P4 Sp. z o.o. and its subsidiaries

Consolidated financial statements

prepared in accordance with IFRS
as adopted by the European Union

as at and for the year ended December 31, 2020

PLAY

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Approval of financial statements

We hereby approve the financial statements of P4 Sp. z o.o. and its subsidiaries for the financial year ended December 31, 2020 consisting of the statement of comprehensive income showing total income of PLN 1,015,257 thousand, the statement of financial position with assets and liabilities and equity of PLN 10,228,056 thousand, the statement of changes in equity showing an increase in equity by PLN 275,529 thousand, the statement of cash flows showing an increase in net cash by PLN 555,145 thousand and notes containing a description of material accounting policies and other explanations.

Jean-Marc Harion
Management Board President

Wojciech Danieluk
Management Board Member

Piotr Kuriata
Management Board Member

Marcin Szul
Management Board Member

Mikkel Noesgaard
Management Board Member

Michał Wawrzynowicz
Management Board Member

Michał Ziółkowski
Management Board Member

Warsaw, 16 March 2021

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Consolidated statement of comprehensive income

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Operating revenue	4	**7,159,846**	**7,040,753**
Service revenue		5,556,816	5,296,028
Sales of goods and other revenue		1,603,030	1,744,725
Operating expenses		**(5,539,923)**	**(5,460,335)**
Interconnection, roaming and other service costs	5	(1,803,611)	(1,769,917)
Contract costs, net	6	(419,895)	(404,806)
Cost of goods sold		(1,324,558)	(1,437,291)
General and administrative expenses	7	(1,036,034)	(942,300)
Depreciation and amortization	8	(955,825)	(906,021)
Other operating income	9	110,374	76,271
Other operating costs	9	(163,413)	(142,998)
thereof: impairment of financial assets	9	*(178,796)*	*(157,557)*
Operating profit		**1,566,884**	**1,513,691**
Finance income	10	11,351	4,709
Finance costs	10	(242,881)	(257,881)
Profit before income tax		**1,335,354**	**1,260,519**
Income tax charge	11	(321,884)	(287,810)
Net profit		**1,013,470**	**972,709**
Effect of valuation of finance assets and liabilities at fair value through other comprehensive income		1,787	7,827
Other comprehensive income to be reclassified to profit or loss in subsequent periods	28	**1,787**	**7,827**
Total comprehensive income		**1,015,257**	**980,536**

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Consolidated statement of financial position

	Notes	December 31, 2020	December 31, 2019
ASSETS			
Non-current assets			
Intangible assets	13	2,493,950	2,598,138
Property, plant and equipment	14	1,329,506	2,028,801
Right-of-use assets	15	346,275	884,548
Assets under construction	16	262,260	285,906
Contract costs	17	390,493	374,080
Long-term finance receivables	18	145,380	201,998
Long-term receivables	19	14,054	15,252
Other long-term finance assets	20	12,439	11,587
Deferred tax asset	11	3	-
Total non-current assets		**4,994,360**	**6,400,310**
Current assets			
Inventories	21	226,710	169,147
Short-term finance receivables	18	322,767	294
Trade and other receivables	22	697,426	732,001
Contract assets	23	1,423,556	1,455,922
Current income tax receivables		701	382
Prepaid expenses	24	28,895	28,759
Cash and cash equivalents	25	841,259	285,748
Other short-term finance assets	20	7,002	6,260
Assets held for sale	12	1,685,380	-
Total current assets		**5,233,696**	**2,678,513**
TOTAL ASSETS		**10,228,056**	**9,078,823**
EQUITY AND LIABILITIES			
Equity attributable to equity holders of the parent			
Share capital	26.1	48,857	48,857
Other supplementary capital	26.2	(198,400)	(198,672)
Other reserves		-	(1,787)
Retained earnings	26.3	2,687,865	2,414,395
Total equity		**2,538,322**	**2,262,793**
Non-current liabilities			
Long-term finance liabilities - debt	27	4,932,605	4,819,953
Long-term provisions	29	48,004	70,364
Deferred tax liability	11	168,444	168,401
Other non-current liabilities		10,379	10,388
Total non-current liabilities		**5,159,432**	**5,069,106**
Current liabilities			
Short-term finance liabilities - debt	27	206,133	300,964
Other short-term finance liabilities	28	-	4,685
Trade and other payables	31	955,822	863,831
Contract liabilities	33	115,096	101,826
Current income tax payable		79,529	141,466
Accruals	32	78,242	94,583
Short-term provisions	29	2,534	6,417
Deferred income	34	208,423	233,152
Liabilities directly associated with assets held for sale	12	884,523	-
Total current liabilities		**2,530,302**	**1,746,924**
TOTAL LIABILITIES AND EQUITY		**10,228,056**	**9,078,823**

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Consolidated statement of changes in equity

	Notes	Attributable to equity holders of the parent				
		Share capital	**Other supplementary capital**	**Other reserves**	**Retained earnings**	**Total equity**
As at January 1, 2020		**48,857**	**(198,672)**	**(1,787)**	**2,414,395**	**2,262,793**
Net profit for the period		-	-	-	1,013,470	1,013,470
Other comprehensive income to be reclassified to profit or loss in subsequent periods						
Effect of valuation of finance assets and liabilities at fair value through other comprehensive income	27.4	-	-	1,787	-	1,787
Total comprehensive income		**-**	**-**	**1,787**	**1,013,470**	**1,015,257**
Effect of valuation of equity-settled incentive and retention programs	30	-	272	-	-	272
Dividend payment	26.3	-	-	-	(740,000)	(740,000)
As at December 31, 2020		**48,857**	**(198,400)**	**-**	**2,687,865**	**2,538,322**

