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, 2022

PLAY

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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, 2022 consisting of the statement of comprehensive income showing total income of PLN 1,187,341 thousand, the statement of financial position with assets and liabilities and equity of PLN 21,404,545 thousand, the statement of changes in equity showing a decrease in equity by PLN 706,709 thousand, the statement of cash flows showing a decrease in net cash by PLN 661,115 thousand and notes containing a description of material accounting policies and other explanations.

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

Warsaw, 15 March 2023

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

Consolidated statement of comprehensive income

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Operating revenue	4	**8,934,847**	**7,302,306**
Service revenue		7,144,735	5,679,893
Sales of goods and other revenue		1,790,112	1,622,413
Operating expenses		**(6,973,290)**	**(5,592,973)**
Interconnection, roaming and other service costs	5	(1,727,112)	(1,652,114)
Contract costs	6	(427,055)	(418,292)
Cost of goods sold		(1,446,383)	(1,303,172)
Employee benefits	7	(481,215)	(345,021)
External services	8	(1,270,280)	(788,983)
Depreciation and amortization	9	(1,458,073)	(998,129)
Taxes and fees		(163,172)	(87,262)
Other operating income	10	835,487	6,309,832
thereof: gains from derecognition of financial assets measured at amortized costs	10	*13,913*	*31,101*
Other operating costs	10	(348,744)	(333,099)
thereof: impairment of financial assets	10	*(110,063)*	*(113,286)*
Operating profit		**2,448,300**	**7,686,066**
Finance income	11	32,560	74,867
thereof: interest income from assets at amortized cost	11	*31,443*	*70,733*
Finance costs	11	(966,310)	(304,943)
Profit before income tax		**1,514,550**	**7,455,990**
Income tax charge	12	(348,868)	(1,461,729)
Net profit		**1,165,682**	**5,994,261**
- attributable to owners of P4 sp. z o.o.		*1,164,961*	*5,994,261*
- attributable to owners of non-controlling interest		721	-
Items that will not be reclassified to profit or loss			
Actuarial gains on post-employment benefits		768	110
Income tax relating to items not to be reclassified		(48)	(21)
Items that may be reclassified subsequently to profit or loss			
Gains on cash flow hedges	24.3	25,851	28,396
Income tax relating to items that may be reclassified	24.3	(4,912)	(5,395)
Other comprehensive income, net		**21,659**	**23,090**
Total comprehensive income		**1,187,341**	**6,017,351**
- attributable to owners of P4 sp. z o.o.		*1,186,620*	*6,017,351*
- attributable to owners of non-controlling interest		*721*	-

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

Consolidated statement of financial position

	Notes	December 31, 2022	December 31, 2021
ASSETS			
Non-current assets			
Intangible assets	13	4,969,449	2,358,310
Property, plant and equipment	14	3,044,322	1,785,968
Right-of-use assets	15	4,120,877	3,794,722
Contract costs	16	449,277	398,787
Other long term financial assets	18	80,460	56,125
Long term prepaid expenses	22	48,238	47,841
Deferred tax asset	12	908	-
Total non-current assets		**12,713,531**	**8,441,753**
Current assets			
Inventories	19	326,502	154,824
Trade and other receivables	20	931,366	748,675
Contract assets	21	1,603,203	1,460,945
Current income tax receivables		128	1,999
Prepaid expenses	22	104,253	68,295
Cash and cash equivalents	23	625,617	1,278,222
Other short-term finance assets	18	90,717	2,525,402
Assets held for sale	2.5	5,009,228	214,600
Total current assets		**8,691,014**	**6,452,962**
TOTAL ASSETS		**21,404,545**	**14,894,715**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	24.1	48,857	48,857
Other supplementary capital	24.2	(184,791)	(191,876)
Other reserves	24.3	1,552,650	23,090
Retained earnings	24.4	1,168,464	3,413,508
Equity attributable to the owners of P4 sp. z o.o.		**2,585,180**	**3,293,579**
Non-controlling interest		1,690	-
Total equity		**2,586,870**	**3,293,579**
Non-current liabilities			
Long-term finance liabilities	25	15,138,556	8,385,515
Long-term provisions	26	373,165	144,973
Deferred tax liability	12	380,920	169,737
Other non-current liabilities		8,639	10,318
Total non-current liabilities		**15,901,280**	**8,710,543**
Current liabilities			
Short-term finance liabilities	25	481,556	227,289
Trade and other payables	28	1,737,954	1,001,908
Contract liabilities	30	386,354	354,127
Current income tax payable	12	83,994	1,194,138
Accruals	29	129,901	110,570
Short-term provisions	26	5,381	2,561
Liabilities directly associated with assets held for sale		91,255	-
Total current liabilities		**2,916,395**	**2,890,593**
TOTAL LIABILITIES AND EQUITY		**21,404,545**	**14,894,715**

(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**	**Non-controlling interest**	**Total equity**
As at January 1, 2022		**48,857**	**(191,876)**	**23,090**	**3,413,508**	**3,293,579**	**-**	**3,293,579**
Net profit for the period		-	-	-	1,164,961	1,164,961	721	1,165,682
Other comprehensive income, net								
Actuarial gains on post-employment benefits with relating income tax		-	-	720	-	720	-	720
Gains on cash flow hedges with relating income tax	24.3	-	-	20,939	-	20,939	-	20,939
Total comprehensive income		**-**	**-**	**21,659**	**1,164,961**	**1,186,620**	**721**	**1,187,341**
Acquisition of subsidiaries	2.4	-	-	-	-	-	969	969
Recognition of costs of equity-settled incentive and retention programs	27	-	7,085	-	-	7,085	-	7,085
Increase of other reserves	24.3	-	-	1,507,901	(1,507,901)	-	-	-
Dividend payment	24.4	-	-		(1,902,104)	(1,902,104)	-	(1,902,104)
As at December 31, 2022		**48,857**	**(184,791)**	**1,552,650**	**1,168,464**	**2,585,180**	**1,690**	**2,586,870**

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

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

Consolidated statement of cash flows

	Notes	Year ended December 31, 2022	Year ended December 31, 2021
Profit before income tax		**1,514,550**	**7,455,990**
Depreciation and amortization		1,458,073	998,129
Change in contract costs	32	(50,489)	(8,295)
Interest expense (net)		887,398	232,133
(Gain)/Loss on finance instruments at fair value		20,511	(1,507)
Foreign exchange (gains)/losses		8,865	(399)
Gain on disposal of non-current assets and termination of lease contracts		(496,942)	(5,990,470)
Impairment of non-current assets		7,318	5,077
Change in provisions		179,410	(9,164)
Change in share premium from equity-settled retention programs		7,085	6,524
Changes in working capital and other	32	(427,682)	(21,603)
Change in contract assets	32	(136,358)	(37,390)
Change in contract liabilities	32	5,967	30,482
Cash provided by operating activities		**2,977,706**	**2,659,507**
Interest received		13,449	4,163
Interest paid		(20)	-
Income tax paid		(1,563,316)	(337,174)
Net cash provided by operating activities		**1,427,819**	**2,326,496**
Proceeds from sale of non-current assets		4,937	5,369
Purchase of fixed assets and intangibles and prepayments for assets under construction		(1,599,184)	(851,278)
Cash inflows related to sale of passive infrastructure	2.5	690,328	6,894,645
Cash outflows related to assets held for sale	2.5	(161,009)	(200,565)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	2.4	(6,981,635)	-
Proceeds from finance receivables	18	632,501	5,093
Loans given	18.5	(250)	(2,509,193)
Purchase of debt securities		-	(1,281,780)
Net cash used in investing activities		**(7,414,312)**	**2,062,291**
Dividends (paid)		-	(3,379,458)
Proceeds from finance liabilities	25.5	6,484,984	4,050,000
Repayment of finance liabilities	25.5	(265,019)	(4,315,026)
Paid interest relating to finance liabilities	25.5	(823,110)	(249,423)
Paid other costs relating to finance liabilities	25.5	(71,477)	(58,562)
Other proceeds from financing activities		-	640
Net cash provided by/(used in) financing activities		**5,325,378**	**(3,951,829)**
Net change in cash and cash equivalents		**(661,115)**	**436,958**
Effect of exchange rate change on cash and cash equivalents		8,674	(151)
Cash and cash equivalents at the beginning of the period		**1,278,058**	**841,251**
Cash and cash equivalents at the end of the period		**625,617**	**1,278,058**

(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.

As at December 31, 2022 the Company was controlled directly by Iliad Purple with its registered office in Paris (hereafter referred to as "Iliad Purple"), which held a 100% shares in the Company. Iliad Purple S.A.S. is a fully-owned subsidiary of Iliad S.A. with its registered office in Paris, controlled by Xavier Niel.

The Company's business activity embraces the provision of mobile and landline 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".

The Company and its subsidiaries (together, the "P4 Group" or the "Group") operate in the mobile and landline telecommunications sector in Poland. The Group provides telecommunication services under the "PLAY", "UPC", "VIRGIN" and "3S" brands, sells mobile devices and provides IT services via owned collocation centres.

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, 2022 and the comparative period, i.e. the year ended December 31, 2021, 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	
			As at December 31, 2022	As at December 31, 2021
<u>Subsidiaries held directly and indirectly:</u>				
Play Finance 1 S.A.	Luxembourg	Financing	100%	100%
3S S.A. [1]	Poland	Telecommunications	-	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. [2]	Poland	Telecommunications	-	100%
Polski Światłowód Otwarty sp. z o.o. [3]	Poland	Telecommunications	100%	-
UPC Polska sp. z o.o. [4]	Poland	Telecommunications	100%	-
Redge Technologies sp. z o.o. [5]	Poland	IT	92.5%	-
Redge Media PPV sp. z o.o. [5]	Poland	IT	92.5%	-
Vortanoria Investments sp. z o.o. [6]	Poland	Holding	100%	-

[1] On November 30, 2022, 3S S.A. was merged with P4.

