retention programs	(6,524)	(272)
	(345,021)	**(306,794)**

The increase in costs of employee benefits in 2021 vs. 2020 was associated mainly with the increased provisions for employee bonuses in connection with good financial performance of the Group.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

8. External services

	Year ended December 31, 2021	Year ended December 31, 2020
Network maintenance, leased lines and energy	(390,962)	(205,328)
Advertising and promotion expenses	(167,296)	(158,539)
Customer relations costs	(61,395)	(66,085)
Office and points of sale maintenance	(18,851)	(17,736)
IT expenses	(42,453)	(43,518)
People related costs	(14,233)	(17,116)
Finance and legal services	(20,737)	(12,252)
Other external services	(73,056)	(65,146)
	(788,983)	**(585,720)**

The costs of network maintenance, leased lines and energy in 2021 included mainly the passive infrastructure lease and maintenance costs under agreements signed with OTP (see also Note 2.5).

9. Depreciation and amortization

	Year ended December 31, 2021	Year ended December 31, 2020
Depreciation of property, plant and equipment	(409,574)	(419,686)
Amortization of intangibles	(364,763)	(363,121)
Depreciation of right-of-use assets	(223,792)	(173,018)
	(998,129)	**(955,825)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

10. Other operating income and other operating costs

	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Other operating income		
Gains from derecognition of financial assets measured at amortized costs	31,101	18,572
Gain on disposal of non-current assets and termination of lease contracts	-	4,372
One-off gain on disposal of passive infrastructure (see Note 2.5)	5,387,549	-
Income from partnership	775,716	-
Reversal of impairment of other non-current assets	84	313
Income from subleasing of right-of-use assets	15,627	13,788
Other miscellaneous operating income	99,755	110,194
	6,309,832	**147,239**
Other operating costs		
Costs related to partnership	(173,123)	-
Impairment of trade receivables	(53,191)	(85,311)
Impairment of contract assets	(60,095)	(93,485)
Impairment of non-current assets	(5,161)	(1,011)
Loss on disposal of non-current assets and termination of lease contracts	(17,388)	-
Exchange rate losses	(743)	(4,225)
Other miscellaneous operating costs	(23,398)	(16,428)
	(333,099)	**(200,460)**

"Partnership income" and "Partnership expenses" relate to the sale of passive infrastructure under the BTS program and other services provided to On Tower Poland (see Note 2.5).

Revenues from sublease of right-of-use assets relate to agreements classified as operating leases in which the Group, as the lessor, subleases assets that are accounted for as assets under IFRS16 in the statement of financial position (see Note 18.4).

Gains from derecognition of financial assets measured at amortized costs mainly represents result on the sale of trade receivables.

Impairment of trade receivables

The line “Impairment of trade receivables” represents the amount charged to profit or loss according to IFRS 9. When calculating the impairment provision, the Group takes into account, among others, the price it expects to be able to recover in future from sales of receivables.

For movements of the provision for impairment of trade receivables see Note 20.

In 2020 the Group recognized an additional impairment loss allowances for trade receivables in the amount of PLN 18,893 thousand as a result of the COVID-19 pandemic.
As at December 31, 2021, the allowance for impairment of trade receivables decreased, primarily as a result of using a higher recoverability rate for receivables through sales compared to the rates adopted in 2020 (see also Note 2.4.3).

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Impairment of contract assets
The increased impairment allowances in 2020 were mainly due to recognition of additional costs of expected credit losses for contract assets as a result of the COVID-19 pandemic.

For movements of the provision for impairment of contract assets see Note 21.

11. Finance income and finance costs

	Year ended December 31, 2021	Year ended December 31, 2020
Finance income		
Interest income from assets at amortized cost	70,733	6,069
Income from the net investment in the lease	1,785	686
Net gain on finance instruments at fair value	1,507	3,033
Exchange rate gains	550	-
Other	292	1,563
	74,867	**11,351**
Finance costs		
Interest expense, including:	(303,653)	(229,684)
- on lease liabilities	*(163,531)*	*(57,387)*
- on cash flow hedges	*(1,055)*	*(7,617)*
Exchange rate losses	-	(13,197)
Other	(1,290)	-
	(304,943)	**(242,881)**

Interest income incurred in 2021 and 2020 referred mainly to interest on the notes subscribed by the Group and issued by Play Communications and Iliad Purple (see Note 18.2).
Income from ineffectiveness on cash flow hedging instruments and interest expense on these instruments relates to interest rate swaps - see Note 18.1.

Interest expenses in 2021 increased versus 2020 mainly as a result of an increase in the value of lease liabilities in connection with the signing of a new lease agreement with On Tower Poland sp. z o.o. following the sale of passive infrastructure (see Note 2.5).

Exchange rate losses in 2020 were caused mainly by depreciation of Polish Złoty against EUR in 2020 as a result of the COVID-19 pandemic and were mainly related to lease and investment liabilities.

The Group did not recognize any gains or losses on liabilities measured at amortized cost in 2021 and 2020.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

12. Income tax

	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Current tax charge	(1,450,435)	(329,291)
Deferred tax benefit/(charge)	(11,294)	12,219
Income tax charge	**(1,461,729)**	**(317,072)**

Reconciliation between tax calculated at the prevailing tax rate applicable to profit (19%) and income tax charge is presented below:

	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Profit before income tax	**7,455,990**	**1,309,846**
Tax calculated at the prevailing tax rate applicable to profit (19%)	(1,416,638)	(248,871)
Effect of difference between tax rates in Luxembourg and in Poland	11	(42)
Expenses not subject to tax	(47,012)	(42,469)
Income not subject to tax	2,341	271
Previous years tax income included in current year accounting profit	135	283
Adjustments relating to previous tax years	(300)	(27,798)
Change in unrecognized deferred tax asset	(266)	1,554
Income tax charge	**(1,461,729)**	**(317,072)**
Effective Tax rate	19.6%	24.2%

Most of the P4 Group's taxable revenue is generated in Polish tax jurisdiction. The corporate income tax rate applicable to subsidiaries registered in Poland was 19% in 2021 and 2020, and in Luxembourg 24.94% in 2021 and 22.8% in 2020.

The items reconciling the income tax amount in the table above represent the tax effect with the application of appropriate tax rates (19% for companies registered in Poland and for companies registered in Luxembourg: 24.94% in 2021 and 22.8% in 2020).

The line "Effect of difference between tax rates in Luxembourg and in Poland" consists of the effect of different tax rates used in Luxembourg and Poland. As at December 31, 2021 the subsidiary Play Finance 1 S.A. with its registered office in Luxembourg posted tax losses, which resulted in positive effect of the higher tax rate in the above reconciliation.

In 2020, the Group corrected tax returns for 2014-2019, which resulted in the payment and recognition of costs on account of overdue income tax with interest in the amount of PLN 20,542 thousand. See also Note 37.1.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Deferred tax assets and liabilities by category

	December 31, 2021	December 31, 2020 Restated
Net deductible temporary differences		
Potential base for deferred income tax calculation	(892,149)	(1,002,163)
Potential deferred income tax net asset/(liability), thereof:	**(169,564)**	**(151,525)**
- recognized deferred income tax assets	*-*	*3*
- recognized deferred income tax liabilities	*(169,976)*	*(150,049)*
- recognized deferred income tax liability related to assets held for sale (see Note 2.5)	*-*	*(3,193)*
- not recognized deferred income tax assets	*412*	*1,714*
Carry-forwards of unused tax losses		
Potential base for deferred income tax calculation	106,158	68,812
Potential deferred income tax net asset/(liability), thereof:	**23,955**	**15,606**
- recognized deferred income tax assets	*239*	*211*
- not recognized deferred income tax assets	*23,716*	*15,395*
Total, netted at subsidiary level		
- recognized deferred income tax assets	**-**	**3**
- recognized deferred income tax liabilities	**(169,737)**	**(149,838)**
- recognized deferred income tax liability related to assets held for sale (see Note 2.5)	**-**	**(3,193)**
- not recognized deferred income tax assets	24,128	17,109

The deferred income tax calculation is based upon an assessment of the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized. The estimation is based upon the budget for the year 2022 and long term financial projections. As at December 31, 2021 and December 31, 2020, the P4 Group did not recognize deferred tax assets relating to tax losses in the entities for which the likelihood of future taxable profits that would allow realization of these tax losses is insufficient. The tax losses of P4 have been fully used. The Group has not recognized an asset on tax losses for the years 2017-2021 incurred by Play Finance 1, which under Luxembourg tax law can be settled over 17 years and tax losses incurred by Virgin Mobile Polska for years 2017 and 2019.

Deferred income tax assets and liabilities are offset on the level of the standalone financial statements of consolidated entities.

The Polish and Luxembourg tax systems have restrictive provisions for the grouping of tax losses for multiple legal entities under common control, such as those of the P4 Group. Thus, each of the P4 Group's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation. In Luxembourg tax losses can be carried forward during a period of maximum 17 years (tax losses incurred during the period from January 1, 1991 to December 31, 2016, may be carried forward without any time limit). In Poland tax losses are permitted to be utilized over five years with utilization restricted to 50% of the loss per annum (thus, a given loss may be fully utilized by a taxpayer within 2 subsequent years at the earliest).

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Movement in deferred tax assets and liabilities:

	Year ended December 31, 2021	Year ended December 31, 2020 Restated
Beginning of period:		
Deferred tax assets	**3**	**-**
Deferred tax liabilities	**(149,838)**	**(154,606)**
charged to the income statement	(11,294)	12,219
charged to equity	(5,416)	-
resulting from acquisition of subsidiaries	-	(10,640)
deferred income tax liabilities related to assets held for sale (see Note 12)	(3,192)	3,192
End of period		**-**
Deferred tax assets	**-**	**3**
Deferred tax liabilities	**(169,737)**	**(149,838)**

(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

	Carry-forward of unused tax losses	Provisions and accruals	Contract liabilities	Fixed and intangible assets	Inventories	Liabilities	Other items	**Total**
As at January 1, 2020, restated	**-**	**45,111**	**26,343**	**83,457**	**2,236**	**256,075**	**351**	**413,573**
credited / (charged) to the income statement	211	35,435	(4,432)	3,868	(2,236)	15,314	(33)	48,127
As at December 31, 2020, restated	**211**	**80,546**	**21,911**	**87,325**	**-**	**271,389**	**318**	**461,700**
charged to equity	-	(21)	-	-	-	-	-	(21)
credited / (charged) to the income statement	29	(25,947)	74	26,042	967	529,934	37	531,136
As at December 31, 2021	**240**	**54,578**	**21,985**	**113,367**	**967**	**801,323**	**355**	**992,815**

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, 2020	**(37,158)**	**(166,553)**	**(70,732)**	**(1,966)**	**(276,626)**	**(15,188)**	**-**	**(4)**	**48**	**(568,179)**
resulting from acquisition of subsidiaries	(10,640)	-	-	-	-	-	-	-	-	(10,640)
charged to the income statement	494	(41,871)	(3,462)	(133)	6,148	4,739	(818)	(265)	(740)	(35,908)
directly associated with assets held for sale	842	2,350	-	-	-	-	-	-	-	3,192
As at December 31, 2020	**(46,462)**	**(206,074)**	**(74,194)**	**(2,099)**	**(270,478)**	**(10,449)**	**(818)**	**(269)**	**(692)**	**(611,535)**
credited / (charged) to the income statement	3,799	(515,529)	(1,576)	(4,504)	(7,102)	(18,018)	818	15	(333)	(542,430)
charged to equity	-	-	-	-	-	-	-	-	(5,395)	(5,395)
directly associated with assets held for sale	(842)	(2,350)	-	-	-	-	-	-	-	(3,192)
As at December 31, 2021	**(43,505)**	**(723,953)**	**(75,770)**	**(6,603)**	**(277,580)**	**(28,467)**	**-**	**(254)**	**(6,420)**	**(1,162,552)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

13. Intangible assets

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2021, restated	2,779,955	1,674,670	452,632	207,974	5,115,231
Increases	-	201,655	-	3,020	204,675
Transfers and reclassifications	-	(17,103)	-	12,592	(4,511)
Decreases	-	(20)	(40,601)	(2)	(40,623)
As at December 31, 2021	**2,779,955**	**1,859,202**	**412,031**	**223,584**	**5,274,772**
Accumulated amortization					
As at January 1, 2021, restated	1,298,422	1,195,001	-	57,673	2,551,096
Charge	185,135	153,967	-	25,661	364,763
Transfers and reclassifications	-	259	-	224	483
Decreases	-	(20)	-	(1)	(21)
As at December 31, 2021	**1,483,557**	**1,349,207**	**-**	**83,557**	**2,916,321**
Accumulated impairment					
As at January 1, 2021, restated	-	67	-	-	67
Impairment charge	-	74	-	-	74
As at December 31, 2021	**-**	**141**	**-**	**-**	**141**
Net book value as at December 31, 2021	**1,296,398**	**509,854**	**412,031**	**140,027**	**2,358,310**

The goodwill was recognized primarily on the acquisition of the Germanos Group in 2007 as well as acquisition of 3S Group on August 19, 2019 and acquisition of Virgin Mobile Polska sp. z o.o. on August 9, 2020.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

The Internet domain play.pl has been classified as an intangible asset with indefinite useful life. The useful life of this asset had been determined as indefinite, because the Group has concluded that there are no legal, regulatory, contractual, competitive or economic factors limiting the period over which this asset is expected to generate net cash inflows for the entity.