	Notes	Attributable to equity holders of the parent				
		Share capital	**Other supplementary capital**	**Other reserves**	**Retained earnings**	**Total equity**
As at January 1, 2019		**48,857**	**(214,269)**	**(9,614)**	**1,971,686**	**1,796,660**
Net profit for the period		-	-	-	972,709	972,709
Other comprehensive income to be reclassified to profit or loss in subsequent periods						
Effect of valuation of finance assets and liabilities at fair value through other comprehensive income	27.4	-	-	7,827	-	7,827
Total comprehensive income		**-**	**-**	**7,827**	**972,709**	**980,536**
Effect of valuation of equity-settled incentive and retention programs	30	-	15,597	-	-	15,597
Dividend payment	26.3	-	-	-	(530,000)	(530,000)
As at December 31, 2019		**48,857**	**(198,672)**	**(1,787)**	**2,414,395**	**2,262,793**

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Consolidated statement of cash flows

	Notes	Year ended December 31, 2020	Year ended December 31, 2019
Profit before income tax		**1,335,354**	**1,260,519**
Depreciation and amortization		955,825	906,021
Change in contract costs	36	(16,412)	(1,427)
Interest expense (net)		221,367	254,769
Gain on finance instruments at fair value		(2,898)	(593)
Foreign exchange (gains)/losses		12,839	(4,782)
Gain on disposal of non-current assets and termination of lease contracts		(3,102)	(9,310)
Impairment of non-current assets		698	2,234
Change in provisions and liabilities or equity related to incentive and retention programs		962	17,066
Changes in working capital and other	36	837	96,601
Change in contract assets	36	32,367	(63,292)
Change in contract liabilities	36	7,664	8,708
Cash provided by operating activities		**2,545,501**	**2,466,514**
Interest received		93	337
Income tax paid		(396,407)	(228,508)
Net cash provided by operating activities		**2,149,187**	**2,238,343**
Proceeds from sale of non-current assets		4,346	4,493
Purchase of fixed assets and intangibles and prepayments for assets under construction		(810,367)	(852,584)
Acquisition of subsidiaries, net of cash and cash equivalents acquired	2.5	(23,662)	(336,874)
Proceeds from finance receivables		4,068	72,275
Purchase of debt securities	18	(321,000)	(274,000)
Deposit paid in the auction for telecommunications licenses		(182,000)	-
Deposit returned in the auction for telecommunications licenses		182,000	-
Net cash used in investing activities (including notes purchased and loans granted)		**(1,146,615)**	**(1,386,690)**
Proceeds from finance liabilities	27.5	1,920,000	1,045,000
Dividends (paid)		(740,000)	(530,000)
Repaid finance liabilities and paid interest and other costs relating to finance liabilities	27.5	(1,629,107)	(1,435,987)
Other proceeds from financing activities		1,680	5,927
Other payments relating to financing activities		-	696
Net cash used in financing activities		**(447,427)**	**(914,364)**
Net change in cash and cash equivalents		**555,145**	**(62,711)**
Effect of exchange rate change on cash and cash equivalents		358	(59)
Cash and cash equivalents at the beginning of the period		**285,748**	**348,518**
Cash and cash equivalents at the end of the period		**841,251**	**285,748**

In connection with the cancellation of the 5G auction, the security deposit in the amount of PLN 182,000 thousand, which was paid by the Group in May 2020, was returned in June 2020.

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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 Wynalazek Street 1.

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

As at December 31, 2020 the Company was controlled directly by Play Communications S.A. (hereafter referred to as "Play Communications", "PC S.A."), which held a 100% stake in the Company. Play Communications and its subsidiaries constitute the "Play Group". The Play Group is controlled by Iliad Purple S.A.S. with its registered office in Paris, which is a 100% subsidiary of Iliad S.A. with its registered office in Paris, controlled by Xavier Niel.

The Company and its subsidiaries (together, the "P4 Group" or the "Group") operate in the mobile telecommunications sector in Poland. The Group's business activity embraces the provision of mobile telecommunications services, sales of mobile devices and managing a distribution network of mobile telecommunications products under the brand "PLAY" and "VIRGIN" from the moment of purchase of Virgin Mobile Polska sp. z o.o. on 9 August 2020 (see Note 2.5).
From the moment of purchasing shares in 3S S.A. which, together with its subsidiaries, forms the 3S Group (hereafter the "3S Group") in August 2019, the Group has also been providing, under the "3S" brand, telecommunication services based on the fiber optic network and IT services through its own 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, 2020 and the comparative period, i.e. the year ended December 31, 2019, hereafter the "Financial Statements".

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

Entity	Location	Principal activity	Ownership and percentage of voting rights	
			December 31, 2020	December 31, 2019
P4 Sp. z o.o.	Poland	Telecommunications and handsets sales	100%	100%
Play Finance 1 S.A.	Luxembourg	Financing	100%	100%
3GNS Sp. z o.o.	Poland	Holding	100%	100%
Play 3GNS Spółka z ograniczoną odpowiedzialnością sp. k.	Poland	Brand management	100%	100%
3S S.A.	Poland	Telecommunications	100%	100%
3S Data Center S.A.	Poland	IT	100%	100%
3S BOX S.A.	Poland	IT	100%	100%
3S Fibertech sp. z o.o. *	Poland	Telecommunications	-	100%
Virgin Mobile Polska Sp. z o.o.	Poland	Telecommunications	100%	-

* On January 2, 2020 3S S.A. and 3S Fibertech sp. z o.o. merged.