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

[2] On May 31, 2022, Virgin Mobile Polska sp. z o.o. was merged with P4.
[3] On January 27, 2022, P4 acquired a 100% shares in Polski Światłowód Otwarty sp. z o.o., formerly named FiberForce sp. z o.o.
[4] On April 1, 2022 P4 acquired a 100% shares in UPC Polska sp. z o.o. (see Note 2.4).
[5] On June 30, 2022, P4 acquired a 92.5% shares in Redge Technologies sp. z o.o. Redge Technologies sp. z o.o. is the sole shareholder of Redge Media PPV sp. z o.o. (see Note 2.4).
[6] On September 22, 2022, P4 acquired a 100% shares in Vortanoria Investments sp. z o.o.

2. Basis of preparation

These Financial Statements were authorized for issue by the Company's Management Board on March 15, 2023 and are subject to authorization by the Shareholder Meeting.

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

These Financial Statements have been prepared with the underlying going concern assumption.

The Financial Statements have been prepared under the historical cost convention except for assets and liabilities on account of 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 International Financial Reporting Standards ("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 2.3.

2.1 New standards, interpretations and amendments to existing standards

These Financial Statements were prepared in accordance with IFRS as adopted by the European Union issued and effective as at December 31, 2022.

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, 2021, except for new standards and interpretations as described in the table below:

New regulation	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

(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, 2022 and have not been adopted early:

New regulation	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Group's assessment of the regulation
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	01.01.2024	01.01.2024	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	01.01.2023	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	01.01.2023	Assessment in progress
Amendments to IFRS 16: lease liability in a sale and leaseback	22.09.2022	01.01.2024	01.01.2024	Assessment in progress

2.2 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, 2022 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.

2.3 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.

2.3.1 Recognition of revenue

The application of IFRS 15 requires the Group to make judgements that affect the determination of the amount and timing of revenue from contracts with customers Please see also Note 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.

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.

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

The application of IFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities (please see Note 25.3) and the valuation of right-of-use assets (please 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.

2.3.3 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 deactivated 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.

2.3.4 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 (please 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.

2.3.5 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.

As December 31, 2022 the assets retirement obligation provision (please see Note 26) was calculated using a discount rate of 6.86% for the active portion of infrastructure (3.94% as at December 31, 2021) and 6.85% for the passive portion of infrastructure (3.76% as of December 31, 2021), equal to the interest rate as at the reporting date for treasury bonds with maturities near the assumed retirement date.

2.3.6 Deferred tax

As part of the process of preparing the Financial Statements, the Group is required to estimate the P4 Group's income taxes (please 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.

2.3.7 Impairment of assets

Under IAS 36 "Impairment of Assets" the Group is obliged to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the 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, 2022, the increase of interest rates was identified as an impairment indicator.

The Group's assets and its all activity 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 Group's assets (including goodwill recognized on the acquisition of the Germanos Group, the 3S Group, Virgin Mobile Polska sp. z o.o., UPC Polska sp. z o.o. and Redge Technologies sp. z o.o. as well as intangible assets with indefinite useful life) were tested for impairment as at December 31, 2022.

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 2023-2027.

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, network maintenance costs, marketing costs and costs of settlements with OTP). The pre-tax discount rate used (13,03% at December 31, 2022, 10.58% at December 31, 2021) reflects the risks typical of the P4 Group's business. The growth rate used to extrapolate cash flow projections beyond the forecast period (from 2028 onwards) is determined at 1% (as at December 31, 2021: 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 assets, including goodwill as at December 31, 2022. 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. The future success of the P4 Group's business model is dependent on many factors. The rapid changes of macroeconomic conditions in Poland, the EU and globally, in particular the levels of interest rates, inflation and exchange rates, may have material effect on our operations and financial performance. High level of competition in the mobile and landline network operators market, including market prices for voice and data services, the effects of new operators entering the market or concentration among the existing operators, possible significant changes in mobile technology and a rise in popularity of technologies alternative to mobile voice and text messages, the possible change in the purchasing power of consumers, access to adequate distribution channels – all these factors may impact the P4 Group's ability to generate revenues. Risks associated with rapidly growing demand for radio network capacity, and uncertainty regarding the acquisition and cost of new frequency reservations, the development of unit costs of subscriber devices, and the volatility of operating expenses, in particular costs of electricity, and volatility of costs of expanding the mobile and landline network, all generate uncertainties over achievable cash flows.

The telecommunications services industry is subject to significant regulation by the government and the supervisory authority. All 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 inflationary pressures were to cause an increase in fixed costs and salaries in 2023-2027 higher than the Group's projected increase, no impairment charge would be recognized for the CGU.
- If the growth rate used to extrapolate the projected cash flows into the period beyond the existing financial projections was reduced by 1 percentage point, no impairment charge would be recognized for the CGU.
- If the revised estimated discount rate applied to the discounted cash flows was increased by 1 p.p., compared with the Group's estimates, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.

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

2.4 Changes in the composition of the Group

Acquisition of UPC

On April 1, 2022 P4 acquired a 100% shares in UPC Polska sp. z o.o. ("UPC"). The cost of acquisition set at PLN 7,270,355 thousand, includes the cash price of PLN 6,966,968 thousand paid on April 1, 2022, and other price components. The UPC acquisition transaction was financed partially by the funds acquired under the Term Facilities Agreement of December 10, 2021 (see also Note 25.1.3). UPC is one of the largest Internet service providers in Poland.

The acquisition of UPC was accounted as a business combination under IFRS 3.

The following table shows the amounts recognized as of the acquisition date for each major class of assets acquired and liabilities assumed and the resultant final purchase price allocation:

ASSETS		**LIABILITIES**	
Intangible assets	1,727,466	Long-term finance liabilities	99,132
Property, plant and equipment	948,075	Long-term provisions	184,403
Right-of-use assets	115,808	Deferred tax liability	424,046
Other long term financial assets	2,938	**Non-current liabilities**	**707,581**
Deferred tax asset	76,893	Short-term finance liabilities	17,025
Non-current assets	**2,871,180**	Trade and other payables	384,248
Inventories	1,502	Contract liabilities	11,897
Trade and other receivables	44,217	Current income tax payable	22,718
Cash and cash equivalents	170,415	Accruals	7,619
Prepaid expenses	14,002	Short-term provisions	102
Assets held for sale	812,646	Liabilities directly associated with assets held for sale	68,607
Current assets	**1,042,782**	**Current liabilities**	**512,216**
TOTAL ASSETS	**3,913,962**	**TOTAL LIABILITIES**	**1,219,797**
		NET ASSETS ACQUIRED	**2,694,165**

As a result of purchase price allocation the Group recognized newly identified intangible assets in the amount of PLN 1,602,722 thousand representing customer relationships. The fair value of these assets was determined using the income approach. The fair vale of the acquired receivables is comprised mainly of receivables from customers for services provided. The value of expected credit loss related to these receivables as at the acquisition date was PLN 25,653 thousand.

The goodwill of PLN 4,576,190 thousand recognized in the consolidated statement of financial position was calculated as follows:

Consideration transferred	**7,270,355**
- fair value of the acquired assets	(3,913,962)
+ fair value of the acquired liabilities	1,219,797
= Goodwill	**4,576,190**

Goodwill comprises the value of expected operating synergies arising from the acquisition. Goodwill has been allocated partially to assets held for sale in connection with the planned sale of a 50% shares in the Polski Światłowód Otwarty sp. z o.o. ("PŚO") subsidiary, to which on 1 March 2023 the Group transferred a portion of UPC's business through a demerger, including in particular the access network assets (see also Note 2.5).

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

In connection with the acquisition of UPC, in H1 2022 the Group paid a tax on civil transactions in the amount of PLN 70,132 thousand, which was recognized in the "Taxes and fees" line item of the Statement of comprehensive income.

In 2022, the Group recognized PLN 1,324,962 thousand of revenue and PLN 126,460 thousand of net profit generated by UPC since the acquisition date after elimination of intra-group transactions.

Acquisition of Redge Technologies sp. z o.o.

On June 30, 2022, P4 acquired a 92.5% shares in Redge Technologies Sp. z o.o. ("Redge") for the cash consideration of PLN 138,187 thousand. In connection with the acquisition of a majority shares, Redge along with its subsidiary Redge Media PPV Sp. z o.o., became fully consolidated subsidiaries. Redge is a leading provider of online video distribution solutions in Eastern Europe.

The acquisition of Redge is accounted as a business combination under IFRS 3. The Group is currently undergoing a purchase price allocation, which should be concluded within 12 months of the purchase date and collects all material information about the facts and circumstances that existed as at the date of acquisition and that could affect the fair value of the acquired assets and liabilities.
For the purposes of these Financial Statements, the Group made a temporary purchase price allocation and recognized goodwill of PLN 126,230 thousand. Non-controlling interests was recognized in the amount of PLN 969 thousand.