Telecommunications licenses

Frequency band	License term from	License term to	Net book value as at December 31, 2021	Net book value as at December 31, 2020
2100 MHz	July 1, 2016	December 31, 2022	21,842	43,683
900 MHz	December 9, 2008	December 31, 2023	29,027	43,540
1800 MHz	February 13, 2013	December 31, 2027	206,069	240,414
800 MHz	January 25, 2016/ June 23, 2016	June 23, 2031	904,961	1,004,590
2600 MHz	January 25, 2016	January 25, 2031	134,499	149,306
			1,296,398	**1,481,533**

(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, 2020, restated	2,869,695	1,480,448	429,279	144,442	4,923,864
Increases	-	199,078	-	802	199,880
Transfers and reclassifications	-	(6)	-	9,324	9,318
Acquisition of subsidiaries	-	2,054	23,353	56,000	81,407
Decreases	(89,740)	(6,904)	-	(2,594)	(99,238)
As at December 31, 2020, restated	**2,779,955**	**1,674,670**	**452,632**	**207,974**	**5,115,231**
Accumulated amortization					
As at January 1, 2020, restated	1,199,530	1,049,051	-	38,584	2,287,165
Charge	188,632	152,808	-	21,681	363,121
Transfers and reclassifications	-	(12)	-	(1)	(13)
Decreases	(89,740)	(6,846)	-	(2,591)	(99,177)
As at December 31, 2020, restated	**1,298,422**	**1,195,001**	**-**	**57,673**	**2,551,096**
Accumulated impairment					
As at January 1, 2020, restated	-	8	-	-	8
Impairment charge	-	67	-	-	67
Utilization of impairment provision	-	(8)	-	-	(8)
As at December 31, 2020, restated	**-**	**67**	**-**	**-**	**67**
Net book value as at December 31, 2020, restated	**1,481,533**	**479,602**	**452,632**	**150,301**	**2,564,068**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

14. Property, plant and equipment

	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
Cost							
As at January 1, 2021, restated	516	586,668	319,681	2,212,456	5,770	148,740	3,273,831
Increases	2,335	385,097	26,804	384,450	4,759	47,442	850,887
Transfers and reclassifications	(162)	727	11,663	(11,725)	1,402	2,167	4,072
Decreases	(182)	(6,116)	(3,672)	(36,749)	(3,679)	(5,949)	(56,347)
Reclassification to Assets held for sale	-	(174,779)	68	-	-	(10)	(174,721)
As at December 31, 2021	**2,507**	**791,597**	**354,544**	**2,548,432**	**8,252**	**192,390**	**3,897,722**
Accumulated depreciation							
As at January 1, 2021, restated	-	216,272	210,598	1,229,206	3,826	91,044	1,750,946
Charge	-	25,420	36,161	313,439	368	34,186	409,574
Transfers and reclassifications	-	512	(260)	(5,515)	1,226	61	(3,976)
Decreases	-	(6,081)	(3,659)	(36,541)	(3,178)	(5,779)	(55,238)
Reclassification to Assets held for sale	-	4,212	28	-	-	3	4,243
As at December 31, 2021	**-**	**240,335**	**242,868**	**1,500,589**	**2,242**	**119,515**	**2,105,549**
As at January 1, 2021, restated	-	1,214	-	-	-	23	1,237
Impairment charge / (reversal of impairment charge)	-	1,741	-	3,285	-	(23)	5,003
Utilization of impairment provision	-	(35)	-	-	-	-	(35)
As at December 31, 2021	**-**	**2,920**	**-**	**3,285**	**-**	**-**	**6,205**
Net book value as at December 31, 2021	**2,507**	**548,342**	**111,676**	**1,044,558**	**6,010**	**72,875**	**1,785,968**

Buildings represent mainly 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 and telecommunications towers which remain the property of the Group.

Certain proportion of the Property, plant and equipment is also used to generate revenue from operating leases where some assets are also being shared with other operators. Nevertheless, property, plant and equipment that the Group holds is used mainly for its own purposes and therefore the value of items leased to third parties is not material for the Financial Statements.

Contractual commitments for purchase of property, plant and equipment and intangible assets amounted to PLN 365,626 thousand as at December 31, 2021 and PLN 171,833 thousand as at December 31, 2020.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
Cost							
As at January 1, 2020, restated	1,454	1,659,202	287,575	1,943,503	3,638	119,199	4,014,571
Increases	-	281,308	12,961	353,515	1,060	44,678	693,522
Transfers and reclassifications	(826)	2,358	51,603	(55,969)	2,835	(6,329)	(6,328)
Acquisition of subsidiaries	-	-	406	-	-	33	439
Decreases	(1)	(40,418)	(32,796)	(28,593)	(1,763)	(8,815)	(112,386)
Reclassification to Assets held for sale	(111)	(1,315,782)	(68)	-	-	(26)	(1,315,987)
As at December 31, 2020, restated	**516**	**586,668**	**319,681**	**2,212,456**	**5,770**	**148,740**	**3,273,831**
Accumulated depreciation							
As at January 1, 2020, restated	9	479,129	210,880	967,833	2,418	75,469	1,735,738
Charge	-	76,624	32,536	286,115	292	24,119	419,686
Transfers and reclassifications	(4)	-	6	3,556	2,480	(5)	6,033
Decreases	-	(38,137)	(32,796)	(28,298)	(1,364)	(8,529)	(109,124)
Reclassification to Assets held for sale	(5)	(301,344)	(28)	-	-	(10)	(301,387)
As at December 31, 2020, restated	**-**	**216,272**	**210,598**	**1,229,206**	**3,826**	**91,044**	**1,750,946**
Accumulated impairment							
As at January 1, 2020, restated	-	2,679	-	-	-	-	2,679
Impairment charge	-	608	-	-	-	23	631
Utilization of impairment provision	-	(2,073)	-	-	-	-	(2,073)
As at December 31, 2020, restated	**-**	**1,214**	**-**	**-**	**-**	**23**	**1,237**
Net book value as at December 31, 2020, restated	**516**	**369,182**	**109,083**	**983,250**	**1,944**	**57,673**	**1,521,648**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

15. Right-of-use assets

	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: IT equipment	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Total
Cost						
As at January 1, 2021	43,142	597,940	22,461	30,369	29,277	723,189
Increases	62,560	3,655,718	1,700	31,460	3,956	3,755,394
Asset retirement obligation	-	14,978	-	-	-	14,978
Transfers and reclassifications	162	-	9	647	(379)	439
Decreases	(30,777)	(76,190)	(596)	(4,644)	(6,569)	(118,776)
As at December 31, 2021	**75,087**	**4,192,446**	**23,574**	**57,832**	**26,285**	**4,375,224**
Accumulated depreciation						
As at January 1, 2021	5,132	334,981	12,029	12,014	12,758	376,914
Charge	7,023	190,406	4,791	7,296	2,967	212,483
Charge from asset retirement obligation	-	11,309	-	-	-	11,309
Transfers and reclassifications	-	-	-	3,441	52	3,493
Decreases	(2,058)	(12,702)	(596)	(4,024)	(4,317)	(23,697)
As at December 31, 2021	**10,097**	**523,994**	**16,224**	**18,727**	**11,460**	**580,502**
Net book value as at December 31, 2021	**64,990**	**3,668,452**	**7,350**	**39,105**	**14,825**	**3,794,722**

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 27 thousand in the Year ended December 31, 2021. 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 21,116 thousand in 2021.

Income from subleasing of right-of-use assets is presented in Note 10.

The significant increase in right-of-use assets in the “Buildings and structures” group in 2021 results primarily from the lease agreement for space on passive infrastructure from OTP (see also Note 2.5). For information regarding lease liabilities and related costs, see the notes 11, 25.3, 25.5.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: IT equipment	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Total
Cost						
As at January 1, 2020	273,611	1,515,797	17,228	32,303	28,383	1,867,322
Increases	65,902	138,260	5,918	3,342	7,846	221,268
Asset retirement obligation	-	178,455	-	-	-	178,455
Transfers and reclassifications	(155)	-	-	-	(2,835)	(2,990)
Decreases	(8,523)	(78,048)	(685)	(5,276)	(4,117)	(96,649)
Reclassification to Assets held for sale	(287,693)	(1,156,524)	-	-	-	(1,444,217)
As at December 31, 2020	**43,142**	**597,940**	**22,461**	**30,369**	**29,277**	**723,189**
Accumulated depreciation						
As at January 1, 2020	91,450	857,892	8,451	12,243	12,738	982,774
Charge	26,767	121,118	4,260	6,950	5,351	164,446
Charge from asset retirement obligation	-	8,572	-	-	-	8,572
Transfers and reclassifications	4	-	-	(3,544)	(2,480)	(6,020)
Acquisition of subsidiaries	-	-	-	-	-	-
Decreases	(741)	(69,777)	(682)	(3,635)	(2,851)	(77,686)
Reclassification to Assets held for sale	(112,348)	(582,824)	-	-	-	(695,172)
As at December 31, 2020	**5,132**	**334,981**	**12,029**	**12,014**	**12,758**	**376,914**
Net book value as at December 31, 2020	**38,010**	**262,959**	**10,432**	**18,355**	**16,519**	**346,275**

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN nil in the year ended December 31, 2020. 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 9,396 thousand in the year ended December 31, 2020.

Due to the outbreak of COVID-19 pandemic the Group had to comply with the lockdown rules. As a result the Group had to close temporarily some points of sales (from the middle of March till May 4, 2020) which led to receiving lease rent concessions (a rent payment holiday or a reduction in lease payments for a period of time). The lease rent concessions have been treated as lease modification, the lease liability has been remeasured and the right of use value changed accordingly.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

16. Contract costs

	Year ended December 31, 2021	Year ended December 31, 2020
Cost		
As at January 1	787,278	773,960
Additions	398,611	405,089
Disposals - terminated contracts	(366,590)	(391,771)
As at December 31	**819,299**	**787,278**
Accumulated amortization		
As at January 1	396,785	399,880
Charge (including impairment)	390,316	388,677
Disposals (including impairment) - terminated contracts	(366,589)	(391,772)
As at December 31	**420,512**	**396,785**
Net book value as at December 31	**398,787**	**390,493**

The contract costs presented above are costs to obtain contracts with customers (sales commissions).

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

17. Financial instruments

	Assets at fair value through profit or loss	Assets at amortized cost	Liabilities at amortized cost	Note	Carrying amount	Fair value
December 31, 2021						
Cash and cash equivalents	1,278,222	-	-	23	1,278,222	1,278,222
Trade receivables	-	743,459	-	20	743,459	743,459
Other receivables	-	5,216	-	20	5,216	5,216
Interest rate swaps	29,902	-	-	18	29,902	29,902
Debt securities	-	2,515,003	-	18	2,515,003	2,515,003
Lease receivables	-	21,796	-	18	21,796	21,796
Long-term investments	232	-	-		232	232
Long-term receivables	-	14,594	-	18	14,594	14,594
Bank loans	-	-	(3,486,077)	25.1	(3,486,077)	(3,511,578)
Notes	-	-	(1,249,787)	25.2	(1,249,787)	(1,261,815)
Lease	-	-	(3,862,321)	25.3	(3,862,321)	(3,862,321)
Other debt	-	-	(14,619)	25.4	(14,619)	(14,619)
	1,308,356	**3,300,068**	**(8,612,804)**		**(4,004,380)**	**(4,041,909)**

This document is a working translation of the financial statements into English. The Polish version of the financial statements is the only legally binding version of this document. In case of any inconsistencies or discrepancies between the Polish and English versions of these financial statements, the Polish version shall prevail.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

	Assets at fair value through profit or loss	Assets at amortized cost	Liabilities at amortized cost	Note	Carrying amount	Fair value
December 31, 2020						
Cash and cash equivalents	841,259	-	-	23	841,259	841,259
Trade receivables	-	695,857	-	20	695,857	695,857
Other receivables	-	1,569	-	20	1,569	1,569
Interest rate swaps	-	-	-	18	-	-
Debt securities	-	468,147	-	18	468,147	468,147
Lease receivables	-	19,209	-	18	19,209	19,209
Long-term investments	232	-	-		232	232
Long-term receivables	-	14,054	-	18	14,054	14,054
Bank loans	-	-	(3,522,864)	25.1	(3,522,864)	(3,542,696)
Notes	-	-	(1,248,538)	25.2	(1,248,538)	(1,250,800)
Lease	-	-	(359,795)	25.3	(359,795)	(359,795)
Other debt	-	-	(7,541)	25.4	(7,541)	(7,541)
	841,491	**1,198,836**	**(5,138,738)**		**(3,098,411)**	**(3,120,505)**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

18. Other finance assets

	December 31, 2021	December 31, 2020
PC S.A. PLN Notes	-	145,380
Interest rate swaps	27,727	-
Long-term receivables	14,594	14,054
Long-term lease receivables	13,572	12,207
Long-term investments	232	232
Other long term financial assets	**56,125**	**171,873**

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

	December 31, 2021	December 31, 2020
PC S.A. PLN Notes	-	322,767
Iliad Purple PLN Notes	2,515,003	-
Interest rate swaps	2,175	-
Short-term lease receivables	8,224	7,002
Other short-term finance assets	**2,525,402**	**329,769**

18.1 Interest rate swaps

In December 2021, the Group entered into interest rate swaps designated to fix the interest rate in relation to 43% of the Term and Revolving Facilities Agreement (TRFA) amount signed on March 26, 2021 for 5 years (Note 25.1.1). The interest rate swap transactions were signed for the total amount of PLN 1,500,000 thousand for a three-year period starting from November 30, 2021. The agreements provide for the conversion of the WIBOR 6M variable rate into a fix rate of 3.21% (weighted average rate) and semi-annual cash settlements.