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2. Basis of preparation

These Financial Statements were authorized for issue by the Company's Management Board on March 16, 2021 and are subject to authorization by the Shareholder Meeting.

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

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

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

2.1 New standards, interpretations and amendments to existing standards

These Financial Statements were prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") issued and effective as at December 31, 2020.

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, 2019, except for new standards and interpretations as described in the table below:

Amendment	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Group's assessment of the regulation
Amendments to References to the Conceptual Framework in IFRS Standards	29.03.2018	01.01.2020	01.01.2020	Fully implemented
Amendments to IAS 1 and IAS 8: Definition of Material	31.10.2018	01.01.2020	01.01.2020	Fully implemented
Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	26.09.2019	01.01.2020	01.01.2020	Fully implemented
Amendments to IFRS 3: Business Combination	22.10.2018	01.01.2020	01.01.2020	Fully implemented
Amendment to IFRS 16 Leases COVID-19-Related Rent Concessions	28.05.2020	01.06.2020	01.06.2020	Fully implemented

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The following new standards, amendments to standards and interpretations have been issued but are not effective for the year ended December 31, 2020 and have not been adopted early:

Amendment	Issued on	Effective for annual periods beginning on or after	In EU effective for annual periods beginning on or after	Group's assessment of the regulation
Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9	25.06.2020	01.01.2021	01.01.2021	no impact
Rate Benchmark Reform (Amendments to IFRS 9, IAS 39, IFRS 7) – Phase 2	27.08.2020	01.01.2021	01.01.2021	Assessment in progress
IFRS 17: Insurance contracts	18.05.2017	01.01.2023	Not endorsed yet	Assessment in progress
Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting Policies	12.02.2021	01.01.2023	Not endorsed yet	Assessment in progress
Amendments to IAS 8: Definition of Accounting Estimates	12.02.2021	01.01.2023	Not endorsed yet	Assessment in progress

2.2 Going concern

The Financial Statements disclose all matters of which the Group is aware and which are relevant to the Group's ability to continue as a going concern, including all significant events and the Group's plans. The Group generates positive cash flows from operating activities which can be used to perform all mandatory payments under the financing agreements and to finance further development of telecommunications infrastructure as well as expected dividend payments by the Company. Accordingly, the Financial Statements have been prepared on a basis which assumes that the Group will continue as a going concern and which contemplates the recoverability of assets and the satisfaction of liabilities and commitments in the normal course of business.

Due to the outbreak of COVID-19 pandemic in 2020 the Group operated in unusual business circumstances as it had to close temporarily some points of sales (from mid-March to early May 2020), which resulted in lower revenue from sales of goods. Still, the Group believes that these circumstances do not affect the going concern assumption for the Group's operations, because the financial results achieved in 2020 prove that the Group's business is largely resilient to the effects of the pandemic. The Group carefully monitors the situation and undertakes necessary initiatives to minimize the impact of the pandemic on its operations.

2.3 Fair value estimation

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

The 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 with various counterparties, 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

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assessment for derivatives designated in hedge relationships and other financial instruments recognized at fair value.

The methods and assumptions used to estimate the equity relating to incentive and retention programs are described in Note 2.4.4.

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

2.4 Critical accounting estimates and judgments

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

2.4.1 Recognition of revenue

The application of IFRS 15 requires the Group to make judgements that affect the determination of the amount and timing of revenue from contracts with customers Please see also Note 0. These include:

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

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

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

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

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

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

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

The application of IFRS 16 requires the Group to make judgments that affect the valuation of the lease liabilities (please see Note 27.3) 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.

2.4.3 Impairment of financial assets

The Group considers a financial asset impaired when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The expected credit loss is calculated as expected gross carrying amount of the financial asset at default 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 loss allowance for contract assets the Group considers a financial asset in default when the Group is unlikely to receive payments from customers which would be used to settle the outstanding contract assets balance, e.g. when the customer is disconnected as a result of breach of the contract. The Group uses professional judgement to calculate probability–weighted estimate of credit losses over the expected life of contract assets.
In connection with the COVID-19 pandemic, the Group assessed its potential impact on credit risk relating to trade receivables and contract assets. The Group concluded that recoverability of these assets may deteriorate and, as at March 31, 2020, the Group recognized an additional impairment allowance of PLN 18,893 thousand for trade receivables and PLN 13,096 thousand for contract assets. As at December 31, 2020, the impairment allowance amount relating to these factors remained at a similar level.
Accordingly, in 2020 the Group recognized a higher loss on receivables management compared to the previous year (please see also Note 9).

2.4.4 Valuation of the equity-settled incentive and retention programs

Upon the Initial Public Offering of the Company’s shares (“IPO”), on July 27, 2017, the members of the Management Board of P4 and key employees have entered into equity-settled incentive and retention programs PIP and VDP 4 operated by Play Communications S.A. In 2018, Play Communications established 2 new incentive and retention programs PIP 2 and VDP 4 bis. During financial year 2019, Play Communications established a new incentive and retention program PIP 3. For the description of the programs please see Note 30.