The temporary goodwill recognized in the consolidated statement of financial position was calculated as follows:

Consideration transferred	**138,187**
Non-controlling interest	969
- fair value of the acquired assets	(69,540)
+ fair value of the acquired liabilities	56,614
= Goodwill	**126,230**

Goodwill comprises the value of expected operating synergies arising from the acquisition. The goodwill was allocated to the cash-generating unit (CGU) identified as the entire P4 Group, since the analysis of results and decision-making regarding resources is made at the Group level.

The temporary fair values of Redge's acquired assets and liabilities estimated as at the acquisition date are as follows:

ASSETS		**LIABILITIES**	
Intangible assets	37,242	Long-term finance liabilities	35,781
Property, plant and equipment	6,167	Deferred tax liability	6,622
Right-of-use assets	8,622	**Non-current liabilities**	**42,403**
Other long term financial assets	1,000	Short-term finance liabilities	1,411
Long term prepaid expenses	8	Trade and other payables	4,432
Non-current assets	**53,039**	Contract liabilities	8,368
Prepaid expenses	501	**Current liabilities**	**14,211**
Trade and other receivables	15,010	**TOTAL LIABILITIES AND EQUITY**	**56,614**
Cash and cash equivalents	990		
Current assets	**16,501**		
TOTAL ASSETS	**69,540**	**NET ASSETS ACQUIRED**	**12,926**

The tax on civil transactions in the amount of PLN 1,370 thousand associated with the acquisition of the company was recognized in the "Taxes and fees" line item of the Statement of comprehensive income. The tax was paid in July 2022.

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

In 2022, the Group recognized PLN 26,813 thousand of revenue and PLN 8,504 thousand of net profit generated by Redge since the acquisition date after elimination of intra-group transactions.

2.5 Assets held for sale

Planned sale of a 50% shares in the Polski Światłowód Otwarty sp. z o.o. subsidiary ("PŚO")

On June 19, 2022, the Company signed with Infravia V Invest S.à.r.L. (owned by the InfraVia Capital Partners Group) a conditional sale agreement for a 50% shares in its Polski Światłowód Otwarty sp. z o.o. subsidiary (formerly FiberForce sp. z o.o.) for the price of PLN 2.375 billion, with the assumption assuming the adjustments described in the agreement. The agreement will be performed after the conditions therein are satisfied. The transaction is to be finalized at the end of Q1 2023.

On March 1, 2023, the Group transferred to PŚO, by way of spinning off a portion of UPC's business including in particular assets of the access network including approx. 3.7 million network connections employing HFC and FTTH technologies. Polski Światłowód Otwarty will make its network infrastructure available to other telecommunications operators (including among others Play and UPC) on the wholesale access principles.

"Built to Suit" ("BTS") program – partnership with On Tower Poland

As at December 31, 2022, in the "Assets held for sale" line item, the Group presented also expenditures for passive infrastructure (base stations) to be sold off to On Tower Poland sp. z o.o. ("OTP") under the BTS program described in Note 2.5 of the Consolidated Financial Statements for 2021.

As part of this program, base stations built by the Company are sold to On Tower Poland Sp. z o.o.
Revenues and expenses related to the implementation of the BTS program as well as under the maintenance service agreements concluded with OTP are presented in other operating income and expenses in the "Income from partnership" and "Partnership expenses" lines (please see Note 10).
Proceeds from the sales of stations are presented in the statement of cash flows in the line item "Proceeds from disposal of passive infrastructure". The capital expenditures incurred in a given year for passive infrastructure elements sold in that year 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".

The table below presents the aggregate values of assets available for sale and the corresponding liabilities as at December 31, 2022 under the transactions described above:

	December 31, 2022	December 31, 2021
ASSETS		
Property, plant and equipment	1,031,235	214,600
Right of use assets	10,106	-
Intangible assets, including goodwill	3,967,824	-
Trade and other receivables	63	-
	5,009,228	**214,600**
LIABILITIES		
Lease liabilities	10,403	-
Provisions	9,052	-
Trade and other payables	10,500	-
Deferred tax liability	61,300	
	91,255	**-**
Net assets directly associated with disposal group	**4,917,973**	**214,600**

(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, 2022	
	%	Balance
Counterparty B	6.6%	61,332
Counterparty A	3.9%	36,781
Counterparty C	3.2%	29,667
	13.7%	**127,780**

	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**

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

Except for balances listed above, the 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 2022 and 2021, the exposure to interest rate risk was related primarily to floating rate borrowings under the concluded loan agreements and Notes (Note 25). The risk has been partially mitigated by interest rate swaps concluded in order to fix the interest rate in relation to a portion of the debt (please 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, 2022	+500	(187,455)
	-500	187,455
Year ended December 31, 2021	+50	(16,250)
	-50	16,250

Effect on equity would comprise effect on profit before tax as well as corresponding tax effect.

The sensitivity analysis for 2022 assumes that a 500 basis points change in the EURIBOR or 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 revenues 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;
- foreign currency options with an approved currency option hedging plan.

The Group did not enter into any abovementioned contracts of significant value in 2022 and 2021.

The tables below present the items of assets and liabilities with balances in foreign currencies as at December 31, 2022 and December 31, 2021, by currencies in which they are denominated; the values below are translated into PLN.

	PLN (in thousands)	EUR presented in PLN (in thousands)	other currencies presented in PLN (in thousands)	**Total**
December 31, 2022				
Long-term receivables before the impairment provision	17,187	2,426	20	19,633
Other long-term finance assets	79,886	574	-	80,460
Trade and other receivables before the impairment provision	1,034,072	34,668	-	1,068,740
Current income tax receivables	4	124	-	128
Cash and cash equivalents	607,009	15,740	2,868	625,617
Assets	**1,738,158**	**53,532**	**2,888**	**1,794,578**
Long-term finance liabilities	15,024,367	108,792	5,397	15,138,556
Long-term provisions	187,813	16,415	-	204,228
Short-term finance liabilities	425,759	53,232	2,565	481,556
Trade and other payables	1,823,695	68,133	15,063	1,906,891
Liabilities	**17,461,634**	**246,572**	**23,025**	**17,731,231**
December 31, 2021				
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**

Other assets and liabilities are denominated in PLN.

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

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, 2022	+5%	(9,652)
	-5%	9,652
December 31, 2021	+5%	(9,967)
	-5%	9,967

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 2022 remained at a similar level as in 2021.

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, 2022 the Group had a credit limit of PLN 2,000,000 thousand available under the Term and Revolving Facilities Agreement (please see also Note 25.1.1), which was fully undrawn. In addition, under other loan agreements the Group had available and undrawn financing in the amount of PLN 449,376 thousand as at December 31, 2022.

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 acquisition costs), including projected interest accrued at a variable rate, which were calculated based on the interest rates applicable as of December 31, 2022 and 2021, respectively.

December 31, 2022	**Undiscounted contractual cash flows payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Bank loans	956,887	11,772,787	97,177	12,826,851
Notes	124,005	1,622,099	-	1,746,104
Lease	478,832	1,638,738	4,394,372	6,511,942
Other debt	12,209	-	-	12,209
Liabilities directly associated with assets held for sale	1,523	5,395	14,068	20,986
	1,573,456	**15,039,019**	**4,505,617**	**21,118,092**

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

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**

Financial liabilities related directly to assets held for sale represent lease liabilities (see also Note 2.5).

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.

3.5 Capital management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern, in order to provide returns for shareholders and benefits for other stakeholders, to enable the repayment of debt and to maintain an optimal capital structure to reduce the cost of capital. 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 the net debt level using a ratio calculated for the entire P4 Group. In net debt, the P4 Group includes debt instruments at their 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, 2022	**December 31, 2021**
Bank loans	10,001,926	3,486,077
Notes	1,252,101	1,249,787
Leases	4,263,765	3,862,321
Other debt	11,875	14,619
Total debt	**15,529,667**	**8,612,804**
Cash and cash equivalents	625,617	1,278,222
Net debt	**14,904,050**	**7,334,582**

(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, 2022	Year ended December 31, 2021
Service revenue	**7,144,735**	**5,679,893**
Usage revenue	6,097,815	4,378,091
Interconnection revenue	1,046,920	1,301,802
Sales of goods and other revenue	**1,790,112**	**1,622,413**
	8,934,847	**7,302,306**

	Year ended December 31, 2022	Year ended December 31, 2021
Usage revenue by category		
Retail contract revenue	4,907,063	3,353,971
Retail prepaid revenue	868,077	772,068
Other usage revenue	322,675	252,052
	6,097,815	**4,378,091**

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 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, 2022	December 31, 2021
Transaction price allocated to the remaining performance obligation to be satisfied within:		
1 year	2,211,191	2,071,930
later than 1 year and not later than 2 years	958,806	854,251
later than 2 years and not later than 3 years	121,402	106,137
later than 3 years	4,763	3,961
	3,296,162	**3,036,279**

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

5. Interconnection, roaming and other service costs

	Year ended December 31, 2022	Year ended December 31, 2021
Interconnection costs	(1,012,849)	(1,236,916)
National roaming/network sharing	(66,667)	(133,333)
Other service costs	(647,596)	(281,865)
	(1,727,112)	**(1,652,114)**

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.