The abovementioned interest rate swaps were established as cash flow hedge instruments related to the Term and Revolving Facilities Agreement (hedged instrument), therefore, the Group applies hedge accounting principles to the valuation of these instruments.

The effect of measurement of the above assets in the portion determined to be an effective hedge as at December 31, 2021 amounted to PLN 28,396 thousand (before taxation) and was recognized in “Other reserves” (Note 24.3).

18.2 Notes receivables

Notes receivables are classified as financial instruments measured at amortized cost.

In 2021, the Group purchased the following notes:

- On March 24, 2021, P4 purchased series A notes issued by Play Communications worth PLN 1,280,000 thousand. The maturity date of the notes was March 24, 2022. Interest is calculated based on 1Y WIBOR rate plus margin and is payable based on a 12-month interest period.

- On May 28, 2021, P4 purchased series B2 notes issued by Play Communications worth PLN 178,000 thousand. The maturity date of the notes was May 28, 2022. Interest was calculated based on 1Y WIBOR rate plus margin and is payable based on a 12-month interest period.

- On May 28, 2021, P4 purchased series A notes issued by Iliad Purple worth PLN 2,516,000 thousand. The maturity date of the notes is May 28, 2022. Interest was calculated based on 1Y WIBOR rate plus margin and is payable based on a 12-month interest period.

On December 13, 2021, liabilities under Series E and Series F Notes issued by Play Communications in December 2020 (see description below) were repaid with the inflows from the loan granted to Play Communications by P4 (see Note 18.5).

On December 22, 2021, Play Communications merged with Iliad Purple. Iliad Purple, as the acquirer, has assumed the rights and obligations of Play Communications.

On December 22, 2021, the Group's receivables under Play Communications' notes (issued by PCSA prior to the merger with Iliad Purple), the loan given to Play Communications (given prior to the merger of PCSA with Iliad Purple) and, in part, the Iliad Purple notes were settled against the Group's liability to Iliad Purple in respect of the advance for dividend (see Note 24.4).

In 2020, the Group purchased the following notes:

- On May 28, 2020, P4 purchased series C notes issued by Play Communications worth PLN 87,000 thousand. The maturity date of the notes was May 28, 2021. Interest was calculated based on 3M WIBOR rate plus margin and is capitalized quarterly. As at December 31, 2020, accrued interest was PLN 157 thousand.

- On May 25, 2020, P4 purchased series D notes issued by Play Communications worth PLN 87,000 thousand. The maturity date of the notes was September 25, 2021. Interest was calculated based on 3M WIBOR rate plus margin and is capitalized quarterly. As at December 31, 2020, accrued interest was PLN 29 thousand.

- On December 11, 2020, P4 purchased series E notes issued by Play Communications worth PLN 41,000 thousand. The maturity date of the notes was December 11, 2021. Interest was calculated based on 3M WIBOR rate plus margin and is payable quarterly. As at December 31, 2020, accrued interest was PLN 45 thousand.

- On December 29, 2020, P4 purchased series F notes issued by Play Communications worth PLN 106,000 thousand. The maturity date of the notes was December 29, 2021. Interest was calculated based on 3M WIBOR rate plus margin and is payable quarterly. As at December 31, 2020, accrued interest was PLN 12 thousand.

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of the note receivables.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

18.3 Finance lease receivables

Amounts due from leases when Group acts as a lessor and classifies its leases as finance leases according to IFRS 16 are recognized as receivables in the amount of the Group's investment in the leases. Finance lease income is allocated to reporting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.
As at December 31, 2021 the Group recognized finance lease receivables in relation to dark fiber and IT equipment lease contracts.

Maturity analysis of the lease payments receivable under finance leases is presented below:

	December 31, 2021	December 31, 2020
Year 1	8,220	6,808
Year 2	5,752	4,772
Year 3	3,217	3,002
Year 4	1,134	1,590
Year 5	607	449
Year 6 and onwards	3,710	4,583
Undiscounted lease payments	**22,640**	**21,204**
Unguaranteed residual values	-	-
Less: unearned finance income	(844)	(1,995)
Present value of minimum lease payments	**21,796**	**19,209**
Impairment Losses	-	-
Net investment in the lease	**21,796**	**19,209**

18.4 Operating leases

The Group enters also into lease agreements in which it is the lessor, which are classified as operating leases (i.e. when the terms of the lease don't transfer substantially all the risks and rewards of ownership to the lessee). Operating leases relate mainly to point of sales, base stations and fiber optic cables. Operating lease income is presented in other operating income (see Note 10) in the line item "Income from subleasing of right-of-use assets".

Maturity analysis of operating lease payments which the Group expects to receive as at the respective balance sheet dates is presented below:

	December 31, 2021	December 31, 2020
Year 1	26,751	32,826
Year 2	19,497	25,966
Year 3	10,599	16,088
Year 4	3,767	10,268
Year 5	1,558	5,767
Year 6 and onwards	662	4,053
total lease payments	**62,834**	**94,968**

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

18.5 Loans receivables

On 12 April 2021, P4 signed a loan agreement with Iliad Purple for the maximum amount of PLN 3,000,000 thousand, of which PLN 2,508,837 was paid out. The maturity of the loan was April 30, 2022, with an early repayment option. The interest rate on the loan was floating and was WIBOR 1Y plus margin.

On May 28, 2021, P4 and Iliad Purple entered into an agreement under which the loan granted by P4 to Iliad Purple in the amount of PLN 2,515,218 thousand (with interest) was repaid through set off against the amount due to Iliad Purple on account of the issue of series A notes described in note 18.2.

On December 13, 2021 P4 entered into a loan agreement with Play Communications for the amount of PLN 148,000 thousand for the period until March 13, 2022. The loan bears interest at a variable rate equal to WIBOR 3M plus margin. As a result of the merger of Play Communications with Iliad Purple, loan liabilities of Play Communications were entirely transferred to Iliad Purple.
The loan receivable was settled against P4's liabilities due to advance dividend on December 22, 2021 (see Note 24.4).

As at December 31, 2021 and December 31, 2020, the Group had no receivables under the loan granted.

19. Inventories

	December 31, 2021	December 31, 2020
Goods for resale	132,817	122,612
Goods in dealers' premises	29,701	36,751
Materials	231	194
Work in progress	-	80,161
Impairment of goods for resale	(7,925)	(13,008)
	154,824	**226,710**

The impairment of the P4 Group's inventories relates mainly to handsets and other mobile devices for which the Group assessed that the net realizable value would be lower than the purchase price. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Inventories intended to be sold in promotional offers are stated at the lower of cost or probable net realizable value estimated taking into account future cash flows, which will be achieved both from sales of goods and from sales of related telecommunications services. Inventories for resale outside of promotional offers are measured at the lower of: the cost of purchase or net recoverable amount.

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

	Year ended December 31, 2021	Year ended December 31, 2020
Beginning of period	**(13,008)**	**(15,935)**
- charged to income statement	3,870	2,927
- utilized	1,213	-
End of period	**(7,925)**	**(13,008)**

The recognition/reversal of the provision for inventories is recognized in the costs of goods sold.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

20. Trade and other receivables

	December 31, 2021	December 31, 2020
Trade receivables	844,940	814,531
Impairment of trade receivables	(101,481)	(118,674)
Trade receivables (net)	**743,459**	**695,857**
VAT and other government receivables	4,774	995
Other receivables	442	574
Other receivables (net)	**5,216**	**1,569**
	748,675	**697,426**

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

Trade receivables include mainly receivables from the provision of telecommunication services as well as instalment receivables relating to sales of handsets and mobile computing devices.

The Group classifies trade receivables within business model, in which assets are held to collect contractual cash flows. As part of its receivables management the Group sells past due receivables to third party collection agencies; the receivables are then derecognized. Such sales are aimed at mitigating potential credit losses due to deterioration of credit-standing of the debtors.

As at December 31, 2021, trade receivables in the amount of PLN 101,481 thousand (December 31, 2020: PLN 118,674 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 and for whom the Group anticipates a violation of the agreement.

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

	Year ended December 31, 2021	Year ended December 31, 2020
Beginning of period	**(118,674)**	**(136,815)**
- charged to income statement	(53,191)	(85,311)
- utilized	70,384	103,452
End of period	**(101,481)**	**(118,674)**

Utilization of provision in 2020 were higher in comparison to 2021 due to significant transactions of sales of impaired receivables to collection agencies. For explanation of changes in the amounts charged or credited to income statement see Notes 2.4.3 and 10.

Amounts charged to the allowance account are generally written down when there is no expectation of recovering additional cash. The decision to write off the receivables is made individually for each contractor, after using the available options to regain the receivable or when the receivables are time-barred.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

Credit risk exposure resulting from the Group's trade receivables as at December 31, 2021 and December 31, 2020 is as follows:

December 31, 2021	**Not past due**	**Overdue 0 to 3 months**	**Overdue 3 to 6 months**	**Overdue over 6 months**	**Total**
Expected credit loss	5.0%	9.5%	54.0%	79.6%	
Total trade receivables, gross	642,032	123,025	23,736	56,147	844,940
Accumulated impairment loss	**(32,287)**	**(11,705)**	**(12,815)**	**(44,674)**	**(101,481)**
Total trade receivables, net	**609,745**	**111,320**	**10,921**	**11,473**	**743,459**

December 31, 2020	**Not past due**	**Overdue 0 to 3 months**	**Overdue 3 to 6 months**	**Overdue over 6 months**	**Total**
Expected credit loss	5.2%	12.4%	59.0%	81.5%	
Total trade receivables, gross	596,789	121,988	25,273	70,481	814,531
Accumulated impairment loss	**(31,197)**	**(15,142)**	**(14,903)**	**(57,432)**	**(118,674)**
Total trade receivables, net	**565,592**	**106,846**	**10,370**	**13,049**	**695,857**

The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of receivables mentioned above.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

21. Contract assets

	December 31, 2021	December 31, 2020
Contract assets	1,554,427	1,515,144
Impairment of contract assets	(93,482)	(91,588)
	1,460,945	**1,423,556**

The carrying amount of impairment of contract assets corresponds to the expected credit loss recognized in accordance with IFRS 9 upon initial recognition of the contract asset. See also Note 2.4.3.

Expected credit loss rate for contract assets both as at December 31, 2021and December 31, 2020 amounted to 6%.

Movements of the provision for impairment of contract assets were as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Beginning of period	**(91,588)**	**(81,326)**
- charged to income statement	(60,095)	(93,485)
- utilization	58,201	83,223
End of period	**(93,482)**	**(91,588)**

The "charged to income statement" line in the table above represents changes in estimated credit losses that the Group expects to incur in the future, charged to other operating costs (see Note 10), while "utilization" represents the value of the provision for expected credit losses in respect of customer contracts that were terminated during the period.

For explanation of changes in the impairment charged to profit and loss account – see Note 10.

Movements in the contract assets balance in the year ended December 31, 2021 and year ended December 31, 2020 were as follows:

	Year ended December 31, 2021	Year ended December 31, 2020
Contract assets, net - Beginning of period	**1,423,556**	**1,455,922**
Additions	1,353,188	1,352,170
Invoiced amounts transferred to trade receivables	(1,255,704)	(1,291,051)
Impairment, charged to income statement	(60,095)	(93,485)
Contract assets, net - End of period	**1,460,945**	**1,423,556**

Additions correspond to adjustments to revenue from sales of goods under IFRS 15 when services and devices are sold in bundled packages to customers.

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.

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.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

22. Prepaid expenses

	December 31, 2021	December 31, 2020
Long term prepaid expenses		
Loan origination fees	7,841	-
Other	40,000	-
	47,841	**-**
Short term prepaid expenses		
Loan origination fees	5,877	-
Distribution and selling costs	9,623	9,064
Network and IT maintenance	6,829	10,974
Other	45,966	8,857
	68,295	**28,895**

As at December 31, 2021, the prepaid loan origination fees were fees relating to Revolving Facility granted under the Term and Revolving Facilities Agreement.

23. Cash and cash equivalents

	December 31, 2021	December 31, 2020
Petty cash	343	352
Balances deposited with banks	1,277,276	840,384
Other cash assets	603	523
	1,278,222	**841,259**

As of December 31, 2021 and December 31, 2020 balances deposited with banks included, among others, cash related to VAT received through split payment process imposed by new laws effective from July 1, 2018.

The increase in the balance of cash as at December 31, 2021 was due to the passive infrastructure sale transaction in March 2021 (see Note 2.5).