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PIP and VDP 4
The estimated fair value of right to receive Award Shares per Original Share granted or purchased under the programs was calculated by applying a Monte Carlo simulation model. The key model assumptions were:
- the share price at the grant date of PLN 36.00,
- expected annualized volatility of 30% calculated based on the historical volatilities of stock prices of the companies which, at the grant date, were included in the WIG Telekomunikacja Index (i.e. index covering the largest telecommunications companies listed on Warsaw Stock Exchange),
- risk-free interest rate calculated based on the government bonds with maturities closest to the date when the last Award Shares will be granted, adjusted for the credit risk borne by the bonds with the use of the asset spread (the rate used in calculations was 2.38%)
- correlation matrix and volatility parameters for stock included in WIG 20 at the IPO date and the set group of companies,
- expected dividend yield not exceeding 6.95%,
- the dilution effect related to the issuance of Award Shares was assumed to be already included in the Company share price at IPO.

It was assumed that the members of the programs would not have incentive to sell the Original Shares before the fifth anniversary of the IPO date. Expected turnover of key employees was established based on historical data regarding similar incentive plans.

VDP 4 bis
The estimated fair value of right to receive Award Shares per Maximum Number of Award Shares to which a member of VDP 4 bis is entitled was calculated by applying a Monte Carlo simulation model. The key model assumptions were:
- the share price at the IPO date of PLN 36.00,
- expected annualized volatility calculated on the grant date based on the historical volatilities of stock prices of Play Communications S.A.,
- risk-free interest rate calculated on the grant date based on the government bonds with maturities closest to the date when the last Award Shares will be granted, adjusted for the credit risk borne by the bonds,
- correlation matrix and volatility parameters for stock included in WIG 20 at the grant date and the set group of companies,
- expected dividend yield not exceeding 5%,
- the dilution effect related to the issuance of Award Shares was assumed to be already included in the Company share price.

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

PIP 2
The estimated fair value of right to receive Award Shares per Qualifying Investment Share and Loyalty Shares was calculated by applying a Monte Carlo simulation model. The key model assumptions were:
- the share price at the grant date of PLN 24.88, whereas the actual share price on July 27, 2018 (the Start Date) was equal to PLN 21.50,
- expected annualized volatility of 24% calculated based on the historical volatilities of stock prices of Play Communications S.A.,
- risk-free interest rate calculated based on the government bonds with maturities closest to the date when the last Award Shares will be granted, adjusted for the credit risk borne by the bonds with the use of the asset spread (the rate used in calculations was 2.53%),
- correlation matrix and volatility parameters for stock included in WIG 20 at the grant date and the set group of companies,
- expected dividend yield not exceeding 5%,
- the dilution effect related to the issuance of Award Shares was assumed to be already included in the Company share price.

It was assumed that the members of the programs would not have incentive to sell shares before the fifth anniversary of the Start Date. No turnover of members of the program is assumed.

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PIP3

The estimated fair value of right to receive Award Shares per Qualifying Investment Share and Investment Shares was calculated by applying a Monte Carlo simulation model. The key model assumptions were:

- the share price differs depending on the Start Date: PLN 20.80 for January 1, 2019 and PLN 33.90 for June 12, 2019,
- expected annualized volatility of 35% calculated based on the historical volatilities of stock prices of Play Communications S.A.,
- risk-free interest rate calculated based on the government bonds with maturities closest to the date when the last Award Shares will be granted, adjusted for the credit risk borne by the bonds with the use of the asset spread (the rate used in calculations was 1.7%),
- correlation matrix and volatility parameters for stock included in WIG 20 at the grant date and the set group of companies,
- expected dividend yield not exceeding 5%,
- the dilution effect related to the issuance of Award Shares was assumed to be already included in the Company share price.

It was assumed that the members of the programs would not have incentive to sell shares before the fifth anniversary of the Start Date. No turnover of members of the program is assumed.

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

With respect to Senior Facilities Agreement signed in March 2017 (as later amended, please see Note 27.1.1) the Group had concluded that option's exercise price approximated debt amortized cost value and that it could be moreover assessed that implied fee for early redemption reimbursed the lender for an amount up to the approximate present value of lost interest for the remaining term of liabilities. Thus, close relation between embedded derivative and host contract was confirmed. Therefore, this early redemption option was not separated from host debt contract of Senior Facilities Agreement for accounting and valuation purposes.

With respect to notes issued in December 2019 and December 2020 (please see Notes 27.2.1 and 27.2.2) the Group had concluded that option's exercise price approximates debt amortized cost value and that it can be moreover assessed that implied fee for early redemption reimburses the lender for an amount up to the approximate present value of lost interest for the remaining term of Notes. Thus, close relation between embedded derivative and host contract was confirmed. Therefore, this early redemption option was not separated from host debt contract of Notes issued in December 2019 and December 2020 for accounting and valuation purposes.

2.4.6 Valuation of the assets retirement obligation provision

The assets retirement obligation provision relates primarily to the obligation to dismantle the telecommunications constructions from the leased property.

In 2020, based on the observation of the current market conditions, the Group increased the estimated unit costs of dismantling telecommunications constructions from leased properties, which increased the balance of the assets retirement obligation provision by PLN 163,643 thousand and the corresponding increase in the net carrying amount of right-of-use assets (also please see Note 29).

In 2019, the Group changed the discount period. The discount period used to that moment reflected the expected timing of outflows relating to dismantling and equals the period covered by the lease of the property on which the telecommunications constructions are located. In the previous years, the Group applied the discount period equal to the period, for which the Group had telecommunication frequency reservations. The change of the discount period had no material impact on the Group's Financial Statements.