6. Contract costs

	Year ended December 31, 2022	Year ended December 31, 2021
Contract costs incurred	(440,158)	(426,587)
Contract costs capitalized	401,795	398,611
Amortization and impairment of contract costs	(388,692)	(390,316)
	(427,055)	**(418,292)**

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

7. Costs of employee benefits

	Year ended December 31, 2022	Year ended December 31, 2021
Salaries	(404,888)	(293,246)
Social security	(69,242)	(45,251)
Equity settled incentive and retention programs	(7,085)	(6,524)
	(481,215)	**(345,021)**

8. External services

	Year ended December 31, 2022	Year ended December 31, 2021
Network maintenance, leased lines and energy	(655,111)	(390,962)
Advertising and promotion expenses	(224,339)	(167,296)
Customer relations costs	(67,770)	(61,395)
Office and points of sale maintenance	(21,972)	(18,851)
IT expenses	(129,298)	(42,453)
People related costs	(30,961)	(14,233)
Finance and legal services	(43,401)	(20,737)
Other external services	(97,428)	(73,056)
	(1,270,280)	**(788,983)**

A significant portion of the costs of network maintenance, leased lines and energy was comprised of the passive infrastructure lease and maintenance costs under agreements signed with OTP (please see also Note 2.5).

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

9. Depreciation and amortization

	Year ended December 31, 2022	Year ended December 31, 2021
Depreciation of property, plant and equipment	(654,585)	(409,574)
Amortization of intangibles	(493,166)	(364,763)
Depreciation of right-of-use assets	(310,322)	(223,792)
	(1,458,073)	**(998,129)**

10. Other operating income and other operating costs

	Year ended December 31, 2022	Year ended December 31, 2021
Other operating income		
Gains from derecognition of financial assets measured at amortized costs	13,913	31,101
One-off gain on disposal of passive infrastructure	-	5,387,549
Income from partnership	700,275	775,716
Reversal of impairment of other non-current assets	1,304	84
Income from subleasing of right-of-use assets	16,016	15,627
Other miscellaneous operating income	103,979	99,755
	835,487	**6,309,832**
Other operating costs		
Costs related to partnership	(176,441)	(173,123)
Impairment of trade receivables	(43,232)	(53,191)
Impairment of contract assets	(66,831)	(60,095)
Impairment of non-current assets	(8,622)	(5,161)
Loss on disposal of non-current assets and termination of lease contracts	(25,428)	(17,388)
Exchange rate losses	-	(743)
Other miscellaneous operating costs	(28,190)	(23,398)
	(348,744)	**(333,099)**

The “Income from partnership” and “Costs related to partnership” line items relate to the sale of passive infrastructure under the BTS program and other services provided to On Tower Poland (please see Note 2.5).

Income from subleasing 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 IFRS 16 in the statement of financial position (please see Note 18.4).

Gains from derecognition of financial assets measured at amortized cost represent mainly the 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 please see Note 20.

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

Impairment of contract assets

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

11. Finance income and finance costs

	Year ended December 31, 2022	Year ended December 31, 2021
Finance income		
Interest income from assets at amortized cost	31,443	70,733
Income from the net investment in the lease	941	1,785
Net gain on finance instruments at fair value	176	1,507
Exchange rate gains	-	550
Other	-	292
	32,560	**74,867**
Finance costs		
Interest expense, including:	(920,754)	(303,653)
- on lease liabilities	*(221,076)*	*(163,531)*
- effect of cash flow hedges	*14,612*	*(1,055)*
Net loss on finance instruments at fair value	(20,046)	-
Exchange rate losses	(11,443)	-
Other	(14,067)	(1,290)
	(966,310)	**(304,943)**

Interest income recognized in 2022 and 2021 referred mainly to interest on the notes subscribed by the Group and issued by Iliad Purple and Play Communications (which merged with Iliad Purple on December 22, 2021). Notes have been fully settled and set off with the Company's dividend liabilities pursuant to the resolution adopted by the Company's Shareholders Meeting on May 30, 2022 (see also Note 18.2).

The line items Net gain/loss on financial assets at fair value represent the valuation of the ineffective portion of the cash flow hedge via interest rate swaps.

Interest expenses include the effect of using cash flow hedges (an adjustment related to the accrual of interest and settlement of interest rate swaps constituting cash flow hedges) – please see Note 18.1.

In 2022 and in 2021, the Group did not recognize any gains or losses related to liabilities measured at amortized cost.

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

12. Income tax

	Year ended December 31, 2022	Year ended December 31, 2021
Current tax charge	(414,760)	(1,450,435)
Deferred tax benefit/(charge)	65,892	(11,294)
Income tax charge	**(348,868)**	**(1,461,729)**

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

	Year ended December 31, 2022	Year ended December 31, 2021
Profit before income tax	**1,514,550**	**7,455,990**
Tax calculated at the prevailing tax rate applicable to profit (19%)	(287,765)	(1,416,638)
Effect of difference between tax rates in Luxembourg and in Poland	(16)	11
Expenses not subject to tax	(24,368)	(47,012)
Income not subject to tax	8,294	2,341
Previous years tax income included in current year accounting profit	1,402	135
Adjustments relating to previous tax years	(976)	(300)
Change in unrecognized deferred tax asset	(52,006)	(266)
Taxable costs not included in accounting profit	11,527	-
Deferred tax recorded in equity	(4,960)	-
Income tax charge	**(348,868)**	**(1,461,729)**
Effective Tax rate	23.0%	19.6%

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 2022 and 2021, and in Luxembourg 24.94% in 2022 and 2021.

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 24.94% for companies registered in Luxembourg).

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.

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

Deferred tax assets and liabilities by category

	December 31, 2022	December 31, 2021
Net deductible temporary differences		
Potential base for deferred income tax calculation	(2,001,656)	(892,149)
Potential deferred income tax net asset/(liability), thereof:	**(380,387)**	**(169,564)**
- recognized deferred income tax assets	*908*	*-*
- recognized deferred income tax liabilities	*(319,995)*	*(169,976)*
- recognized deferred income tax liability related to assets held for sale (see Note 2.5)	*(61,300)*	*-*
- not recognized deferred income tax assets	*-*	*412*
Carry-forwards of unused tax losses		
Potential base for deferred income tax calculation	343,285	106,158
Potential deferred income tax net asset/(liability), thereof:	**70,412**	**23,955**
- recognized deferred income tax assets	*375*	*239*
- not recognized deferred income tax assets	*70,037*	*23,716*
Total, netted at subsidiary level		
- recognized deferred income tax assets	**908**	**-**
- recognized deferred income tax liabilities	**(380,920)**	**(169,737)**
- recognized deferred income tax liability related to assets held for sale (see Note 2.5)	**(61,300)**	**-**
- not recognized deferred income tax assets	70,037	24,128

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 2023 and long term financial projections. As at December 31, 2022 and December 31, 2021, 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 Group has not recognized an asset on 2022 tax losses from capital activity incurred by P4, tax losses incurred by Play Finance 1 in 2017-2022, which under Luxembourg tax law can be settled over 17 years, and on tax losses incurred by Virgin Mobile Polska in 2017 and 2019.

Deferred 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, 2022	**Year ended December 31, 2021**
Beginning of period:		
Deferred tax assets	**-**	**3**
Deferred tax liabilities	**(169,737)**	**(149,838)**
credited to the income statement	65,892	(11,294)
credited to equity	(4,960)	(5,416)
resulting from acquisition of subsidiaries	(282,609)	-
reclassification to liabilities directly associated with assets held for sale	11,402	(3,192)
End of period		
Deferred tax assets	**908**	**-**
Deferred tax liabilities	**(380,920)**	**(169,737)**

(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, 2021	**211**	**80,546**	**21,911**	**87,325**	**-**	**271,389**	**318**	**461,700**
credited 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**
resulting from acquisition of subsidiaries	-	71,107	3,195	-	-	70,959	7	145,268
credited to equity	-	(48)	-	-	-	-	-	(48)
credited / (charged) to the income statement	135	11,296	1,621	11,257	(967)	82,720	27,800	133,862
reclassification to liabilities directly associated with assets held for sale	-	(65)	-	-	-	(110)	-	(175)
As at December 31, 2022	**375**	**136,868**	**26,801**	**124,624**	**-**	**954,892**	**28,162**	**1,271,722**

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

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, 2021	**(46,462)**	**(206,074)**	**(74,194)**	**(2,099)**	**(270,478)**	**(10,449)**	**(818)**	**(269)**	**(692)**	**(611,535)**
resulting from acquisition of subsidiaries	-	-	-	-	-	-	-	-	-	-
credited / (charged) to the income statement	3,799	(515,529)	(1,576)	(4,504)	(7,102)	(18,018)	818	15	(333)	(542,430)
credited to equity	-	-	-	-	-	-	-	-	(5,395)	(5,395)
related to 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)**
resulting from acquisition of subsidiaries	(403,803)	(21,916)	-	308	(1,121)	(1,387)	-	-	42	(427,877)
credited / (charged) to the income statement	19,907	(33,745)	(9,594)	(2,583)	(25,908)	14,811	(422)	(13,215)	(17,221)	(67,970)
credited to equity	-	-	-	-	-	-	-	-	(4,912)	(4,912)
reclassification to liabilities directly associated with assets held for sale	11,577	-	-	-	-	-	-	-	-	11,577
As at December 31, 2022	**(415,824)**	**(779,614)**	**(85,364)**	**(8,878)**	**(304,609)**	**(15,043)**	**(422)**	**(13,469)**	**(28,511)**	**(1,651,734)**

(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, 2022	2,779,955	1,859,202	412,031	223,584	5,274,772
Increases	351,648	254,769	-	3,876	610,293
Transfers and reclassifications	-	7,102	-	(14,299)	(7,197)
Acquisition of subsidiaries	-	161,381	4,702,420	1,603,326	6,467,127
Decreases	-	(14,393)	-	(63)	(14,456)
Reclassification to Assets held for sale	-	-	(3,964,034)	-	(3,964,034)
As at December 31, 2022	**3,131,603**	**2,268,061**	**1,150,417**	**1,816,424**	**8,366,505**
Accumulated amortization					
As at January 1, 2022	1,483,557	1,349,207	-	83,557	2,916,321
Charge	185,136	207,370	-	100,660	493,166
Transfers and reclassifications	-	11,504	-	(11,015)	489
Decreases	-	(12,857)	-	(63)	(12,920)
As at December 31, 2022	**1,668,693**	**1,555,224**	**-**	**173,139**	**3,397,056**
Accumulated impairment					
As at January 1, 2022	-	141	-	-	141
Utilization of impairment provision	-	(141)	-	-	(141)
As at December 31, 2022	**-**	**-**	**-**	**-**	**-**
Net book value as at December 31, 2022	**1,462,910**	**712,837**	**1,150,417**	**1,643,285**	**4,969,449**

The goodwill recognized in 2022 results from acquisition of UPC Polska sp. z o.o. on April 1, 2022 and Redge Technologies sp. z o.o. on June 30, 2022 (see also Note 2.4). Goodwill recognized on UPC acquisition has been allocated partially to assets held for sale in connection with the planned sale of a 50% shares in the Polski Światłowód Otwarty sp. z o.o. subsidiary, to which on 1 March 2023 the Group transferred a portion of UPC's business through a demerger, including in particular the access network assets (see also Note 2.5).