24. Shareholders' equity

24.1 Share capital

As at December 31, 2021 Iliad Purple (which as a result of the merger on December 22, 2021 assumed the rights and obligations of Play Communications) held 100% shares in the Company and the Company's share capital was comprised of 97,713 shares with a par value of PLN 500 per share.

24.2 Other supplementary capital

Supplementary capital is credited or charged with effects of measurement and settlements of equity-settled incentive and retention programs. For detailed descriptions of the plans, including the amounts affecting the value of supplementary capital, see Note 27.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

24.3 Other reserves

The Group recognizes in other reserves the effect of valuation of cash flow hedging instruments in the portion recognized as an effective hedge (see Note 18.1), as well as actuarial gains/losses on post-employment employee benefits.

The table below presents changes in cash flow hedge reserves:

	Year ended December 31, 2021	Year ended December 31, 2020
Cash flow hedge reserves - Beginning of period	**-**	**(1,787)**
- before tax	-	*(1,787)*
- tax	-	-
Effective part of gains/(losses) on cash flow hedge instruments	27,341	(5,830)
Reclassification to the income statement - interest expense presented in finance costs	1,055	7,617
Income tax charge	(5,395)	-
Cash flow hedge reserves - End of period	**23,001**	**-**
- before tax	*28,396*	-
- tax	*(5,395)*	-

24.4 Retained earnings

On June 30, 2021, the Company's Shareholder Meeting decided to allocate the 2020 net profit in the amount of PLN 887,905 thousand for the creation of reserve capital intended for the payment of advances for future dividends.

On December 10, 2021 the Extraordinary Shareholder Meeting of the Company resolved to allocate the Company's retained and undistributed profits from previous years, i.e. until 2019, to a reserve capital for the payment of advance dividend and approved and authorized the Management Board to pay the advance dividend from the reserve capital, increased by an amount not exceeding half of the net profit earned by the Company in the period from January 1, 2021 to June 30, 2021.

On December 24, 2021 the Group paid out an advance dividend to Iliad Purple in the amount of PLN 5,185,900 thousand. The amount of the advance dividend was partially set off against the liabilities of the Company's Shareholder, under:
- series A, B and B2 notes issued by Play Communications in the amount of PLN 1,625,931 thousand;
- Iliad Purple notes in the amount of PLN 32,390 thousand;
- loan granted to Play Communications in the amount of PLN 148,121 thousand.

In 2020, the Group paid out a dividend of PLN 740,000 thousand to Play Communications.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

25. Finance liabilities - debt

Finance liabilities are recognized initially at fair value, net of the transaction costs incurred. Bank loans, lease liabilities and notes liabilities are subsequently stated at amortized cost (see also Note 39.20).

	December 31, 2021	December 31, 2020
Long-term finance liabilities		
Long-term bank loans	3,474,499	3,406,493
Long-term notes liabilities	1,248,072	1,247,738
Long-term lease liabilities	3,658,400	277,042
Other debt	4,544	1,332
	8,385,515	**4,932,605**
Short-term finance liabilities		
Short-term bank loans	11,578	116,371
Short-term notes liabilities	1,715	800
Short-term lease liabilities	203,921	82,753
Other debt	10,075	6,209
	227,289	**206,133**
	8,612,804	**5,138,738**

25.1 Bank loans

	December 31, 2021	December 31, 2020
Long-term bank loans	3,474,499	3,406,493
Short-term bank loans	11,578	116,371
	3,486,077	**3,522,864**
the balance of unamortized fees	25,501	19,832
the weighted average effective interest rate	3.76%	2.58%

The effective interest rate reflects the interest costs as well as amortization of the loan origination fees.

25.1.1 Term and Revolving Facilities Agreement, „TRFA"

On March 26, 2021, the Company signed the new Term and Revolving Facilities Agreement ("TRFA") for the total amount of PLN 5,500,000 thousand, with Credit Agricole Corporate and Investment Bank, Raiffeisen Bank International AG and Santander Bank Polska acting as Lead Arrangers and Guarantors and with the above banks and Credit Agricole Bank Polska acting as Initial Lenders.

The Term Facility in the amount of PLN 3,500,000 thousand was granted for a period of 5 years, while the Revolving Facility in the amount of PLN 2,000,000 thousand will be available for a period of 3 years, with an option to extend it or replace it with a term loan upon consent of the Lenders. The Facilities are not secured. The proceeds under TRFA may be used for repayment of current debt and for general corporate purposes.

The TRFA contains a financial covenant, under which the P4 Group must ensure that the ratio of the consolidated total net debt to the consolidated EBITDAaL ("Leverage Ratio") does not exceed 3.25x as at the test dates. The covenant was satisfied as at December 31, 2021.

The TRFA also lists certain permitted acquisition transactions. Any acquisition transactions outside the list require prior written consent of the lenders. The TRFA also restricts the Group from making certain type of unusual payments at the same time allowing the Group to run normal operations under permitted payments definition.

Interest on each loan under the TRFA is calculated based on the WIBOR rate relevant for a given interest period plus margin and is payable monthly in the first two months of the agreement and then in 3-month or 6-month periods. The level of the margin depends on the Leverage Ratio.

The loan is measured at amortized cost using the effective interest rate. Loan origination fees incurred in relation to the loan are included in the calculation of the effective interest rate.

The discount rate for the fair value calculation approximates the effective interest rate.

On March 30, 2021, the following tranches were drawn down:
- tranche A in the amount of PLN 3,500,000 thousand under the Term Facility, which was used to repay the SFA loan (see Note 25.1.2);
- tranche B in the amount of PLN 250,000 thousand under the Revolving Facility, which was repaid by the Company on April 6, 2021.

Tranche A under the Term Facility matures in full on March 26, 2026.
Tranche B under the Revolving Facility matures at the end of the interest period, with the option of extension upon the lenders' consent.

25.1.2 Senior Facilities Agreement (SFA) – repaid in 2021

On March 7, 2017, P4 and Play Communications entered into PLN 7,000,000 thousand Senior Facilities Agreement with a consortium of banks. The financing amount included a term facility of PLN 6,600,000 thousand and a revolving facility of PLN 400,000 thousand. On April 14, 2020, the Group finalized the drawdown of an additional tranche D in the amount of PLN 1,200,000 thousand.

On March 12, 2021, the Company made a voluntary prepayment of an instalment under tranche B in the amount of PLN 190,000 thousand plus accrued interest.

On March 23, 2021, tranche B in the amount of PLN 300,000 thousand was drawn down under the Revolving Facility, which was used for the Company's current corporate purposes.

On March 30, 2021 the loan under the SFA was fully repaid by way of the following repayments:
1. Tranche A in the amount of PLN 766,458 thousand plus accrued interest (final repayment);
2. Tranche B in the amount of PLN 1,381,186 thousand plus accrued interest (final repayment);
3. Tranche D in the amount of PLN 1,200,000 thousand plus accrued interest (final repayment);
4. Revolving Facility in the amount of PLN 300,000 thousand plus accrued interest (final repayment).

As a result, on March 30, 2021, the Company closed all of its liabilities under the Senior Facilities Agreement of March 7, 2017 (as amended) and the Additional Facility Agreement of April 14, 2020. The repayment of Senior Facilities was made through partial utilization of funds received under the new Term and Revolving Facilities Agreement in the amount of PLN 5,500,000 thousand signed on March 26, 2021 (see Note 25.1.1).

25.1.3 Investment loan

On October 15, 2021 the Company signed with Bank Gospodarstwa Krajowego S.A. ("BGK Bank") a bilateral Investment Agreement for the amount of PLN 500,000 thousand ("BGK Financing"). Under this agreement, BGK provides a loan from the funds of the Operational Program Digital Poland 2014-2020 to finance investments associated with the construction, expansion or reconstruction of P4's telecommunications infrastructure network in Poland aimed at providing access to broadband Internet, including projects related to the development of the 5G mobile technology.

The BGK Financing may be drawn in multiple tranches until June 30, 2023. Once available, the loan will be repaid in equal quarterly instalments until final repayment on September 20, 2028.

The BGK Financing Agreement contains a financial covenant, under which the P4 Group must ensure that the ratio of net debt to the consolidated EBITDAaL (“Leverage Ratio”) does not exceed 3.25x as at the test dates.

Interest on the loan is calculated using a fixed interest rate throughout the term of the agreement. The BGK facility agreement is not secured.
As at the balance sheet date, the financing under the Agreement has not been drawn down.

25.1.4 Term Facility Agreement

On December 10, 2021 the Company entered into a new Facility Agreement for PLN 5,500,000 thousand with BNP Paribas Bank Polska S.A., Crédit Agricole Corporate and Investment Bank, ING Bank N.V., Powszechna Kasa Oszczędności Bank Polski S.A., Raiffeisen Bank International AG, Santander Bank Polska S.A. and Sociéte Générale as lead arrangers and original lenders together with Crédit Agricole Bank Polska S.A. and ING Bank Śląski S.A. The financing can be drawn down in a single tranche during the 12-month availability period. The funds may be used to partially finance the planned acquisition of shares in UPC Polska sp. z o.o..
The facility repayment date is March 26, 2026.Interest is calculated using WIBOR plus margin, depending on the level of the Group's leverage ratio, the maximum level of which, calculated as consolidated net debt to consolidated adjusted EBITDaL, has been set at 3.25x.

The facility agreement is unsecured. As at the balance sheet date, the financing under the facility agreement had not been drawn down.

25.1.5 Facility agreement for the purchase of electronic equipment

On December 22, 2021 the Company entered into a facility agreement with Banco Santander SA, with the insurance support of Korea Trade Insurance Corporation, in the amount of PLN 464,400 thousand ("ECA Financing"). The funds from the facility agreement will be used to partially finance the purchases of electronic equipment from Samsung Electronics Polska sp. z o.o. in 2021 and 2022.
The facility availability period was set at 12 months. The facility will be repaid in 8 equal semi-annual instalments, starting from the end of the facility availability period and the final repayment will be made on December 22, 2026. The interest rate is variable and based on WIBOR plus margin.

The agreement contains a financial covenant, under which the ratio of the consolidated net debt to the consolidated EBITDAaL may not exceed 3.25x as at each test date.

The facility agreement is not secured. As at the balance sheet date, the funds available under the agreement have not been drawn down.

25.1.6 Revolving facilities

As at December 31, 2020, the Group had revolving loans in the following banks: Santander Bank Polska S.A., Bank Millennium S.A., mBank S.A. and DNB Bank Polska S.A. As at December 31, 2021, all these agreements have ended.

25.2 Notes

25.2.1 Series A Unsecured Notes due in 2026

On October 23, 2019, the Group announced its intention to establish a Bond Issue Program (the "Program"), as part of which the issuer will be able to carry out a number of bond issues up to the maximum total nominal value of bonds issued under the Program and outstanding at any time of PLN 2 billion.

On December 13, 2019 P4 issued under the Program 1,500 series A unsecured notes, with the nominal value of PLN 500 thousand each and the total nominal value of PLN 750,000 thousand, which on 13 December 2019 were registered in the depository operated by the Central Securities Depository of Poland. On February 26, 2020, the notes were admitted to trading in the Catalyst Alternative Trading System operated by the Warsaw Stock Exchange.

The notes maturity date is December 11, 2026. Interest, based on 6M WIBOR plus margin, is paid semi-annually. The first interest payment was made on June 13, 2020.

The notes liability was measured at amortized cost using the effective interest rate. Loan origination fees incurred in relation to the notes were included in the calculation of the effective interest rate.

The fair value of Series A notes as at December 31, 2021 was PLN 760,440 thousand and was composed of 1.0118 of the nominal value of the notes plus accrued interest. The inputs used in determining the fair value of the notes fall within Level 1 of the fair value hierarchy (fully observable inputs for assets and liabilities, e.g. prices from active markets for identical assets and liabilities).

25.2.2 Series B Unsecured Notes due in 2027

On December 29, 2020, P4 issued under the Program 500,000 series B unsecured notes with the nominal value of PLN 1 thousand each and the total nominal value of PLN 500,000 thousand, which on December 30, 2020 were registered in the depository operated by the Central Securities Depository of Poland. On March 9, 2021, the notes were admitted to trading in the Catalyst Alternative Trading System operated by the Warsaw Stock Exchange. On March 16, 2021, the notes were quoted for the first time.

The maturity date of the series B notes is December 29, 2027. Interest, based on 6M WIBOR plus margin, will be paid semi-annually. The first interest payment was made on June 29, 2021.

The notes liability was measured at amortized cost using the effective interest rate. Loan origination fees incurred in relation to the notes were included in the calculation of the effective interest rate.

The fair value of Series B notes as at December 31, 2021 was PLN 501,375 thousand and was composed of 1.0025 of the nominal value of the notes plus accrued interest. The inputs used in determining the fair value of the notes fall within Level 1 of the fair value hierarchy (fully observable inputs for assets and liabilities, e.g. prices from active markets for identical assets and liabilities).