As at December 31, 2020 the assets retirement obligation provision (please see Note 29) was calculated using discount rate of 0.42% (1.91% as at December 31, 2019), equal to the interest rate of 10-year treasury bonds as at that date.

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2.4.7 Valuation of the option to acquire Virgin Mobile Polska sp. z o.o.

On January 15, 2018, the Group entered into a set of agreements with Virgin Mobile Polska sp. z o.o. ("VMP") and its shareholders as well as with the group of leading investors in VMP. These agreements gave the Group, among others, a call option to acquire all shares in VMP during 2020 at the price calculated according to an agreed valuation methodology based on VMP's onetime annual revenue adjusted by certain elements. The investors in VMP undertook to procure that all shares in VMP are sold to the Group in case the Group exercises the call option. The fair value of the option at initial recognition equalled the consideration given to acquire the option, which was PLN nil. The Group estimates that the fair value of shares in VMP at the potential transaction date would not exceed the price foreseen by the above-mentioned agreements, therefore the fair value of this option is PLN nil as at the balance sheet date. The inputs used in determining the fair value fall within Level 3 of the fair value hierarchy (significant unobservable inputs).

The Group had not exercised the above option and instead decided to acquire 100% shares in VMP on the terms and conditions set forth in the Preliminary Share Sale and Purchase Agreement, which was signed on April 22, 2020. On June 16, 2020 the President of the Office of Competition and Consumer Protection issued a consent to acquire VMP. On August 9, 2020 the transaction was completed. Please see Note 2.5.

2.4.8 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 11). This process involves estimating the P4 Group's actual current tax exposure together with assessing the temporary differences resulting from different treatments for tax and accounting purposes, such as the valuation of fixed assets, accruals and provisions. These differences result in deferred income tax assets and liabilities, which are recognized in the consolidated statement of financial position.

The deferred income tax calculation is based on the probability that future taxable profit will be available against which temporary differences and the unused tax losses can be utilized. The calculation is based upon long term financial projections, which contain a considerable amount of uncertainty and the actual outcome may differ. These projections may be altered to reflect changes in the economic, technological and competitive environment in which the P4 Group operates.

The Group is required to assess the likelihood of deferred income tax assets being recovered from future taxable income, and deferred tax assets are recognized to the extent to which such recovery is probable. Material estimates are required in order to calculate the asset. These estimates take into consideration future taxable income projections, the potential volatility of those projections, historical results and ongoing tax planning strategies. Factors as: the nature of the business and industry, the economic environment in which the P4 Group operates and the stability of local legislation are also considered.

2.4.9 Impairment of non-current assets

Under IAS 36 "Impairment of Assets" the Group is obliged to assess at the end of each reporting period whether there is any indication that an asset may be impaired. If any such indication exists, the 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, 2020, no impairment indicators were identified.

In accordance with the provisions of IAS 36, goodwill recognized on the acquisition of the Germanos Group, the 3S Group and Virgin Mobile Polska sp. z o.o., as well as intangible assets with indefinite useful life were tested for impairment as at December 31, 2020. The goodwill was allocated to the CGU identified as the entire on future resource allocation are made for the entire Play Group. The goodwill was allocated to the CGU identified as the entire Play Group, as the performance is assessed and decisions on future resource allocation are made for the entire Group.

The recoverable amount of a CGU was determined based on value in use calculations. These calculations are based on the Play Group's latest available financial projections for the years 2021-2025.

The key assumptions for the calculations include: the number of the new subscribers added ("gross adds"), ARPU Outbound (monthly revenue from retail usage per average subscriber), the costs of national roaming/network sharing

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and interconnection costs, unit subscriber acquisition and retention costs. The pre-tax discount rate used (of 10.06%) reflects the risks specific to the Play Group's operations. The growth rate used to extrapolate cash flow projections beyond the forecast period (from 2026 onwards) is conservatively determined at 0%.

The results of this test indicated that the recoverable amount of the CGU is higher than the carrying amount of the CGU's long-lived assets, including goodwill as at December 31, 2020. As a result, no impairment loss has been recognized.

However, there is considerable uncertainty as to the future expected economic benefits relating to the long-lived assets, including goodwill. Play Group's business model is based on a combination of operating an extensive, modern and cost-efficient 2G/3G/4G LTE/5G telecommunications network of its own and providing nation-wide coverage to its customers via national roaming/network sharing agreements with other mobile telecommunications operators. The future success of the Play Group's business model is dependent on many factors. The macroeconomic conditions of Poland and the European Union, the overall level of competition in the market, including market prices for voice and data services, the future take-up of new mobile data services, including demand for 5G technology offered by the Play Group, possible significant changes in mobile technology, access to sufficient distribution channels and the impact of possible new entrants in the form of mobile network operators (MNOs) and mobile virtual network operators (MVNOs), as well as over–the–top (OTT) service providers, may all impact the Group's ability to generate revenues. Risks associated with rapidly growing demand for radio network capacity, and uncertainties over the market regulator's approach to new entrants relative to market incumbents, the development of unit costs of mobile devices and market levels of mobile devices subsidies, all generate uncertainties over achievable profit margins.

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

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

However,

- If the total number of new subscribers added by P4 ("gross adds") in the projection period was 20% lower than the Group's assumptions, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.
- If the Blended ARPU Outbound (monthly revenue from retail usage per average subscriber) in the projection period was 5% lower than the Group's assumptions, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.
- If the revised estimated discount rate applied to the discounted cash flows was increased by2 p.p., compared with the Group's estimates, with other assumptions unchanged, the Group would not recognize any impairment against the cash-generating unit.