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.

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

Telecommunications licenses

Frequency band	License term from	License term to	Net book value as at December 31, 2022	Net book value as at December 31, 2021
2100 MHz	January 1, 2023	December 31, 2037	351,648	-
2100 MHz	July 1, 2016	December 31, 2022	-	21,842
900 MHz	December 9, 2008	December 31, 2023	14,513	29,027
1800 MHz	February 13, 2013	December 31, 2027	171,724	206,069
800 MHz	January 25, 2016/ June 23, 2016	June 23, 2031	805,333	904,961
2600 MHz	January 25, 2016	January 25, 2031	119,692	134,499
			1,462,910	**1,296,398**

(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, 2021	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	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	-	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**

(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, 2022	2,507	791,597	354,544	2,548,432	8,252	192,390	3,897,722
Increases	-	380,580	30,883	572,311	5,096	145,775	1,134,645
Transfers and reclassifications	-	10,721	49,904	(72,144)	2,659	19,419	10,559
Acquisition of subsidiaries	15	12,491	18,386	553,149	1,597	363,665	949,303
Decreases	-	(12,993)	(6,834)	(113,220)	(948)	(37,430)	(171,425)
Reclassification to Assets held for sale	-	(144,896)	-	-	-	-	(144,896)
As at December 31, 2022	**2,522**	**1,037,500**	**446,883**	**3,488,528**	**16,656**	**683,819**	**5,675,908**
Accumulated depreciation							
As at January 1, 2022	-	240,335	242,868	1,500,589	2,242	119,515	2,105,549
Charge	-	41,135	39,209	409,192	1,034	164,015	654,585
Transfers and reclassifications	-	2,562	5,859	(8,456)	1,060	438	1,463
Decreases	-	(12,768)	(6,738)	(95,778)	(678)	(27,572)	(143,534)
As at December 31, 2022	**-**	**271,264**	**281,198**	**1,805,547**	**3,658**	**256,396**	**2,618,063**
Accumulated impairment							
As at January 1, 2022	-	2,920	-	3,285	-	-	6,205
Impairment charge / (reversal of impairment charge)	-	8,618	-	(1,300)	-	-	7,318
As at December 31, 2022	**-**	**11,538**	**-**	**1,985**	**-**	**-**	**13,523**
Net book value as at December 31, 2022	**2,522**	**754,698**	**165,685**	**1,680,996**	**12,998**	**427,423**	**3,044,322**

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 and telecommunication towers remaining the Group's property can be installed.
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.

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

Contractual commitments for purchase of property, plant and equipment and intangible assets amounted to PLN 279,212 thousand as at December 31, 2022 and PLN 365,626 thousand as at December 31, 2021.

	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
Cost							
As at January 1, 2021	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	-	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**
Accumulated impairment							
As at January 1, 2021	-	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**

(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, 2022	75,087	4,192,446	23,574	57,832	26,285	4,375,224
Increases	46,935	512,234	-	20,047	595	579,811
Asset retirement obligation	-	6,417	-	-	-	6,417
Transfers and reclassifications	-	-	356	(1,544)	(2,174)	(3,362)
Acquisition of subsidiaries	-	96,789	-	17,546	11,775	126,110
Decreases	(42,460)	(57,464)	(1,637)	(4,930)	(4,227)	(110,718)
As at December 31, 2022	**79,562**	**4,750,422**	**22,293**	**88,951**	**32,254**	**4,973,482**
Accumulated depreciation						
As at January 1, 2022	10,097	523,994	16,224	18,727	11,460	580,502
Charge	9,428	279,842	2,653	11,092	5,443	308,458
Charge from asset retirement obligation	-	1,727	-	137	-	1,864
Transfers and reclassifications	-	-	131	(1,022)	(1,061)	(1,952)
Acquisition of subsidiaries	-	-	-	(20)	-	(20)
Decreases	(5,222)	(22,442)	(1,473)	(4,678)	(2,432)	(36,247)
As at December 31, 2022	**14,303**	**783,121**	**17,535**	**24,236**	**13,410**	**852,605**
Net book value as at December 31, 2022	**65,259**	**3,967,301**	**4,758**	**64,715**	**18,844**	**4,120,877**

The cost relating to variable lease payments that do not depend on an index or a rate amounted to zero in 2022 and 2021. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed in 2022 and 2021. 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 28,344 thousand in 2022 and PLN 21,116 thousand in 2021.

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

(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, 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**

For information regarding lease liabilities and related costs, please see the notes 11, 25.3, 25.5.

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

16. Contract costs

	Year ended December 31, 2022	Year ended December 31, 2021
Cost		
As at January 1	819,299	787,278
Additions	447,253	398,611
Disposals - terminated contracts	(378,965)	(366,590)
As at December 31	**887,587**	**819,299**
Accumulated amortization		
As at January 1	420,512	396,785
Charge (including impairment)	396,763	390,316
Disposals (including impairment) - terminated contracts	(378,965)	(366,589)
As at December 31	**438,310**	**420,512**
Net book value as at December 31	**449,277**	**398,787**

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 fair value through profit or loss	Liabilities at amortized cost	Note	Carrying amount	Fair value
December 31, 2022							
Cash and cash equivalents	625,617	-	-	-	23	625,617	625,617
Trade receivables	-	926,342	-	-	20	926,342	926,342
Other receivables	-	5,024	-	-	20	5,024	5,024
Interest rate swaps	125,555	-	(90,445)	-	18.1	35,110	35,110
Loans given	-	250	-	-		250	250
Lease receivables	-	24,300	-	-	18.3	24,300	24,300
Long-term investments	1,513	-	-	-	18	1,513	1,513
Long-term receivables	-	19,559	-	-	18	19,559	19,559
Bank loans	-	-	-	(10,001,926)	25.1	(10,001,926)	(10,054,537)
Notes	-	-	-	(1,252,101)	25.2	(1,252,101)	(1,199,342)
Lease	-	-	-	(4,263,765)	25.3	(4,263,765)	(4,263,765)
Other debt	-	-	-	(11,875)	25.4	(11,875)	(11,875)
	752,685	**975,475**	**(90,445)**	**(15,529,667)**		**(13,891,952)**	**(13,891,804)**

(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 fair value through profit or loss	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	-	-	-	18.1	29,902	29,902
Debt securities	-	2,515,003	-	-	18.2	2,515,003	2,515,003
Lease receivables	-	21,796	-	-	18.3	21,796	21,796
Long-term investments	232	-	-	-	18	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)**

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

18. Other finance assets

	December 31, 2022	December 31, 2021
Interest rate swaps	44,898	27,727
Long-term receivables	19,559	14,594
Long-term lease receivables	14,490	13,572
Long-term investments	1,513	232
Other long term financial assets	**80,460**	**56,125**
Interest rate swaps	80,657	2,175
Short-term lease receivables	9,810	8,224
Loans given	250	-
Iliad Purple PLN Notes	-	2,515,003
Other short-term finance assets	**90,717**	**2,525,402**
	171,177	**2,581,527**

Long term receivables result from deposits paid as collateral for lease agreements.

18.1 Interest rate swaps

As at December 31, 2022, the Group had swap instruments hedging interest rate risk. The hedge covers both the debt arising under loan agreements as well as liabilities under Series A and B Unsecured Notes.

As at December 31, 2022, the total value of hedged debt was PLN 7 billion (PLN 1.5 billion as at December 31, 2021), while the share of hedges in the Group's debt was as follows:

Hedged item	Nominal hedging value	IRS Settlement date	Share of hedging item in the hedged debt
Term and Revolving Facilities Agreement, „TRFA"	3,500,000	2024-2025	100%
Term Facility Agreement	2,500,000	2025	45%
Unsecured Notes series A, B	1,000,000	2025	80%
Total	**7,000,000**		

The above interest rate swaps have been established as hedges of cash flows linked to loans and bonds (hedged instruments) and therefore the Group applies hedge accounting principles to the measurement of these instruments. The contracts provide for a swap of the WIBOR 6M variable rate to a fixed rate and cash settlements over half-year periods.

The Group recognizes the effect of measurement of the above financial instruments, in the portion determined to be an effective hedge in "Other reserves" (Note 24.3).