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

25.3 Lease liabilities

	December 31, 2021	December 31, 2020
Long-term lease liabilities		
Telecommunications sites	3,528,757	145,660
Points of sale	41,060	38,095
Dark fiber optic cable	8,334	8,812
Collocation centers	14,346	12,898
Offices and warehouse	51,940	52,964
IT equipment and telecommunications equipment	9,931	12,336
Motor vehicles	4,032	6,277
	3,658,400	**277,042**
Short-term lease liabilities		
Telecommunications sites	140,245	19,609
Points of sale	27,220	30,495
Dark fiber optic cable	5,855	5,890
Collocation centers	5,352	3,557
Offices and warehouse	10,745	6,078
IT equipment and telecommunications equipment	9,144	10,009
Motor vehicles	5,360	7,115
	203,921	**82,753**
	3,862,321	**359,795**

The increase in lease liabilities as at December 31, 2021 vs. December 31, 2020 is due to the recognition of a lease liabilities for the lease of passive infrastructure sold to On Tower Poland sp. z o.o. (see also Note 2.5).

For future payments payable under leases which are in place at the reporting date, see Note 3.4.

25.4 Other finance liabilities

Other finance liabilities include liabilities under instalment purchase contracts relating to property, plant and equipment and intangible assets.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

25.5 Changes in finance liabilities

	Year ended December 31, 2021	Year ended December 31, 2020
Bank loans		
As at January 1	**3,522,864**	**3,295,541**
Cash inflows	4,050,000	1,200,000
Interest accrued	112,027	148,702
Cash outflows: interest paid	(67,611)	(115,655)
Cash outflows: other payments	(57,272)	(11,137)
Cash outflows: repayment of principal	(4,087,649)	(994,587)
Transaction costs	13,718	-
As at December 31	**3,486,077**	**3,522,864**
Notes		
As at January 1	**1,248,538**	**807,937**
Cash inflows	-	720,000
Interest accrued	26,749	22,188
Cash outflows: interest paid	(25,500)	(23,673)
Cash outflows: other payments	(1,290)	(1,540)
Set-off	-	(57,024)
Cash outflows: repayment of principal	-	(220,000)
Transaction costs	1,290	650
As at December 31	**1,249,787**	**1,248,538**
Lease		
As at January 1	**359,795**	**990,761**
New leases	3,688,406	217,753
Modifications or terminations of lease contracts	12,424	(6,042)
Interest accrued	163,531	57,387
Cash outflows: interest paid	(155,929)	(57,969)
Effect of changes in foreign exchange rates	526	7,293
Liabilities directly associated with assets held for sale (see Note 2.5)	-	(673,396)
Cash outflows: repayment of principal	(206,432)	(175,992)
As at December 31	**3,862,321**	**359,795**
Other debt		
As at January 1	**7,541**	**26,678**
New contracts	28,156	8,706
Interest accrued	383	749
Cash outflows: interest paid	(383)	(750)
Cash outflows: other payments	-	(12)
Effect of changes in foreign exchange rates	(133)	(38)
Cash outflows: repayment of principal	(20,945)	(27,792)
As at December 31	**14,619**	**7,541**

Lines "Interest accrued" above represent interest calculated using the amortized cost method, i.e. including amortization of the loan origination fees.

Other payments relating to notes represent the fees incurred in relation with the TRFA and SFA agreements – see Notes 25.1.1 and 25.1.2 and transaction fees paid in relation to the issue of notes in December 2019 and December 2020 – see Notes 25.2.1 and 25.2.2.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

25.6 Assets pledged as security for finance liabilities

All liabilities arising under the Senior Facilities Agreement of March 7, 2017 (as amended) were repaid on March 30, 2021 (see Note 25.1.2). In connection with the repayment, on April 1, 2021, the Group companies received from Santander Bank Polska, acting as Collateral Agent, a Collateral Release Statement for the collateral described in Note 27.6 to the consolidated financial statements for 2020.

Based on the applications filed by the Group companies, the registry court issued decisions to remove the pledges listed in the above note. As at the date of this report, all the decisions on removal from the pledge register have become final and accordingly the Group has completed the process of releasing the collateral established in connection with the Senior Facilities Agreement of March 7, 2017.

Obligations under facility agreements in effect as of December 31, 2021 are not secured.

26. Provisions for liabilities

	December 31, 2021	**December 31, 2020 Restated**
Assets retirement provision	34,262	29,315
Other long-term provisions	110,711	120,013
Short-term provisions	2,561	2,534
	147,534	**151,862**

Movements of the provisions are as follows:

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2021, restated	**29,315**	**120,013**	**2,534**	**151,862**
Increase	29,339	39,013	27	68,379
Decrease:	(24,392)	(48,315)	-	(72,707)
- reversal of provisions	(23,935)	(2,387)	-	(26,322)
- utilization	(457)	(45,928)	-	(46,385)
As at December 31, 2021	**34,262**	**110,711**	**2,561**	**147,534**

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2020, restated	**58,917**	**87,264**	**6,417**	**152,598**
Increase	179,129	29,780	-	**208,909**
Acquisition of subsidiaries	-	2,969	-	**2,969**
Reclassification to liabilities directly associated with assets held for sale	(207,934)	-	-	**(207,934)**
Decrease:	(797)	-	(3,883)	**(4,680)**
- reversal of provisions	(141)	-	(3,883)	**(4,024)**
- utilization	(656)	-	-	**(656)**
As at December 31, 2020, restated	**29,315**	**120,013**	**2,534**	**151,862**

The assets retirement obligation provision relates primarily to the obligation to dismantle the active and passive telecommunications infrastructure from leased properties, which would need to be brought back to the previous condition after the end of the lease.

In 2020 the provision increased mainly due to an increase in estimated unit costs of dismantling the telecommunication infrastructure from the leased properties, which led to an increase in the net carrying amount of right-of-use assets (see also Note 2.4.5).

Other long-term and short-term provisions relate to legal, regulatory matters or arise under commercial contracts (see also Note 37.2).

27. Incentive and retention programs

In 2021 and 2020 Play Communications operated the following incentive and retention programs: PIP, PIP 2, PIP 3, VDP 4, VDP 4 bis in which individuals employed in the P4 Group participated. A detailed description of these equity-settled programs is provided below.

In September 2020 the Board of Directors of Play Communications decided to change the rules of all incentive and retention programs in connection with the tender offer to subscribe for the sale of the shares in Play Communications published on 21 September 2020 by Iliad S.A.S. ("Iliad"). Following the tender offer, Iliad acquired more than 80% shares of Play Communications and accordingly the incentive and retention programs were changed to cash-settled programs (for the P4 Group, the programs continue to be measured as equity-settled, since Play Communications is the owner of the program and the party obligated to make the cash payments). In the future program members will be entitled to receive a Cash Award. The value of the Cash Award will depend on remaining number of Original Shares held and the price of the shares of PC S.A. in the tender offer (PLN 39) or other performance measures defined in the rules of the programs. The Cash Awards will be payable in tranches corresponding to lock-up periods foreseen previously in the programs. The method of measurement of the incentive and retention programs in the financial statements of the P4 Group prepared as at December 31, 2021 has not changed and remains the same as in 2020.

PIP and VDP 4

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

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

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

On the first to fifth anniversaries of the IPO date the members of PIP and VDP4 programs were to receive award shares ("Award Shares"), provided that:

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

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

The exact number of Award Shares awarded on the respective IPO anniversaries depended on the performance measures, i.e. the value of PC S.A.'s shares in comparison to other companies among WIG20 index and the selected European telecommunications companies. The performance was measured as total shareholders reward (in relation to a company, the change of such company's market capitalization over the relevant performance period, plus any dividends or any other cash payments to the company's shareholders, other than in respect of services provided, expressed as a percentage of the opening value at the start of the relevant performance period). 50% of the multiple depended on the WIG20 percentage while the other 50% depended on the performance level for selected European telecommunications companies.

There were certain lock-up arrangements on Original Shares and on Award Shares. The percentage of Original Shares subject to lock-up was 100%, 80% and 40% in the periods commencing on the IPO date and ending on respectively the first, second and third IPO anniversary. The percentage of Award Shares subject to lock-up was 100% and 50% in the periods commencing on the date of issuance of the Award Shares and ending on respectively the first and second anniversary of the date of issuance of the Award Shares.

PIP 2

In 2018 Play Communications established a new equity-settled Performance Incentive Plan V2 ("PIP 2").

Under the PIP 2 members of the program can be granted shares of Play Communications ("Initial Investment Shares") without consideration on the "Initial Investment Shares Issue Date".

According to PIP 2 rules, on the first, second and third anniversaries of the Initial Investment Shares Issue Date the members of PIP 2 will receive Loyalty Investment Shares, provided that they remained an employee of the Group at the respective anniversary (and no notice being given in respect of the termination of their employment). The members of the schemes received 0.20, 0.35 and 0.45 Loyalty Investment Shares per Initial Investment Share respectively on the first, second and third anniversary of the Initial Investment Shares Issue Date.

An Investment Share held by or on behalf of the member for at least 365 consecutive days as at the Award Share issue date became a Qualifying Investment Share.

On the first to fifth anniversaries of the Start Date (July 27, 2018) the members of PIP 2 were to receive Award Shares, provided that:

a) they remained an employee of the Group at the respective anniversary (and no notice being given in respect of the termination of their employment);
b) they continued to hold Qualifying Investment Shares; and
c) certain performance measures, as specified in the programs, have been met in whole or in part.

The members of the schemes were to receive Award Shares in the maximum number of: 0.20, 0.30, 0.40, 0.50 and 0.60 Award Shares per Qualifying Investment Share held by or on behalf of a member respectively on the first, second, third, fourth and fifth anniversary of the Start Date.

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

There were certain lock-up arrangements on Initial Investment Shares, Loyalty Investment Shares and on Award Shares. The percentage of Investment Shares subject to lock-up was 100%, 80% and 40% in the periods commencing on the Investment Shares Issue Date and ending on respectively the first, second and third anniversary of the Investment Shares Issue Date. The percentage of Award Shares subject to lock-up was 100% and 50% in the periods commencing on the date of issuance of the Award Shares and ending on respectively the first and second anniversary of the date of issuance of the Award Shares.

On July 2, 2018 (which is the Initial Investment Shares Issue Date) a member of the Company's Management Board entered into PIP 2 and was granted 204,450 shares of Play Communications (which qualify as Initial Investment Shares) without consideration.

PIP 3
In 2019 Play Communications established a new equity-settled Performance Incentive Plan V3 ("PIP 3").

According to PIP 3 rules, on the Start Date and on the first, second, third and fourth anniversaries of the Start Date the members of PIP 3 were to receive Investment Shares, provided that: they remain an employee of the Group at the respective anniversary (and no notice being given in respect of the termination of their employment). The members of the schemes were to receive 10%, 15%, 20%, 25% and 30% of the number of Investment Shares on the Start Date, first, second, third and fourth anniversary of the Start Date.

An Investment Share held by or on behalf of the member on the day before each anniversary of the Start Date became a Qualifying Investment Share.
On the first to fifth anniversaries of the Start Date (the date can differ for each member) the members of PIP 3 received Award Shares, provided that:

a) they remained an employee of the Group at the respective anniversary (and no notice being given in respect of the termination of their employment);
b) they continued to hold Qualifying Investment Shares; and
c) certain performance measures, as specified in the programs, have been met in whole or in part.

The members of the schemes received Award Shares in the maximum number of: 0.20, 0.30, 0.40, 0.50 and 0.60 Award Shares per Qualifying Investment Share held by or on behalf of a member respectively on the first, second, third, fourth and fifth anniversary of the Start Date.

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

There were certain lock-up arrangements on Investment Shares and on Award Shares. The percentage of Investment Shares subject to lock-up was 100%, 80% and 40% in the periods commencing on the Start Date (the date of the next issue of Investment Shares) and ending on respectively the first, second and third anniversary of the Start Date (anniversary of the date of the next issue of Investment Shares). The percentage of Award Shares subject to lock-up was 100% and 50% in the periods commencing on the date of issuance of the Award Shares and ending on respectively the first and second anniversary of the date of issuance of the Award Shares.

On November 22, 2019 members of the Management Board of P4 entered into PIP 3 and were granted 40,384 shares of Play Communications (first tranche of Investment Shares: 10%) without consideration. On July 26, 2020 and July 26, 2021 other Management Board Members joined the PIP 3 program.

VDP 4 bis
In 2018 Play Communications established a new equity-settled Value Development Program 4 bis ("VDP 4 bis"). The program was designed for promoted employees and new key employees joining the P4 Group. The rules were similar to VDP4 save for the award of Original Shares without consideration.

Under the program the members were conditionally entitled to receive a specific portion of the Maximum Number of Award Shares at the end of each Performance Period without consideration.

On the first to fifth anniversaries of the IPO date the members of the VDP4 bis program were to receive Award Shares, provided that:

a) they remained an employee of the Group at the respective anniversary (and no notice being given in respect of the termination of their employment)
b) certain performance measures, as specified in the programs, were met in whole or in part.

The members of the programs were to receive Award Shares in the maximum quantity of: 0.10, 0.15, 0.20, 0.25 and 0.30 Award Shares per the Maximum Number of Award Shares respectively on the first, second, third, fourth and fifth anniversary of the IPO Date. Any member joining VDP 4 bis after commencement of the first or subsequent Performance Period was not entitled to receive the relevant portion of the Award Shares for already completed performance period(s); however, but was entitled to receive the relevant full portion of the Award Shares for commenced Performance Period during which they joined the program.

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

There were certain lock-up arrangements on Award Shares. The percentage of Award Shares subject to lock-up was 100% and 50% in the periods commencing on the date of issuance of the Award Shares and ending on respectively the first and second anniversary of the date of issuance of the Award Shares.