2.5 Changes in the composition of the Group

On August 9, 2020 the Group completed the acquisition of 100% of shares in Virgin Mobile Polska sp. z o.o. ("VMP") for cash consideration of PLN 34,174 thousand. Upon closing of the transaction, VMP became a wholly owned consolidated subsidiary. VMP provides mobile telecommunications services for individual customers.

The acquisition of VMP was accounted as business combination according to IFRS 3.

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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	
Intangible assets	58,054
Property, plant and equipment	438
Non-current assets	**58,492**
Inventories	650
Trade and other receivables	9,721
Cash and cash equivalents	10,512
Prepaid expenses	3,195
Current assets	**24,078**
TOTAL ASSETS	**82,570**

LIABILITIES	
Long-term provisions	2,968
Deferred tax liability	10,640
Non-current liabilities	**13,608**
Trade and other payables	34,733
Contract liabilities	5,606
Current income tax payable	9,001
Accruals	1,712
Deferred income	7,089
Current liabilities	**58,141**
TOTAL LIABILITIES AND EQUITY	**71,749**
NET ASSETS ACQUIRED	**10,821**

As a result of purchase price allocation, the Group recognized newly identified intangible assets, i.e. customer relationships, in the amount of PLN 56,000 thousand. Fair value of acquired assets was determined using income approach. The Group recognized also a provision of PLN 1,000 thousand in the Consolidated Statement of Financial Position for potential tax risks and the provision for a fine on account of proceedings conducted by the Personal Data Protection Office in the amount of PLN 1,668 thousand.

The goodwill of PLN 23,353 thousand recognized in the consolidated statement of financial position was calculated as follows:

Consideration transferred	**34,174**
- fair value of the acquired assets	(82,570)
+ fair value of the acquired liabilities	71,749
= Goodwill	**23,353**

The goodwill comprises the value of expected operating synergies arising from the acquisition and expected new customers.

In 2020, the Group recognized PLN 2,134 thousand of revenue and PLN 284 thousand of net loss generated by VMP since the acquisition date after elimination of intra-group transactions. Net loss includes the impact of amortization of newly recognized intangible assets.

In 2020, the Group recognized PLN 1,890 thousand of one-off general and administrative expenses related to acquisition and integration of new subsidiaries

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

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

	December 31, 2019	
	%	Balance
Counterparty A	7.0%	51,365
Counterparty B	5.4%	39,733
Counterparty C	5.1%	36,955
	17.5%	**128,053**

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

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

Except for balances listed above, the 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 well recognized financial institutions.

3.2 Interest rate risk

In the year ended December 31, 2020 and in comparative period the exposure on interest rate risk was related primarily to floating rate borrowings under Senior Facilities Agreement – see Note 27.1.1. The risk has been partially mitigated by interest rate swaps designated to fix the interest rate in relation to 33% of the Senior Facilities Agreement amount for a three-year period. The interest rate swap was settled on 30 June 2020 (See also Note 28). Additionally, in December 2020 the Group issued series B floating interest rate notes, which also increased its exposure to interest rate risk (please see Note 27.2.2).

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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, 2020	+50	(21,599)
	-50	21,599
Year ended December 31, 2019	+50	(8,934)
	-50	8,934

Sensitivity to possible changes in interest rates increased in 2020 as compared to 2019 due to the higher level of floating interest rate debt resulting from the issue of series B notes under the Note Issue Program of 23 October 2019 and expiration of interest rate swap agreements hedging the interest on the SFA loan for the amount of PLN 2,150,000 thousand. Effect on equity would comprise effect on profit before tax as well as corresponding tax effect.

The sensitivity analysis assumes that a 50 basis points change in the 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 revenue are recorded in foreign currencies.

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

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

The Group did not enter into any forward currency contracts of significant value in 2020 and 2019.

The tables below present the items of assets and liabilities with balances in foreign currencies as at December 31, 2020 and December 31, 2019, by currencies in which they are denominated; the values below are translated into PLN.

Year ended December 31, 2020	PLN (in thousands)	EUR presented in PLN (in thousands)	other currencies presented in PLN (in thousands)	**Total**
Long-term receivables before the impairment provision	12,464	1,958	-	14,422
Trade and other receivables before the impairment provision	800,241	15,585	274	816,100
Current income tax receivables	575	126	-	701
Cash and cash equivalents	831,444	6,186	3,629	841,259
Assets	**1,644,724**	**23,855**	**3,903**	**1,672,482**
Long-term finance liabilities - debt	4,858,320	71,033	3,252	4,932,605
Short-term finance liabilities - debt	177,397	25,866	2,870	206,133
Leasing liabilities directly associated with assets held for sale (see Note 12)	661,370	10,656	1,370	673,396
Trade and other payables	823,759	125,001	7,062	955,822
Liabilities	**6,520,846**	**232,556**	**14,554**	**6,767,956**

Year ended December 31, 2019	PLN (in thousands)	EUR presented in PLN (in thousands)	other currencies presented in PLN (in thousands)	**Total**
Long-term receivables before the impairment provision	13,871	1,749	-	15,620
Long-term finance receivables	201,998	-	-	201,998
Trade and other receivables before the impairment provision	855,818	12,904	94	868,816
Current income tax receivables	-	382	-	382
Cash and cash equivalents	277,356	6,722	1,670	285,748
Assets	**1,349,043**	**21,757**	**1,764**	**1,372,564**
Long-term finance liabilities - debt	4,762,585	52,580	4,788	4,819,953
Short-term finance liabilities - debt	260,715	35,886	4,363	300,964
Trade and other payables	756,549	103,045	4,237	863,831
Liabilities	**5,779,849**	**191,511**	**13,388**	**5,984,748**

Other assets and liabilities are denominated in PLN.