As at December 31, 2022, the Group recognized both a financial asset and liability arising under interest rate swaps (please see also Note 25).

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

18.2 Note receivables

Receivables under notes are classified as financial instruments measured at amortized cost.

As at December 31, 2022, the Group had no receivables related to notes.

Receivables as at December 31, 2021 related to notes worth PLN 2,516,000 thousand issued on May 28, 2021 by Iliad Purple. The maturity date of the notes was May 28, 2022. Interest was calculated based on 1Y WIBOR rate plus margin and is payable over a 12-month interest period.

On April 1, 2022, Iliad Purple conducted an early redemption of the notes in the amount of PLN 621,383 thousand with accrued interest.

On May 30, 2022, the remaining amount due under above notes was set off against the Group's dividend liability to its shareholder. The amount set off was PLN 1,902,104 thousand. As a result, as at December 31, 2022, the Group's receivables under these notes have been fully settled.

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, 2022 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, 2022	December 31, 2021
Year 1	6,366	8,220
Year 2	6,654	5,752
Year 3	6,309	3,217
Year 4	2,743	1,134
Year 5	506	607
Year 6 and onwards	1,436	3,710
Undiscounted lease payments	**24,014**	**22,640**
Unguaranteed residual values	2,533	-
Less: unearned finance income	(2,247)	(844)
Present value of minimum lease payments	**24,300**	**21,796**
Impairment Losses	-	-
Net investment in the lease	**24,300**	**21,796**

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

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 (please see Note 10) in the "Income from subleasing of right-of-use assets" line item.

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

	December 31, 2022	**December 31, 2021**
Year 1	29,037	26,751
Year 2	23,306	19,497
Year 3	11,191	10,599
Year 4	4,859	3,767
Year 5	2,191	1,558
Year 6 and onwards	350	662
total lease payments	**70,934**	**62,834**

18.5 Receivables under the loans granted

Loan receivables as at December 31, 2022 result from the agreements concluded by Redge Technologies in December 2022 with VESTIGIT sp. z o.o. for the total amount of PLN 250 thousand. The loan repayment date was set for March 31, 2023 and the interest rate is WIBOR 1Y plus margin.

As at December 31, 2021, the Group had no receivables under the loan granted as a result of below mentioned settlements.

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 13 March 2022. The loan bears interest at a variable rate equal to WIBOR 3M plus margin. Following a merger of Play Communications with Iliad Purple, the loan liabilities of Play Communications were assumed in full by Iliad Purple.
The loan receivable was settled against P4's interim dividend liability to Iliad Purple on December 22, 2021 (please see Note 24.4).

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

19. Inventories

	December 31, 2022	December 31, 2021
Goods for resale	180,628	132,817
Goods in dealers' premises	29,553	29,701
Materials	263	231
Work in progress	124,011	-
Impairment of goods for resale	(7,953)	(7,925)
	326,502	**154,824**

"Work in progress" represent the infrastructure elements that, as at December 31, 2022, were assets in construction and were not presented as "Assets held for sale", but will be sold in the future outside of the minimum limit specified in the BTS program (please see also Note 2.5).

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, 2022	Year ended December 31, 2021
Beginning of period	**(7,925)**	**(13,008)**
- (charged)/credited to income statement	(166)	3,870
- utilized	138	1,213
End of period	**(7,953)**	**(7,925)**

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, 2022	December 31, 2021
Trade receivables	1,063,716	844,940
Impairment of trade receivables	(137,374)	(101,481)
Trade receivables (net)	**926,342**	**743,459**
VAT and other government receivables	4,705	4,774
Other receivables	319	442
Other receivables (net)	**5,024**	**5,216**
	931,366	**748,675**

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, 2022, trade receivables in the amount of PLN 137,374 thousand (December 31, 2021: PLN 101,481 thousand) were covered by an impairment allowance. 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, 2022	Year ended December 31, 2021
Beginning of period	**(101,481)**	**(118,674)**
- acquisition of a subsidiary	(25,699)	-
- charged to income statement	(43,232)	(53,191)
- utilized	33,038	70,384
End of period	**(137,374)**	**(101,481)**

Amounts charged to the allowance account are generally written down when there is no expectation of recovering additional cash. A decision to write down any receivables is made on a case-by-case basis for each business partner after all available methods of recovery have been exhausted or when the receivable becomes 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, 2022 and December 31, 2021 is as follows:

December 31, 2022	Not past due	Overdue 0 to 3 months	Overdue 3 to 6 months	Overdue over 6 months	Total
Expected credit loss	4.7%	10.1%	57.2%	80.9%	
Total trade receivables, gross	796,359	156,857	23,307	87,193	1,063,716
Accumulated impairment loss	**(37,647)**	**(15,874)**	**(13,326)**	**(70,527)**	**(137,374)**
Total trade receivables, net	**758,712**	**140,983**	**9,981**	**16,666**	**926,342**

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**

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, 2022	December 31, 2021
Contract assets	1,699,848	1,554,427
Impairment of contract assets	(96,645)	(93,482)
	1,603,203	**1,460,945**

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. Please see also Note 2.3.3.

Expected credit loss rate for contract assets both as at December 31, 2022 and December 31, 2021 amounted to 6%.

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

	Year ended December 31, 2022	Year ended December 31, 2021
Beginning of period	**(93,482)**	**(91,588)**
- charged to income statement	(66,831)	(60,095)
- utilization	63,668	58,201
End of period	**(96,645)**	**(93,482)**

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 (please 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.

Movements in the contract assets balance in 2022 and 2021 were as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Contract assets, net - Beginning of period	**1,460,945**	**1,423,556**
Additions	1,484,124	1,353,188
Invoiced amounts transferred to trade receivables	(1,275,035)	(1,255,704)
Impairment, charged to income statement	(66,831)	(60,095)
Contract assets, net - End of period	**1,603,203**	**1,460,945**

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, 2022	December 31, 2021
Long term prepaid expenses		
Loan origination fees	12,585	7,841
Other	35,653	40,000
	48,238	**47,841**
Short term prepaid expenses		
Loan origination fees	9,401	5,877
Distribution and selling costs	6,726	9,623
Network and IT maintenance	7,264	6,829
Other	80,862	45,966
	104,253	**68,295**

23. Cash and cash equivalents

	December 31, 2022	December 31, 2021
Petty cash	567	343
Balances deposited with banks	624,857	1,277,276
Other cash assets	193	603
	625,617	**1,278,222**

As of December 31, 2022 and December 31, 2021 balances deposited with banks included, among others, cash related to VAT received through split payment process.

24. Shareholders' equity

24.1 Share capital

As at December 31, 2022 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 please see Note 27.

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 (please see Note 18.1), as well as actuarial gains/losses on post-employment employee benefits.

By resolution of the Ordinary General Meeting of Shareholders of May 30, 2022, part of the net profit generated by P4 for 2021 was allocated to the reserve capital in the amount of PLN 1,507,901 thousand. The reserve capital is intended for the payment of future interim dividends or future dividends.

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

The table below presents changes in cash flow hedge reserves:

	Year ended December 31, 2022	Year ended December 31, 2021
Cash flow hedge reserves - Beginning of period	**23,001**	**-**
- before tax	*28,396*	-
- deferred tax	*(5,395)*	-
Effective part of gains on cash flow hedge instruments	40,463	27,341
Reclassification to the income statement - interest expense presented in finance costs	(14,612)	1,055
Income tax charge	(4,912)	(5,395)
Cash flow hedge reserves - End of period	**43,940**	**23,001**
- before tax	*54,247*	*28,396*
- deferred tax	*(10,307)*	*(5,395)*

24.4 Retained earnings

On May 30, 2022, the Shareholder Meeting adopted a resolution on the distribution of P4's 2021 profit, according to which the 2021 net profit in the amount of PLN 5,832,132 thousand was distributed as follows:

- The amount of PLN 4,241,514 thousand was to pay out the 2021 dividend, of which PLN 2,339,410 thousand was paid out as interim dividend in 2021 and PLN 1,902,104 thousand was fully set off against Iliad Purple's bond liabilities in May 2022 (please see Note 18.2),
- The remaining part of the net profit in the amount of PLN 1,590,618 thousand was used to cover the retained loss (arising from correction of an error) and creation of reserve capital, to be used for future dividends or interim dividends.

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 interim dividend, and approved and authorized the Management Board to pay the interim 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 interim dividend to Iliad Purple in the amount of PLN 5,185,900 thousand. The amount of the interim dividend was partially set off against Iliad Purple's liabilities 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 given to Play Communications in the amount of PLN 148,121 thousand.

(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 measured at amortized cost. Loan origination fees incurred in relation to the loan are included in the calculation of the effective interest rate. The effective interest rate reflects the interest costs as well as amortization of the loan origination fees (please see also Note 39.20).

	December 31, 2022	December 31, 2021
Long-term finance liabilities		
Long-term bank loans	9,802,020	3,474,499
Long-term notes liabilities	1,248,331	1,248,072
Long-term lease liabilities	4,008,149	3,658,400
Interest rate swaps	80,056	-
Other debt	-	4,544
	15,138,556	**8,385,515**
Short-term finance liabilities		
Short-term bank loans	199,906	11,578
Short-term notes liabilities	3,770	1,715
Short-term lease liabilities	255,616	203,921
Interest rate swaps	10,389	-
Other debt	11,875	10,075
	481,556	**227,289**
	15,620,112	**8,612,804**

For description of Interest rate swaps please see Note 18.1.