In July 2018 key employees of P4 who entered into VDP 4 bis become entitled to Maximum Number of Award Shares amounting to 218,473. In 2019, rights to 29,216 Maximum Number of Award Shares were awarded under the VDP4 bis program. In 2020, rights to 207,979 Maximum Number of Award Shares of were awarded under the VDP4 bis program.

No Award Shares were granted under PIP, VDP 4 or VDP 4 bis on the first IPO anniversary on July 27, 2018. After the second IPO anniversary (July 27, 2019) 179,834 of Award Shares were granted under PIP, PIP2, VDP 4 and VDP 4 bis. In 2020, 319,740 Award Shares were granted under PIP, PIP2, PIP3, VDP 4 and VDP 4 bis.

Iliad Purple Program
In 2021 Iliad Purple established a new equity-settled program. The program was granted to key employees of P4 Group who have specific expertise in acquiring and integrating companies in the telecommunication sector.

Under the program, members are conditionally entitled to receive without consideration a specified number of Iliad Purple shares on the first anniversary of the grant date as long as they are still employed by the Group. The shares will be subject to one-year lock-up period.

Each member of the program has unilaterally granted a call option to Iliad Purple under which Iliad Purple may purchase its shares at market value as determined by an independent valuer, which is exercisable in the event of the program member's departure, or as of 10 years after granting date.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

27.1 Change of value of the programs

The Group estimates value of the equity resulting from the programs at each end of the reporting period. Changes in the value of the equity are recognized in statement of comprehensive income.

Changes in value of the programs are presented below.

	Other reserves - effect of valuation of equity-settled incentive and retention programs
As at January 1, 2021	**(198,400)**
Cancelled during the period	3,741
Forfeited during the period	(2,076)
Changes in valuation during the period	4,859
As at December 31, 2021	**(191,876)**

In connection with the loss of rights to the program by the departing Management Board Members in 2021, part of the value of the programs was forfeited. Due to the replacement of the existing Executive Committee Member programs with a new program run by Iliad Purple, some of the value of the programs was cancelled in 2021.

	Other reserves - effect of valuation of equity-settled incentive and retention programs
As at January 1, 2020	**(198,672)**
Forfeited during the period	(10,398)
Changes in valuation during the period	10,670
As at December 31, 2020	**(198,400)**

The sale of shares by program members in response to Iliad’s tender offer caused a decline in the number of Original Shares giving right to further payments under the incentive and retention programs (forfeiture). This fact was reflected in 2020 as a reduction of costs under valuation of incentive and retention programs.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

28. Trade and other payables

	December 31, 2021	December 31, 2020
Trade payables	743,035	671,317
Investment payables	166,468	207,677
Government payables	87,609	72,427
Other	4,796	4,401
	1,001,908	**955,822**

29. Accruals

Accruals include accruals for employee bonuses and unused holidays.

30. Contract liabilities

Contract liabilities comprise the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the end customer or the amount is due as well as the value of prepaid products delivered to a distributor but not yet transferred to the end customer.
The balance of contract liabilities as at December 31, 2021 and December 31, 2020 consisted of the Group's obligation to perform services prepaid by customers of contract and prepaid services.

	December 31, 2021	December 31, 2020 Restated
Prepaid services	137,061	139,651
Contract services	217,066	183,868
	354,127	**323,519**

The table below presents amounts recognized as service revenue during the reporting periods for which the customers (excluding distributors of prepaid top-ups) had paid in advance and which had been presented as contract liabilities before the beginning of the reporting period.

	Year ended December 31, 2021	Year ended December 31, 2020
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	103,999	94,912

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

31. 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. Interest accrued on cash is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows.

	December 31, 2021	December 31, 2020
Cash and cash equivalents in statement of financial position	1,278,222	841,259
Interest accrued on cash and cash equivalents	(164)	(8)
Cash and cash equivalents in statement of cash flows	**1,278,058**	**841,251**

32. Impact of changes in working capital and other, change in contract costs, change in contract assets and change in contract liabilities on statement of cash flows

	Year ended December 31, 2021	Year ended December 31, 2020 Restated
(Increase)/decrease of inventories	(13,836)	23,248
(Increase)/decrease of receivables	(44,711)	24,760
(Increase)/decrease of prepaid expenses	(72,192)	3,187
Increase/(decrease) of payables excluding investment payables	78,324	(2,720)
Increase/(decrease) of accruals	31,117	(18,194)
(Increase)/decrease of long-term receivables	(244)	(33)
Increase/(decrease) of other non-current liabilities	(61)	(9)
Changes in working capital and other	**(21,603)**	**30,239**
(Increase)/decrease in contract costs	(8,295)	(16,412)
(Increase)/decrease in contract assets	(37,390)	32,367
Increase/(decrease) in contract liabilities	30,482	(21,738)
	(36,806)	**24,456**

In 2021 the changes in the item “Changes in working capital and other” were primarily driven by: an increase in receivables, an increase in payables excluding investment payables.

The increase in receivables in 2021 resulted primarily from an increase in the balance of instalment sales receivables.

The changes in payables in 2021 are affected mostly by the increase in the balance of handsets payables.

The increase in contract assets in 2021 resulted from higher sales of goods compared to 2020 when the operation of some of our stores was subject to temporary restrictions in connection with the COVID-19 pandemic.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

33. Segment reporting

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

An operating segment is a distinguishable component of an enterprise that is engaged in business activities from which it may earn revenues and incur expenses and operating results of which are regularly reviewed by the Management Board to make decisions about resources to be allocated and to assess its performance. The whole P4 Group was determined as one operating segment, as its performance is assessed based on revenue and adjusted earnings before interest, tax, depreciation and amortization (EBITDAaL), only from the perspective of the P4 Group as a whole.

	Year ended December 31, 2021	**Year ended December 31, 2020 Restated**
Operating profit	**7,686,066**	**1,541,376**
Add depreciation of property, plant and equipment	409,574	419,686
Add amortization of intangible assets	364,763	363,121
Add valuation of incentive and retention programs	6,524	272
Add impairment of non-current assets	5,077	698
Add one-off costs/(revenues) and extraordinary items	(5,339,004)	59,123
EBITDAaL	**3,133,000**	**2,384,276**

EBITDAaL is a non-IFRS financial measure. Other entities may calculate EBITDAaL differently.

34. Related party transactions

34.1 Remuneration of management and supervisory bodies

Cost of remuneration (including accrued bonuses) of Members of P4's Executive Committee and the Members of the Boards of Directors or Management Boards in Group entities incurred in the 2021 were PLN 20,423 thousand (PLN 19,399 thousand in the 2020).

Additionally, members of P4's Executive Committee participate in the equity-settled incentive and retention programs (see Note 27). The valuation of the programs resulted in cost recognized by the Group in the amount of PLN 6,207 thousand in 2021 (PLN 878 thousand in 2020). Relating costs are included in costs of employee benefits in the consolidated statement of comprehensive income.

Cost of benefits for former Members of Boards of Directors or Management Boards in Group entities incurred after they stepped down from their positions amounted to PLN 2,051 thousand in 2021 and PLN 891 thousand in 2020.

Cost of benefits for Members of Supervisory Boards in Group entities incurred in 2021 amounted to PLN 171 thousand and PLN 156 thousand in 2020.

Apart from the transactions mentioned above the Group is not aware of any other material transactions between the Group and Members of the Executive Committee of P4, or Supervisory Boards and Management Board Members of companies within the Group.

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

34.2 Transactions with parties related to Shareholders

Below we present the balances of transactions made with the parent company and its related entities. As at December 31, 2021, the parent company was Iliad Purple, which as a result of the merger with Play Communications is the successor company (as at December 31, 2020, the parent company was Play Communications, see also Note 1).
The transactions were concluded on the terms that do not differ materially from market terms.

	December 31, 2021	December 31, 2020
Long-term finance receivables	**-**	**145,380**
Parent company	-	145,380
Short-term finance receivables	**2,515,004**	**322,767**
Parent company	2,515,004	322,767
Trade receivables	**6,836**	**543**
Parent company	8	543
Other related parties	6,828	-
Long-term finance liabilities	**3,343,720**	**-**
Parent company	4,500	-
Other related parties	3,339,220	-
Short-term finance liabilities	**107,222**	**-**
Parent company	4	-
Other related parties	107,218	-
Trade and other payables	**8,694**	**4**
Parent company	-	4
Other related parties	8,694	-

	2021	2020
Dividend payment	**(5,185,900)**	**(740,000)**
Parent company	(5,185,900)	(740,000)
Service revenue	**1,000**	**-**
Other related parties	1,000	-
Interconnection, roaming and other service costs	**(2,647)**	**-**
Other related parties	(2,647)	-
Network maintenance, leased lines and energy	**(147,423)**	**-**
Other related parties	(147,423)	-
Finance and legal services	**(4,457)**	-
Parent company	(4,457)	
Other operating income	**6,922,975**	**-**
Parent company	42	-
Other related parties	6,922,933	-
Interest income	**67,420**	**8,881**
Parent company	67,420	8,881
Other finance income	**287**	**1,563**
Parent company	287	1,563
Interest expense	**(135,354)**	**(1,448)**
Parent company	(49)	(1,448)
Other related parties	(135,305)	-

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

35. Auditor's fees

	Year ended December 31, 2021	Year ended December 31, 2020
Audit fees	1,113	489
Other attesting fees	531	345
Other fees	-	51
	1,644	**885**

36. License requirements

36.1 2100 MHz and 900 MHz license requirements

As of the date of issuance of these 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.

36.2 1800 MHz license requirements

The 1800 MHz frequency reservation decision granted to P4 on June 14, 2013 outlined a set of regulatory requirements to be satisfied by 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 had to be pursued in rural or suburban areas or towns with population less than 100 thousand people. Additionally, P4 had to commence provision of services which utilize 1800 MHz frequencies no later than in 12 months from the date of the frequency reservation. As of the date of issuance of these Financial Statements, the Group has fulfilled all these obligations.

36.3 800 MHz license requirements

The 800 MHz frequency reservation decision granted to P4 on January 25, 2016 and replaced by decision granted on June 23, 2016 outlines a set of regulatory requirements towards P4. These pertain mainly to realization of investment in telecommunications network covering 83% of communes ("gmina") defined as "white spots" in the Appendix 2 to Decision no later than in 24 months from the date of the frequency reservation, additionally to invest in telecommunications network in 90% of communes defined in Appendix 3 no later than in 36 months and in 90% of communes defined in Appendix 3 no later than in 48 months. Additionally, the Group had to commence provision of services which utilize 800 MHz frequencies no later than in 12 months from the date of the frequency reservation. As of the date of issuance of these Financial Statements, the Group has fulfilled all these investment commitments.

36.4 2600 MHz license 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. As of the date of issuance of these Financial Statements, the Group has fulfilled all these obligations.

37. Contingencies and legal proceedings

37.1 Tax contingent liabilities

The P4 Group conducts its operations mainly in the area of Polish tax jurisdiction. The Polish tax system is characterized by frequent changes. Recently, a number of new tax regulations have come into force which were prepared in a relatively short time and implemented with short grace periods. Other tax reporting or compliance obligations or new tax regulations may be introduced, which could also affect our operations.

In the Polish tax system taxpayers rely on laws, which are frequently amended but also on individual rulings, which are also subject to potential changes. Frequent changes in regulations may lead to uncertainties and conflicts in application.

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. The tax authorities may at any time inspect the books and records and may impose additional tax assessments with penalty interest and penalties within 5 years from the end of the year in which a tax is due. In some cases, it is difficult to predict the ultimate outcome.

P4 was subject to the tax audit concerning its settlements of the corporate income tax for 2014, 2015, 2016 and 2017. It ended with the issuance by the tax authority of decisions recognizing as correct the P4's settlements under license fees incurred to a related party, i.e. Play 3GNS Spółka z ograniczoną odpowiedzialnością sp. k. At the same time, in the audits for all the years, the authority challenged the value of the depreciation and amortization charges included in P4's tax settlements assuming that their initial value is marked by the lower threshold specified in the trademarks valuation report prepared by an independent entity. As a result of this finding, the deduction of amortization charges was partially challenged in each of the audited years. P4 did not challenge the results of the above audits and submitted in 2020 the appropriate corrections of CIT-8 tax returns for 2014-2019 and paid the overdue tax payables with interest. See also Note 12.

On July 15, 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. The regulations 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 enables Polish tax audit authorities to challenge such arrangements realized by tax remitters as restructuring or reorganization of a capital group.

The P4 Group is not aware of any circumstances, which may currently give rise to a potential material liability in connection with application of GAAR clause.

37.2 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 October 27, 2015 refused to annul the tender. Polkomtel, PIRC, and Sferia placed with the UKE President requests for reconsideration of the decision. In May 2016, P4 filed a response to the applications to reconsider the case and requested that the decision dismissing the applications for annulment be upheld. President of UKE in its decision of August 3, 2016 upheld the decision refusing to invalidate the 1800 MHz tender. The President UKE's decision was appealed against at the lower administrative court (Voivodship Administrative

Court) by Polkomtel, PIRC and Sferia. The Voivodship Administrative Court in its judgment of September 25, 2017 dismissed Polkomtel's, Sferia's and PIRC's appeals. Polkomtel, PIRC and Sferia appealed against these judgments to the Supreme Administrative Court, however on October 10, 2018, PIRC withdrew its appeal. On 25 June 2021 the Supreme Administrative Court repealed the judgement and referred the case to be re-examined by the Voivodship Administrative Court. The Group assesses the risk of the outcome that would be unfavorable for the Group as low.