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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, 2020	+5%	(10,435)
	-5%	10,435
December 31, 2019	+5%	(8,488)
	-5%	8,488

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 result is less sensitive to movement in EUR/PLN exchange rates in 2020 than in 2019 mainly because of the lower balances EUR denominated lease liabilities and trade liabilities as at the end of December 31, 2020.

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.

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

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

December 31, 2019	**Liabilities (including projected interest) payable within:**			
	1 year	**2 to 5 years**	**over 5 years**	**Total**
Bank loans	249,693	3,441,627	-	3,691,320
Notes	26,695	169,730	789,716	986,141
Lease	217,110	634,700	353,721	1,205,531
Other debt	20,517	6,108	-	26,625
Derivative instruments	4,722	-	-	4,722
	518,737	**4,252,165**	**1,143,437**	**5,914,339**

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.

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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. The Group monitors capital using the net debt figure calculated for the entire Play Group. The Play Group includes in net debt the borrowings at nominal value increased by accrued interest (excluding the impact of loan origination fees), 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, 2020	**December 31, 2019**
Senior Facilities	3,542,696	3,332,215
Notes	1,250,800	807,904
Leases	359,795	990,761
Other debt	7,541	26,678
Total debt	**5,160,832**	**5,157,558**
Cash and cash equivalents	841,259	285,748
Net debt	**4,319,573**	**4,871,810**

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4. Operating revenue

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

	Year ended December 31, 2020	Year ended December 31, 2019
Service revenue	**5,556,816**	**5,296,028**
Usage revenue	4,115,684	3,969,372
Interconnection revenue	1,441,132	1,326,656
Sales of goods and other revenue	**1,603,030**	**1,744,725**
	7,159,846	**7,040,753**

	Year ended December 31, 2020	Year ended December 31, 2019
Usage revenue by category		
Retail contract revenue	3,193,166	3,092,460
Retail prepaid revenue	677,906	655,307
Other usage revenue	244,612	221,605
	4,115,684	**3,969,372**

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. Revenues generated by 3S Group acquired on August 19, 2019, are also presented in this category.

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, 2020	December 31, 2019
Transaction price allocated to the remaining performance obligation to be satisfied within:		
1 year	2,018,740	1,935,450
later than 1 year and not later than 2 years	894,102	785,272
later than 2 years and not later than 3 years	110,971	88,005
later than 3 years	1,951	1,304
	3,025,764	**2,810,031**

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5. Interconnection, roaming and other service costs

	Year ended December 31, 2020	Year ended December 31, 2019
Interconnection costs	(1,424,363)	(1,341,986)
National roaming/network sharing	(144,993)	(182,854)
Other service costs	(234,255)	(245,077)
	(1,803,611)	**(1,769,917)**

The growth of interconnection costs was related mainly to a significant increase of traffic to other operators due to the COVID-19 pandemic.

The decrease of national roaming/network sharing costs was mainly due to the termination, with effect as of December 31, 2019, of an agreement with Polkomtel Sp. z o.o. as one of our roaming partners, following the continued development of the Play network.

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 Company acts as a principal. The decrease in other service costs in 2020 compared to 2019 was mainly due to a lower international roaming costs caused by restrictions in movement of people across the border of Poland in connection with the COVID-19 pandemic.

6. Contract costs, net

	Year ended December 31, 2020	Year ended December 31, 2019
Contract costs incurred	(436,306)	(406,232)
Contract costs capitalized	405,089	383,461
Amortization and impairment of contract costs	(388,678)	(382,035)
	(419,895)	**(404,806)**

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

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7. General and administrative expenses

	Year ended December 31, 2020	Year ended December 31, 2019
Employee benefits	**(306,794)**	**(291,589)**
Salaries	(267,037)	(240,291)
Social security	(39,485)	(35,701)
Incentive and retention programs, including:	(272)	(15,597)
- equity settled	*(272)*	*(15,597)*
External services	**(585,720)**	**(567,814)**
Network maintenance, leased lines and energy	(205,328)	(173,017)
Advertising and promotion expenses	(158,539)	(179,585)
Customer relations costs	(66,085)	(61,246)
Office and points of sale maintenance	(17,736)	(18,465)
IT expenses	(43,518)	(37,701)
People related costs	(17,116)	(19,993)
Finance and legal services	(12,252)	(13,616)
Other external services	(65,146)	(64,191)
Taxes and fees	**(143,520)**	**(82,897)**
	(1,036,034)	**(942,300)**

As the P4 Group has employees in Poland as well as in Luxembourg, it is legally required to pay monthly social security contributions to the pension administration in both countries. The rate of social security contributions amounted to 9.76% of gross salaries in Poland and 8% of gross salaries in Luxembourg and in all periods presented. The Group is also required to make contributions in Poland to Employee Capital Plans (PPK) at 1.5% of gross salaries of the employees who participate in PPKs. The Group is not required to make any contributions in excess of this statutory rate.