25.1 Bank loans

	December 31, 2022	December 31, 2021
Long-term bank loans	9,802,020	3,474,499
Short-term bank loans	199,906	11,578
	10,001,926	**3,486,077**
the balance of unamortized fees	52,611	25,501
the weighted average effective interest rate	9.52%	3.76%

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, 2022.

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 in 3-month or 6-month periods. The level of the margin depends on the Leverage Ratio.

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 30, 2021 the loan under the SFA of March 7, 2017, was fully repaid (please see also Note 27.1.1 of the Annual Financial Statements for 2021).

The repayment 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 Term Facility Agreement

On December 10, 2021 the Company entered into a 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 was available for a drawdown in a single tranche during the 12-month availability period.

On April 1, 2022, the full amount of available financing, i.e. PLN 5.5 billion, was drawn down. The funds were used to cover part of the consideration for the purchase of UPC shares.

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.

25.1.4 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 installments until final repayment on September 20, 2028.

In 2022, two tranches of this loan facility were drawn down. The first drawdown of PLN 148,547 thousand took place on October 31, 2022. The second tranche of PLN 137,077 thousand was drawn down on December 29, 2022.

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.

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 464,360 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.

In 2022, three tranches of this loan facility were drawn down. The first drawdown of PLN 235,000 thousand took place on March 9, 2022. The second tranche of PLN 125,000 thousand was drawn down on June 22, 2022. The last tranche of PLN 104,360 thousand was paid out on December 23, 2022.

25.1.6 Investment loan from the European Investment Bank

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.

In 2022, three tranches of this loan facility were drawn down. The first drawdown of PLN 150,000 thousand took place on February 25, 2022. Interest for this tranche accrues on the basis of a fixed interest rate. The principal will be repaid in equal instalments, with the last payment planned for 25 February 2028.

The second tranche of PLN 50,000 thousand was drawn down on June 27, 2022. Interest is calculated based on a fixed interest rate, the principal will be repaid in equal instalments, with the last payment planned for June 27, 2028.

The third tranche of PLN 35,000 thousand was paid out on December 22, 2022. Interest for this tranche was calculated based on WIBOR rate plus margin. The principal will be repaid in equal instalments, with the last payment planned for December 23, 2030.

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 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 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, 2022	December 31, 2021
Long-term lease liabilities		
Telecommunications sites	3,772,773	3,528,757
Points of sale	51,809	41,060
Dark fiber optic cable	23,988	8,334
Collocation centers	20,288	14,346
Offices and warehouse	128,187	51,940
IT equipment and telecommunications equipment	4,830	9,931
Motor vehicles	6,274	4,032
	4,008,149	**3,658,400**
Short-term lease liabilities		
Telecommunications sites	165,441	140,245
Points of sale	31,301	27,220
Dark fiber optic cable	12,320	5,855
Collocation centers	7,088	5,352
Offices and warehouse	25,358	10,745
IT equipment and telecommunications equipment	5,708	9,144
Motor vehicles	8,400	5,360
	255,616	**203,921**
	4,263,765	**3,862,321**

For future payments payable under leases which are in place at the reporting date, please 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 items.

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

25.5 Changes in finance liabilities

	Year ended December 31, 2022	Year ended December 31, 2021
Bank loans		
As at January 1	**3,486,077**	**3,522,864**
Cash inflows	6,484,984	4,050,000
Interest accrued	611,505	112,027
Cash outflows: interest paid	(517,531)	(67,611)
Cash outflows: other payments	(71,377)	(57,272)
Cash outflows: repayment of principal	-	(4,087,649)
Transaction costs	8,268	13,718
As at December 31	**10,001,926**	**3,486,077**
Notes		
As at January 1	**1,249,787**	**1,248,538**
Interest accrued	85,470	26,749
Cash outflows: interest paid	(83,156)	(25,500)
Cash outflows: other payments	(100)	(1,290)
Transaction costs	100	1,290
As at December 31	**1,252,101**	**1,249,787**
Lease		
As at January 1	**3,862,321**	**359,795**
New leases	386,113	3,688,406
Acquisition of subsidiaries	123,640	-
Modifications or terminations of lease contracts	127,948	12,424
Interest accrued	221,076	163,531
Cash outflows: interest paid	(222,099)	(155,929)
Effect of changes in foreign exchange rates	3,130	526
Cash outflows: repayment of principal	(238,386)	(206,432)
As at December 31	**4,263,743**	**3,862,321**
Other debt		
As at January 1	**14,619**	**7,541**
New contracts	23,008	28,156
Interest accrued	324	383
Cash outflows: interest paid	(324)	(383)
Effect of changes in foreign exchange rates	881	(133)
Cash outflows: repayment of principal	(26,633)	(20,945)
As at December 31	**11,875**	**14,619**

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

Other payments relating to loans represent the fees incurred in relation with new loan agreements – please see Note 25.1.

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

25.6 Assets pledged as security for finance liabilities

The Group's obligations under facility agreements in effect as at December 31, 2022 are not secured.

26. Provisions for liabilities

	December 31, 2022	December 31, 2021
Assets retirement provision	38,091	34,262
Other long-term provisions	335,074	110,711
Short-term provisions	5,381	2,561
	378,546	**147,534**

Movements of the provisions are as follows:

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2022	**34,262**	**110,711**	**2,561**	**147,534**
Increase	4,918	45,057	2,652	52,627
Acquisition of subsidiaries	2,799	181,604	102	184,505
Transfers	-	(66)	66	-
Decrease:	(3,888)	(2,232)	-	(6,120)
- reversal of provisions	(3,158)	(846)	-	(4,004)
- utilization	(730)	(1,386)	-	(2,116)
As at December 31, 2022	**38,091**	**335,074**	**5,381**	**378,546**

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2021	**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**

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

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 2022 and 2021 the Iliad Group (as the successor of Play Communications) operated the following incentive and retention programs: PIP, PIP 2, PIP 3, VDP 4, VDP 4 bis, the Iliad Purple Plan and the Holdco II Plan, in which individuals employed in the P4 Group participated.

PIP, PIP 2, PIP 3, VDP 4 and VDP 4 bis

The valuation method of the incentive programs taken over by the iliad Group from Play Communications in the Company’s financial statements as at December 31, 2022 has not changed and is the same as in the financial statements for year 2021.
In 2022 the members of PIP, PIP 2, PIP 3, VDP 4 and VDP 4 bis programs completed the acquisition of rights, therefore the total value of the acquired rights has been already recognised in the Company’s reserves.

Iliad Purple Plan
In 2021 Iliad Purple established a new equity-settled performance incentive plan. The plan was designed for P4 Group employees who are considered experts in acquiring and integrating telecommunication sector entities.

Under the program the members were conditionally entitled to receive a specific number of Iliad Purple shares without consideration on the anniversary of the plan, provided that they remained employed by the Group. The shares are subject to a one-year lock-up period.

Each program participant granted a call option to Iliad Purple, under which Iliad Purple may buy its shares at the market price determined by an independent expert, where the option may be exercised when a program participant leaves the company or within 10 years of the program award date.

Holdco II Plan
In 2022, the Iliad Group established a new incentive and retention program awarding free shares in Holdco II S.A.S. (“Holdco II”), a shareholder of Iliad S.A., which was joined by selected Company employees.

Under the program the members are conditionally entitled to receive a specific number of shares without consideration. The shares will be vested if the program participant continues his/her employment from the award date to June 2024. Each program participant granted a call option to Holdco II, under which Holdco II may buy back its shares from program participants at the market price determined by an independent expert.

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

28. Trade and other payables

	December 31, 2022	December 31, 2021
Trade payables	1,283,945	743,035
Investment payables	302,379	166,468
Government payables	146,892	87,609
Other	4,738	4,796
	1,737,954	**1,001,908**

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, 2022 and December 31, 2021 consisted of the Group's obligation to perform services prepaid by contract and pre-paid services.

	December 31, 2022	December 31, 2021
Prepaid services	130,798	137,061
Contract services	255,556	217,066
	386,354	**354,127**

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, 2022	Year ended December 31, 2021
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	341,977	103,999

(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, 2022	December 31, 2021
Cash and cash equivalents in statement of financial position	625,617	1,278,222
Interest accrued on cash and cash equivalents	-	(164)
Cash and cash equivalents in statement of cash flows	**625,617**	**1,278,058**

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, 2022	Year ended December 31, 2021
(Increase)/decrease of inventories	(155,203)	(13,836)
(Increase)/decrease of receivables	(136,490)	(44,711)
(Increase)/decrease of prepaid expenses	(13,841)	(72,192)
Increase/(decrease) of payables excluding investment payables	(131,150)	78,324
Increase/(decrease) of accruals	11,662	31,117
(Increase)/decrease of long-term receivables	(981)	(244)
Increase/(decrease) of other non-current liabilities	(1,679)	(61)
Changes in working capital and other	**(427,682)**	**(21,603)**
(Increase)/decrease in contract costs	(50,489)	(8,295)
(Increase)/decrease in contract assets	(136,358)	(37,390)
Increase/(decrease) in contract liabilities	5,967	30,482
	(608,562)	**(36,806)**

In 2022 the changes in the item "Changes in working capital and other" were primarily driven by an increase in inventories and receivables.

The increase in inventories in 2022 was driven primarily by expenditures for infrastructure to be sold to On Tower Poland under the BTS program (please see note 2.5).

The increase in receivables in 2022 resulted primarily from an increase in the balance of receivables under instalment sales.

The increase in contract assets in 2022 resulted from higher sales of goods compared to 2021.