In June 2015 P4 filed a statement of claim for PLN 315,697 thousand to be paid jointly and severally by Orange Polska S.A., Polkomtel sp. z o.o., T-Mobile Polska sp. z o.o. The said amount comprises of PLN 231,000 thousand of damages for an act of unfair competition consisting in the setting up excessive fees for voice connections with Play network (and other form of discrimination of such connections) for a period from July 1, 2009 to March 31, 2012 and capitalized interests. In July 2018 P4 extended the claim demanding payment of additional PLN 313,572 thousand (PLN 258,000 thousand of damages and capitalized interests) for a consecutive period from April 1, 2012 to December 31, 2014. On December 27, 2018 the District Court in Warsaw dismissed P4's claim with respect to PLN 315,697 thousand. P4 filed an appeal and, in its judgement of 28 December 2020, the Court of Appeal in Warsaw set aside the judgment under appeal and referred the case back for reconsideration. On September 2, 2021 Polkomtel filed a complaint against this judgment with the Supreme Court. The claim for additional PLN 313,572 thousand is still subject of the proceedings before the District Court in Warsaw. In September 2019 P4 withdrew claims against T-Mobile. The claims against Orange and Polkomtel still remain at the previous amounts. As the receipt of the above amounts is not certain, the Group did not recognize any income in relation to this claim.

In November 2015, Polkomtel, T-Mobile and Net sp. z o.o. applied to the UKE President for the annulment of the auction for the 800/2600 MHz frequency in its entirety, claiming the violation of procedures applicable to the allocation of frequencies. The motions to invalidate the tender initiated administrative proceeding before the UKE President. President of UKE in its decision of June 15, 2018 refused to invalidate the auction. Polkomtel, T-Mobile and Net Net sp. z o.o. w likwidacji requested reconsideration of the decision. The President of UKE upheld the decision refusing to invalidate the auction in its decision of November 12, 2019. Polkomtel appealed against the decision to the Voivodship Administrative Court, which dismissed the appeal in its judgement of December 1, 2020. The judgement was appealed against at the Supreme Administrative Court by Polkomtel in March 2021. At this stage it is difficult to assess P4's legal risk associated with the aforementioned motions.

In December 2018 Polkomtel sp. z o.o. filed a lawsuit in which it demanded that the State Treasury, i.e. the UKE President or P4 (as defendants in solidum) pay missing MTR remuneration that Polkomtel would have received from P4, if UKE had not decreased its MTRs by means of a decision which was subsequently annulled by court as issued in violation of the law (procedural errors committed by UKE), and capitalized interest and statutory interest from the time of filing the lawsuit. The claim against the State Treasury is based on the liability for damages caused by a public authority (UKE) and the claim against P4 is based on the unjust enrichment regime. It is difficult to assess the legal risk of the aforementioned motions at this stage.

In July 2019 P4 filed a lawsuit before the Arbitration Court at the National Chamber of Commerce, in which it demands that T-Mobile Polska S.A. pay the missing MTR remuneration that P4 would have received from T-Mobile, if UKE had not decreased its MTRs by means of decisions which were subsequently annulled by court, as issued in violation of the law (procedural errors committed by UKE), and capitalized interest plus statutory interest from the time of filing the lawsuit. In its award of December 30, 2020, with a dissenting opinion of one of the arbitrators, the Arbitral Tribunal dismissed P4's claim and ordered P4 to reimburse T-Mobile for arbitration costs. On April 26, 2021. P4 filed a complaint to set aside the arbitration award with the Court of Appeals in Warsaw.

In May 2019 the President of UKE commenced proceedings aimed at declining the prolongation of 3700 MHz frequency reservations. The proceedings were a part of the President of UKE's plan to refarm the 3400-3800 MHz spectrum in order to introduce the 5G technology. In July 2019 the President of UKE issued three decisions declining the reservation of 3700 MHz frequency for the next period. P4 requested the cases to be reconsidered and in October 2019 the above decisions were upheld. In November 2019, P4 filed appeals with the Voivodship Administrative Court in Warsaw, which dismissed the appeals by judgments issued in August 2020, following which P4 filed cassation appeals with the Supreme Administrative Court.

On February 4, 2020 the President of UKE issued a decision cancelling P4's reservation of 3700 MHz frequencies. P4 applied for reconsideration of the decision, but it was upheld in a decision of June 3, 2020. P4 appealed against the decision to the Voivodship Administrative Court in Warsaw.

On June 10, 2020 the President of UKE annulled ex officio the auction for 3.6 GHz frequencies in its entirety due to the fact that the draft reservation decision, as one of the auction documents published at the announcement on March 6, 2020, did not meet the new legal criteria introduced on May 16, 2020.

On July 16, 2020 P4 filed a motion to the President of the Office of the Competition and Consumer Protection for a 'commitment' decision described in the article 28 section 1 of the Competition and Consumer Protection Act within ongoing proceeding regarding reimbursement of the unused amount from top-ups in pre-paid offers. A decision in this case was issued on September 25, 2020, in line with P4's motion and is effective.

On July 26, 2021, the UOKiK President launched proceedings against P4 in the matter of practices breaching the collective interests of consumers involving charging payments for 9 services activated for consumers even though no explicit consent has been obtained for the additional payments associated with the services. At this stage, it is not possible to assume the possible future obligations of the Group that may arise as a result of these proceedings.

There is a number of other proceedings involving the Group initiated among others by UKE President or President of the Office of Competition and Consumer Protection (UOKiK) and court proceedings resulting from appeals against regulators' decisions. The Group has recognized provisions for known and quantifiable risks related to these proceedings. The amount of the provisions represents the Group's best estimate of the amounts, which are probable to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. For the total amount of provisions, including the provisions for pending legal cases, see Note 26.

38. Events after the reporting period

On January 14, 2022 P4 signed a bilateral Facility Agreement with the European Investment Bank ("EIB") for the amount of PLN 470,000 thousand ("EIB Financing"). Under this agreement, the Company may use the funds to partially finance investments related to the expansion and technological modernization of its mobile network towards ultra-fast broadband services as part of the European Union's "2025 Gigabit Society" projects dedicated to eliminating territorial inequalities in broadband accessibility as well as cybersecurity and other digital transformation objectives announced in the "2030 Digital Compass".
The funding may be made available in up to 9 tranches over a 2-year availability period. The facility will be repaid in a single instalment 6 years after the disbursement or within 10 years after the disbursement in equal instalments after the end of the grace period, at the Company's discretion.
For each tranche, the Company may elect to pay interest based on a variable WIBOR rate plus margin or a fixed rate until the final maturity date of the facility.
On February 25, 2022 the first tranche of the facility under the above agreement in the amount of PLN 150,000 thousand was disbursed.

On March 9, 2022, the first tranche of the facility under the agreement with Banco Santander in the amount of PLN 235,000 thousand was disbursed (see Note 25.1.5).

The start of the armed conflict between Russia and Ukraine on February 24, 2022, according to the Group's assessment, has no material impact on the Group's financial results for 2021. As at December 31, 2021 the Group had no non-current assets in the countries affected by the conflict or material receivables from entities operating in those countries or subject to sanctions. The cash was and remain deposited in financial institutions registered in countries that are not involved in the conflict. The Group's finance liabilities are denominated predominantly in Polish zloty and interest rate risk has been partially mitigated through interest rate swap agreements. The Group did not have any settlements in the Russian ruble or the Ukrainian hryvnia.

Since the first days of the war, the P4 Group has been taking the necessary measures, such as increasing the capacity of our network, securing our systems, updating our offers and increasing the number of service points at the Ukrainian border and other reception points, in order to effectively handle the increased level of traffic and, at the same time, support those emigrating to Poland as a result of the ongoing armed conflict.

On March 10, 2022, the Group obtained the approval of the European Commission for the acquisition of shares in UPC Polska sp. z o.o. (see also Note 2.6).

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

39. Summary of significant accounting policies

39.1 Consolidation

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

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

- the contractual arrangements 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 the cost cannot be recovered. The accounting policies of subsidiaries are adjusted where necessary to ensure consistency with the policies adopted by the Play Group.

The cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date at fair value and the amount of any non-controlling interest in the acquiree. Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the value of net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in profit or loss. After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

39.2 Foreign currency translation

39.2.1 Functional and presentation currency

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

(Expressed in PLN, all amounts in tables given in thousands unless stated otherwise)

39.2.2 Foreign currency transactions and balances

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

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

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

Currency	**December 31, 2021**	**December 31, 2020**
EUR	4.5994	4.6148
GBP	5.4846	5.1327
USD	4.0600	3.7584

The foreign exchange gains and losses resulting from the settlement of transactions in foreign currencies and from the translation at year-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 fixed assets and development of intangible assets are eligible for capitalization up to the amount regarded as an adjustment to interest costs.

39.3 Revenue

Revenue is measured based on consideration specified in contracts with customers and excludes amounts collected on behalf of third parties. The Group recognizes revenue when it transfers control over goods or services to a customer. Revenue is presented net of value added tax (VAT), rebates and discounts and after eliminating intragroup sales.

The Group's revenues are earned mainly from the following telecommunications services and goods:

1. Usage revenue, which includes:
   - voice and SMS telecommunications;
   - data transfer;
   - television and video on demand;
   - value added services;
   - international roaming;

2. Interconnect revenues;
3. Revenue from sales of goods and other revenue, including sales of handsets and other equipment.

Revenues from voice, SMS telecommunications and data transfer include charges for telecommunications traffic originated in the Play network or roaming 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 regarded as 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 expected to be received in relation to the contract performance during the Adjusted Contract Term (see Note 39.10). The consideration (transaction price) is allocated between separate performance obligations in a bundle based on their relative stand-alone selling prices. The Group identifies the following performance obligations: delivery of mobile devices, provision of telecommunications services and provision of service of device leasing. Stand-alone selling prices for mobile devices are estimated based on cost of sale plus margin. See also Note 2.4.1. Stand-alone selling prices for telecommunications services and lease 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 separate contracts and recognition of revenue from such services is based on the actual airtime or data usage, or is made upon the expiration of the Group's obligation to provide the services.
Mobile services are billed on a monthly basis and payments are due shortly after the bill date.

Telecommunications revenue from the sale of prepaid products in single-element contracts (i.e. with one performance obligation for telecommunications services) is recognized at the face value of a prepaid top-up sold, net of VAT due. The difference between the face value of prepaid offerings and the value for which the offerings are sold by the Group to its distributors constitutes commission earned by the distributors, who act as agents. The Group acts as a principal in such agreements. The costs of prepaid commissions are recognized as other service costs when the distribution service is provided, i.e. when the prepaid product is delivered to the end customer. The revenue from the sale of prepaid products is deferred until the end customer commences using the product and presented in the statement of financial position as deferred income when the prepaid product is held by a distributor or as contract liability when the prepaid product has been transferred to the end customer but not yet used. The revenue from the sale of prepaid products is recognized in the profit or loss as telecommunications services are provided, based on the actual airtime or data usage at an agreed tariff, or upon expiration of the obligation to provide the service.

Revenues from value added services are recognized in the amount of full consideration if the Group acts as principal in the relation with the customer or in the amount of the commission earned if the Group acts as agent.

Interconnection revenues are derived by the Group from calls and other traffic that originate in other operators' networks but use the Play network. The Group receives interconnection fees based on agreements entered into with other telecommunications operators. These revenues are recognized in the period in which the services were rendered.

International roaming revenues are derived by the Group from calls and other traffic generated by foreign operators' customers in the Play network. The Group receives international roaming fees based on agreements entered into with other telecommunications operators. These revenues are recognized in the period in which the services were rendered.

Revenue from sale of handsets, other equipment and other goods is recognized when promised goods are transferred to the customer (typically upon delivery). The amount of recognized revenue from the sale of mobile devices is adjusted for expected returns, which are estimated based on the historical data. For mobile devices sold separately (i.e. without the telecommunications contract), a customer usually pays full price at the point of sale.

For mobile devices sold in bundled contracts, customers are offered two schemes of payments – full payment at the commencement of the contract (in such contracts the handset price is significantly reduced and the cost of device is recovered through monthly fees for telecommunications services) or instalment sales with monthly instalments paid over the period of the contract plus initial fee paid upon delivery of a handset.

Revenues from content services (e.g. music and video streaming, applications and other value added services) rendered to our subscribers are recognized after netting off costs paid by us to third party content providers (when the Group acts as an agent in the transaction) or in the gross amount billed to a subscriber (when the Group acts as a principal).

39.4 Interest income

Interest income is recognized on a time-proportion basis using the effective interest method.

39.5 Current income tax

The current income tax charge is determined in accordance with the relevant tax law regulations in respect of the taxable profit. The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Company and its subsidiaries operate and generate taxable income.

Income tax payable represents the amounts payable at the reporting date. If the amount paid on account of current income tax is greater than the amount finally determined, the excess is recognized in the statement of financial position as an income from tax receivables.

39.6 Deferred 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 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, affects neither the accounting profit nor taxable profit or loss. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from different valuations of depreciable assets and accruals, provisions and deferred income for tax and accounting purposes.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred tax assets are also recognized for unused tax losses carried forward to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilized.

Deferred tax liabilities are recognized for all taxable temporary differences, except when the deferred tax liability arises from the initial recognition of goodwill or the initial recognition of an asset or liability in a transaction which is not a business combination and, at the time of the transaction, affects neither accounting profit nor taxable profit or tax loss.

Deferred tax assets and deferred tax liabilities are offset if, and only if, a company has a legally enforceable right to offset current tax assets against current tax liabilities, and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable base.

39.7 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 P4 Group includes in the construction cost of its non-current assets all eligible borrowing costs (including interest expense and exchange differences arising from foreign currency borrowings relating to purchases of qualifying assets regarded as an adjustment to interest costs) and expenditure that is directly attributable to the acquisition or to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Group. Costs relating to fixed assets under construction are transferred to the related property, plant and equipment account and depreciation begins when they become available for use.

Significant components of property, plant and equipment that require replacement at regular intervals are recognized as separate items. All other repairs and maintenance costs are charged to general and administrative expenses during the financial period in which they are incurred.

Subsequent costs are recognized as a separate asset only when the recognition criteria are met.

Depreciation is calculated using the straight-line method to allocate the surplus of the cost of the asset over its residual values over its estimated useful life. The predominant estimated useful lives of fixed assets are as follows:

Description	Term in years
Buildings	5-7; 20-
Computers	3-5
Telecommunications equipment	3-7
Motor vehicles	2-3
Other	1-5

The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal of fixed assets are determined by comparing proceeds with the carrying amount. These are included in the profit or loss.

39.8 Right-of-use assets and lease liabilities

The Group is a party to lease contracts for, among others:
a) land for telecommunications constructions,
b) buildings:
- space on tower structures used for installation of telecommunications equipment,
- office space, warehouses and points of sale space,
- space leased for collocation centers,
- other space for other telecommunications equipment,

c) telecommunications network and equipment – dark fiber optic cables,
d) computers,
e) motor vehicles.

Leases are recognized, measured and presented in line with IFRS 16 'Leases'.

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

Based on the accounting policy applied, the Group recognizes a right-of-use asset and a lease liability as at the commencement date of the contract for all leases conveying the right to control the use of identified assets for some period. 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 on 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. The predominant estimated useful lives are as follows:

Description	Term in years
Land	6-10
Buildings	4-20
Computers	3-5
Telecommunications equipment	3-20
Motor vehicles	2-3

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 of the lease to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group recognizes asset retirement obligations mainly in relation to leased land for telecommunications constructions and other space for other telecommunications equipment (“sites”) which would need to be restored to previous state when the lease ends. Asset retirement obligations are capitalized as part of the cost of right-of-use assets and depreciated over the useful life equal to the period covered by the lease of the property on which the telecommunications constructions and equipment are located. 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;
- lease termination penalties if the lease term reflects the lessee exercising the option to terminate the lease.

The lease payments exclude variable elements which are dependent on external factors such as e.g. operating revenue 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 lease liabilities by:
- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect lease payments made, and

- re-measuring the carrying amount to reflect any reassessment or lease modifications.

Accounting by the lessor
In the 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 from ownership of a leased asset 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 from ownership of a leased asset to the lessee. Examples of situations where the risks and rewards from ownership of a leased asset are considered as having been transferred to the lessee are as follows:

- the lease transfers ownership of the asset to the lessee by the end of the lease term,
- the lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value on 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 represents a substantial majority of the economic life of the asset even if title is not transferred,
- at the lease inception date the present value of the minimum lease payments represents a substantial majority of the total 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.

39.9 Intangible assets

39.9.1 Telecommunications licenses

Telecommunications licenses are stated at cost less accumulated amortization and accumulated impairment losses. The licenses are amortized using the straight-line method over the period for which they are granted.

39.9.2 Computer software costs

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Computer software development costs are recognized as separate intangible assets and are amortized using the straight-line method over their useful lives (not exceeding 5 years).

Costs associated with maintaining computer software programs are recognized as an expense or loss as incurred.

39.9.3 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 the 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 analyzed and assessed by the Management Board. The Group allocates goodwill to the entire Play Group as a single cash-generating unit.

39.9.4 Intangible assets under construction

Intangible assets under construction represent mainly software under development and are presented in the appropriate intangible asset category.

39.10 Contract costs

Contract costs that can be capitalized as costs of bringing a customer to a contract include sales commissions associated with "postpaid" 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 future benefits in connection with the incurred costs. Contract costs comprise sales commissions to dealers and to own salesforce which can be directly attributed to an acquired or retained contract. Capitalized contract costs are recognized as non-current assets as the Group expects economic benefits from these assets to be received in a period longer than 12 months.

In all other cases, including costs of acquisition of prepaid telecommunications customers, prepaid subscriber acquisition and retention costs are expensed when incurred.

Capitalized commission fees relating to postpaid contracts are amortized on a systematic basis that is consistent with the transfer to the customer of the services when the related revenues are recognized. Contract costs relating to contracts signed with acquired or retained subscribers are amortized:

- for postpaid contracts – over the Adjusted Contract Term, which is the period after which the Group expects to offer a subsequent retention contract to a customer, which is usually a few months before the contractual term lapses,
- for “mix” contracts – over the term during which a customer is expected to fulfil their obligation in relation to all top-ups required under a contract.

When the customer enters into a retention contract before the term of the previous one expires (which means that the original contracts costs have not been fully amortized), the new asset is recognized in the month the new contract is signed. The new asset is amortized over the term representing the sum of the period remaining to the end of the previous contract and the retention contract term. Amortization period of the contract cost relating to the previous contract is then shortened to be in line with the actual contract term.

Contract costs capitalized are impaired if the customer is disconnected or if the asset’s present value exceeds projected discounted future cash flows relating to the contract. An impairment loss is recognized in profit or loss to the extent that the carrying amount of an asset exceeds 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.

39.11 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 its 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 (except for the allowance for goodwill) 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 periods.

39.12 Inventories

Inventories are stated at the lower of the purchase price and net selling price. Net selling price is the expected selling price in the ordinary course of business less the relevant portion of selling expenses. Inventories intended to be sold in promotional offers are measured at purchase prices that are no higher than their net selling prices, which are determined taking into account a future margin expected from telecommunications services with which the item of inventories is offered.

Inventories include handsets and other equipment transferred to dealers who act as agents. They are expensed to costs of goods sold on the date of activation of telecommunications services in relation to which the equipment was sold to the end customer or on the date when the equipment was sold to the end customer without a telecommunications service contract. The Group estimates the prevalent period between the date of transfer of the equipment to a dealer and the date of service activation based on historical data. If no service agreement relating to the mobile device is activated during the period estimated as described above, it is assumed that the mobile device was sold to the end customer without a related service agreement and revenue from sale of goods and corresponding cost of sale are recognized in the statement of comprehensive income.

39.13 Trade and other receivables

The receivables are recognized initially at fair value (except for trade receivables, which are measured at transaction price) less impairment loss, and then at amortized cost using the effective interest rate. The Group uses a simplified model to determine the expected credit loss and measures the impairment loss equal to the lifetime expected credit losses on trade receivables, lease receivables, cash and cash equivalents and contract assets. The impairment provision is recognized in the statement of comprehensive income within “other operating costs”.

When measuring impairment provision for billing receivables, the Group uses collectability ratio from previous periods including information on recoverability through the process of sales of overdue receivables and forward-looking information.

For other trade receivables, the Group performs assessment for each individual debtor taking into account the probability of default or delinquency in payments and the probability that debtor will enter into financial difficulties or bankruptcy. When determining the expected credit loss the Group uses all reasonable and supportable information regarding debtors available at the assessment date, including the information about securities, e.g. guarantees, deposits and insurance.

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 asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset to another entity. In particular, the Group derecognizes receivables when they are sold to collection agencies.

The Group reduces the gross carrying amount of receivables if there is no reasonable prospect that the contractual cash flows will be recovered. A write-off is an event that leads to the derecognition of receivables in the balance sheet.

Notes receivables are classified as financial instruments held to maturity and measured at amortized cost using the effective interest rate.

39.14 Contract assets

A contract asset is the entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditional on something other than the passage of time (for example, delivery of other elements of the contracts). The Group recognizes contract assets mainly from the contracts in which goods delivered at a point in time are bundled with services delivered for a specified period. The Group considers contract assets as current assets as they are expected to be realized in the normal operating cycle.

The loss allowance for contract assets is measured and recognized under IFRS 9 upon the initial recognition of contract assets. The Company uses professional judgment to calculate probability-weighted estimate of credit losses over the expected life of contract assets.
The Group reduces the carrying amount of a contract asset if there is no reasonable prospect that the contractual cash flows will be recovered. Thus, the asset ceases to be recognized in the balance sheet.

39.15 Prepaid expenses

Prepaid expenses comprise, among others, prepayments made in relation to ordered but not yet delivered services. Prepaid expenses are recognized at fair value of cash or cash equivalents transferred.

39.16 Cash and cash equivalents in statement of financial position

Cash and cash equivalents consist of cash on hand, balances in bank accounts, short-term bank deposits with original maturities of 3 months or less, and restricted cash.

In the statement of financial position, cash and cash equivalents are carried at nominal value increased by interest accrued.

39.17 Cash and cash equivalents in statement of cash flows

For the purpose of the consolidated statement of cash flows, restricted cash is excluded from cash and cash equivalents for the purpose of the consolidated statement of cash flows because it is not regarded as an element of cash management but is used to secure the repayment of finance liabilities. Interest accrued is excluded as it does not represent actual cash inflows in the reporting period.

39.18 Retirement benefits

The P4 Group makes contributions mainly to the Polish Government's retirement benefit scheme at the applicable rate during the period, based on gross salary payments (the "State Plan").

The State Plan is funded on a pay-as-you-go basis, i.e. the P4 Group is obliged to pay the contributions as they fall due based upon a percentage of salary. If the P4 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 P4 Group has no other employee retirement plans.

39.19 Incentive and retention programs

P4 Group shareholder operates cash-settled and equity-settled share-based incentive and retention programs. Membership in the programs is granted to members of the Management Board of P4 and key employees of the Group, which results in the necessity of valuation and recognition of equity-settled share-based incentive and retention programs in the P4 Group's financial statements.

Under the terms of the equity-settled share-based programs, members of the programs are entitled to receive cash or shares of a P4 Group shareholder if specified conditions are satisfied. The P4 Group's equity relating to the above incentive and retention programs is measured at the fair value at the grant date by applying a Monte Carlo simulation model. The cost is recognized in the statement of comprehensive income in line with vesting conditions, which are described in Note 27.

39.20 Finance liabilities

Finance liabilities are recognized initially at fair value, net of the transaction costs incurred. Bank loans, finance lease liabilities and notes liabilities are subsequently measured at amortized cost; any difference between the proceeds from issuing the instrument (minus transaction costs) and the redemption value of the instrument is recognized in the statement of comprehensive income over the life of the liability using the effective interest rate method. Related external finance costs that are not capitalized are recognized in profit or loss for the period.

Finance liabilities are classified as current, except where the Group has an unconditional right to make the payment of the liability more than 12 months after the balance sheet date.

Finance liabilities are derecognized when the obligation under the liability is discharged or cancelled or expires.

39.21 Derivative instruments

39.21.1 Derivatives embedded in host contracts

An embedded derivative is presented separately from the host contract if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks inherent in 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 in terms of its economic characteristics and risks 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 the early redemption option does not cover the issuer's approximate present value of lost interest for the remaining term of the host contract (lost interest is the prepaid principal amount 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 host contract.

Early redemption options recognized as separate instruments are measured at fair value with changes in the valuation recognized in profit or loss.

39.21.2 Derivative instruments designated as hedges

The Group applies hedge accounting in accordance with IFRS 9. Derivative financial instruments designated as hedging instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their current fair value.

When a derivative contract is entered into, the Group distinguishes the following types of derivative hedging instruments:
(i) a hedge against changes of the fair value of a recognized asset or liability (fair value hedge), or
(ii) a hedge of highly probable forecast transactions (cash flow hedge).

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

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

(ii) Cash flow hedge
Some gains or losses from revaluation of derivatives designated and qualifying as cash flow hedges are recognized in the revaluation reserve. On the other hand, the gains or losses considered as ineffective hedges are recognized directly in the profit and loss account.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in equity and is recognized in the income statement when the planned transaction occurs. When a planned transaction is no longer expected to occur, the cumulative gain or loss that was recognized in other comprehensive income is transferred to the income statement.
The fair values of interest rate swaps used for cash flow hedge are disclosed in Note 18.1. Movements of the reserve capital are disclosed in Consolidated statement of changes in equity.

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

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

39.22 Trade liabilities

Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

39.23 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. In such a case, the Group discloses a contingent liability.

39.24 Contract liabilities

Contract liabilities comprise the Group's obligation to transfer goods or services to a customer for which the Group has received consideration from the end customer or the amount is due as well as the value of prepaid products delivered to a distributor but not yet transferred to the end customer.