(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 and fix 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, 2022	**Year ended December 31, 2021**
Operating profit	**2,448,300**	**7,686,066**
Add depreciation of property, plant and equipment	654,585	409,574
Add amortization of intangible assets	493,166	364,763
Add valuation of incentive and retention programs	7,085	6,524
Add impairment of non-current assets	7,318	5,077
Add one-off costs/(revenues) and extraordinary items	163,192	(5,339,004)
EBITDAaL	**3,773,646**	**3,133,000**

EBITDAaL is a non-IFRS measure. Other entities may calculate EBITDAaL using other methods.

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 2022 were PLN 24,056 thousand (PLN 20,423 thousand in 2021).

Additionally, members of P4's Executive Committee participate in the equity-settled incentive and retention programs (please see Note 27). The valuation of the programs resulted in cost recognized by the Group in the amount of PLN 1,432 thousand in 2022 (PLN 6,207 thousand in 2021). 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 1,725 thousand in 2022 and PLN 2,051 thousand in 2021.

Cost of benefits for Members of Supervisory Boards in Group entities incurred in 2022 amounted to PLN 200 thousand and PLN 171 thousand in 2021.

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 Related party transactions with entities linked to Shareholders

Below we present the balances of transactions made with the parent company and its related entities. As at December 31, 2022 and December 31, 2021, the parent company was Iliad Purple.
The transactions were concluded on the terms that do not differ materially from market terms.

	December 31, 2022	December 31, 2021
Short-term finance receivables	**-**	**2,515,004**
Parent company	-	2,515,004
Trade receivables	**5,466**	**6,836**
Parent company	15	8
Other related parties	5,451	6,828
Long-term finance liabilities	**3,550,068**	**3,343,720**
Parent company	4,500	4,500
Other related parties	3,545,568	3,339,220
Short-term finance liabilities	**122,660**	**107,222**
Parent company	19	4
Other related parties	122,641	107,218
Trade and other payables	**23,303**	**8,694**
Parent company	4,713	-
Other related parties	18,590	8,694

	Year ended December 31, 2022	Year ended December 31, 2021
Dividend payment	**(3,410,005)**	**(5,185,900)**
Parent company	(3,410,005)	(5,185,900)
Service revenue	**2,362**	**1,000**
Other related parties	2,362	1,000
Interconnection, roaming and other service costs	**(6,178)**	**(2,647)**
Other related parties	(6,178)	(2,647)
Network maintenance, leased lines and energy	**(223,548)**	**(147,423)**
Other related parties	(223,548)	(147,423)
Finance and legal services	**(23,372)**	**(4,457)**
Parent company	(4,690)	(4,457)
Higher level parent company	(18,682)	-
Other operating income	**700,282**	**6,922,975**
Parent company	7	42
Other related parties	700,275	6,922,933
Interest income	**19,600**	**67,420**
Parent company	19,600	67,420
Other finance income	**-**	**287**
Parent company	-	287
Interest expense	**(193,738)**	**(135,354)**
Parent company	(313)	(49)
Other related parties	(193,425)	(135,305)

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

35. Auditor's fees

	Year ended December 31, 2022	Year ended December 31, 2021
Audit fees	1,574	1,113
Other attesting fees	185	531
	1,759	**1,644**

36. 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 spectrums listed in Note 13.

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 Group's 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.

In 2022, an audit was carried out against UPC regarding withholding tax settlements made by UPC in connection with loan interest paid to a related party (a group company to which UPC belonged before April 1, 2022) and in connection with trademark and contractual payments made to UPC's former shareholder, UPC Poland Holding BV. In the purchase price allocation process, liabilities for the above were included in the value of acquired UPC's net assets (please see also Note 2.4). These liabilities were paid in full by UPC based on decisions of tax authorities (PLN 18,320 thousand in Q2 2022 and PLN 34,000 thousand in July 2022).

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 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 June 25, 2021, the Supreme Administrative Court set aside the judgment and referred the case back to the Voivodship Administrative Court. In a judgment of March 10, 2022, the Voivodship Administrative Court in Warsaw dismissed the appeals. Polkomtel and Sferia appealed the judgment in the Supreme Administrative Court. On February 1, 2023, the Supreme Administrative Court set aside the judgment and referred the case back to the Voivodship Administrative Court. The Management Board assesses the risk of the outcome that would be unfavourable 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 Regional 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, which dismissed the complaint on January 25, 2022; as a result, the proceedings are now pending before the Regional Court in Warsaw. The claim for additional PLN 313,572 thousand is still subject of the proceedings before the Regional 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 NetNet 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 NetNet 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. In March 2021, Polkomtel appealed against the judgment of the Voivodship Administrative Court. It is difficult to assess the legal risk to P4 at this stage.

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. With a judgment of 30 December 2020, with a dissenting opinion of one of the arbiters, the Arbitral Tribunal dismissed P4's claim and awarded costs of proceedings from P4 to T-Mobile. On April 26, 2021. P4 filed a complaint to set aside the arbitration award with the Court of Appeals in Warsaw. In a judgment of June 13, 2022, the Court of Appeals dismissed the complaint.

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 December 7, 2022 the Voivodship Administrative Court dismissed the complaint, the Company did not decide to appeal.

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. On April 20, 2022, the UOKiK President issued an obligating decision under Article 28 sec. 1 of the Act on Competition and Consumer Protection as requested by the Company. The decision is final.

On September 2, 2016, the UOKiK President launched proceedings against UPC for the use of prohibited clauses regarding: price increases, guarantees of a minimum number of TV programs, technician fee and contract termination. On July 17, 2019, the UOKiK President issued a decision, in which it prohibited the use of the above clauses, imposed on UPC a fine of PLN 33 million and an obligation to compensate the consumers. On September 5, 2019, UPC challenged the above decision. On November 23, 2022, the Regional Court upheld the decision except for the cash compensation obligation (the decision in this respect was set aside). UPC and the UOKiK President have the right to challenge this decision and UPC has submitted such an appeal. provision related to this dispute has been included in the value of the acquired net assets of UPC (please see also Note 2.4).

On December 1, 2022, the UOKiK President launched proceedings against P4 in the matter of practices breaching the collective interests of consumers that, according to the UOKiK President, involved the application of a contractual term under which a subscription discount is lost if a payment related to a phone bill is not paid on time.

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, please see Note 26.

38. Events after the reporting period

On January 3, 2023, PŚO, a subsidiary of P4, signed a conditional Contract on common terms of financing of term facilities and renewable facility up to the maximum amount of PLN 5.8 billion, among others with BNP Paribas Bank Polska S.A., Crédit Agricole Corporate and Investment Bank, KfW IPEX-Bank GmbH, Santander Bank Polska S.A. and Société Générale as the main arrangers of the facilities and the European Investment Bank and related financing documents, in order to finance the expansion of the fiber optic telecommunications infrastructure providing wholesale broadband access ot the Internet. The availability period of the financing was set at 6 years and the final maturity at July 31, 2030. PŚO will be allowed to draw down the facility only if 50% of its shares is sold by the P4 Group to the InfraVia Group. P4 is not the borrower and incurs no financial liabilities to the financing party.

On January 31, 2023, the Group, acting through its Vortanoria Investments sp. z o.o., subsidiary, acquired an 83.55% shares in SferaNET S.A. ("SferaNET"), a fiber optic operator with its registered office in Bielsko-Biała, thereby gaining control over SferaNET. SferaNET shares are listed on the New Connect market Before the acquisition of the above shares, P4 held outright 2.97% of the company's shares (obtained due to universal succession in the merger with 3S S.A. on November 30, 2022). By the date of these financial statements, the Group increased its shares in SferaNET to 93.86%.

On March 1, 2023, the Group transferred to the PŚO, through a demerger, a portion of UPC's business including in particular assets of the access network including approx. 3.7 million network connections employing HFC and FTTH technologies. PŚO will make its network infrastructure available to other telecommunications operators (including among others Play and UPC) on the wholesale access principles.

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 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 transactions

39.2.1 Functional and presentation currency

Items included in the financial statements of each of the entities of the 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.

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:

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

Currency	December 31, 2022	December 31, 2021
EUR	4.6899	4.5994
GBP	5.2957	5.4846
USD	4.4018	4.0600

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

Revenues from voice, SMS telecommunications and data transfer services include charges for telecommunications traffic originated in the Play, 3S and UPC 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. Please see also Note 2.3.1. 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, 3S and UPC 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 amounts 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	3-5
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 (including fiber optic network),
b) buildings:
- space on tower structures used installation of telecommunications equipment,
- office space, warehouses and points of sale space,
- space leased for collocation centres,
- 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 charges 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	6-30
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 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 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 P4 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 fulfill 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 deactivated 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 whether to recognise impairment losses, 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 discontinuation of recognition of receivables in the balance sheet.

Receivables under notes 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

Defined contribution plan
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.

Defined benefit plan
According to Polish regulations, employees are entitled to retirement and disability benefits. Retirement and disability benefits are paid once upon retirement or disability pension in the amount corresponding to one month's salary.
The value of the provision for retirement and disability benefits is determined using the actuarial method of valuation of projected unit benefits. The valuation is based on demographic assumptions regarding the retirement age, employee turnover (estimated on the basis of historical data) and on financial assumptions regarding future salaries growth and future interest rates.
Gains or losses from the actuarial valuation of retirement and disability benefits are recognized in other comprehensive income in the period in which they occurred. Other changes in the amount of the provision are charged to costs.

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, participants in 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 uses hedge accounting under 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 profit and loss account, 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 profit and loss account.
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.