The increase of costs of employee benefits in 2020 compared to 2019 was associated mainly with the acquisition of the 3S Group in August 2019 and VMP in August 2020. In 2020, costs of salaries of the 3S Group and VMP amounted to PLN 31,177 thousand.

The increase in costs of network maintenance, leased lines and energy is mainly attributable to the increased number of sites to be maintained due to intensive rollout of Play's network, increasing energy prices as well as acquisition of the 3S Group. Costs of leased lines relate to lease agreements which do not qualify for recognition in accordance with IFRS 16.

Taxes and fees include mainly fees for the use of telecommunication frequencies, real estate taxes and other administrative duties, as well as non-deductible VAT. The increase in costs of taxes and fees in 2020 compared to 2019 is related to the corrections of withholding tax declarations for years 2015-2017 and payment of tax with interest in the amount of PLN 54,969 thousand. Please see Note 41.1.

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8. Depreciation and amortization

	Year ended December 31, 2020	Year ended December 31, 2019
Depreciation and amortization		
Depreciation of property, plant and equipment	(419,686)	(361,188)
Amortization of intangibles	(363,121)	(376,248)
Depreciation of right-of-use assets	(173,018)	(168,585)
	(955,825)	**(906,021)**

Depreciation and amortization increased in 2020 mainly due to increase in gross carrying amount of assets following the development of the Group's telecommunications network as well as acquisition of 3S Group during 2019.

9. Other operating income and other operating costs

	Year ended December 31, 2020	Year ended December 31, 2019
Other operating income		
Gain on disposal of non-current assets and termination of lease contracts	4,372	9,829
Reversal of impairment of other non-current assets	313	434
Reversal of provisions	3,862	-
Exchange rate gains	-	5,370
Income from subleasing of right-of-use assets	13,788	15,221
Interest income on trade receivables and cash	8,113	9,268
Other miscellaneous operating income	79,926	36,149
	110,374	**76,271**
Other operating costs		
Loss on receivables management	(48,446)	(32,477)
Impairment of contract assets	(93,485)	(95,549)
Impairment of non-current assets	(1,011)	(2,668)
Exchange rate losses	(4,225)	-
Other miscellaneous operating costs	(16,246)	(12,304)
	(163,413)	**(142,998)**
thereof: impairment of financial assets		
Expected credit loss - contract assets	(93,485)	(95,549)
Expected credit loss - trade receivables	(85,311)	(62,008)
	(178,796)	**(157,557)**

The increase in "Other miscellaneous operating income" line item resulted mainly from a write-down of expired pre-paid top ups, which were sold to distributors in the past years and were not used by end-users, in the amount of PLN 37,982 thousand.

Loss on receivables management

The line "Loss on receivables management" represent the net amount resulting from: cost resulting from movement of the expected credit loss of receivables of PLN 85,311 thousand in 2020 (PLN 62,008 thousand in 2019), net result

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on sales of overdue receivables to collecting agencies as well as income from contractual penalties for early contract termination.

Loss on receivables management in 2020 was mainly due to the recognition of additional impairment loss allowances for trade receivables as a result of the COVID-19 pandemic (please see also Note 2.4.3)

The line "Expected credit loss - trade receivables" represents the amount charged to profit and loss according to IFRS 9. When calculating the expected credit loss, the Group takes into account 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 22.

Expected credit loss - contract assets
Expected credit loss of contract assets recognized in 2020 and in 2019 referred mainly to subsidy agreements, for which the value of contract assets and their impairment is much higher than for instalment sales contracts.

For movements of the provision for impairment of contract assets please see Note 23.

10. Finance income and finance costs

	Year ended December 31, 2020	**Year ended December 31, 2019**
Finance income		
Interest income, including:	6,755	999
- on the net investment in the lease	*686*	*196*
Net gain on finance instruments at fair value	3,033	588
- hedging instruments at fair value through profit or loss	*135*	*588*
- gain relating to settlement of hedging instruments at fair value through other comprehensive income	*2,898*	*-*
Exchange rate gains	-	268
Other	1,563	2,854
	11,351	**4,709**
Finance costs		
Interest expense, including:	(229,684)	(257,881)
- on lease liabilities	*(57,387)*	*(59,167)*
Exchange rate losses	(13,197)	-
	(242,881)	**(257,881)**

Interest income incurred in 2020 referred mainly to interest on the notes subscribed by the Group and issued by Play Communications (see Note 18). In 2020 the Group recognized gain on the settlement of IRS in the amount of PLN 2,898 thousand (see also Note 28).

Interest expense incurred in 2020 decreased in comparison to 2019 mainly due to a decrease of market interest rates in 2020, a decrease of margin as a result of improved Financial Leverage ratio and lower nominal value of the SFA loan due to the planned and voluntary repayments made in 2020 (please see also Note 27.1.1).
Exchange rate losses were caused mainly by significant depreciation of Polish Złoty against EUR in 2020.

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11. Taxation

	Year ended December 31, 2020	Year ended December 31, 2019
Current tax charge	(329,291)	(276,793)
Deferred tax benefit/(charge)	7,407	(11,017)
Income tax charge	**(321,884)**	**(287,810)**

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

	Year ended December 31, 2020	Year ended December 31, 2019
Profit before income tax	**1,335,354**	**1,260,519**
Tax calculated at the prevailing tax rate applicable to profit (19%)	(253,717)	(239,499)
Effect of difference between tax rates in Luxembourg and in Poland	(42)	12
Expenses not subject to tax	(42,435)	(52,781)
Income not subject to tax	271	101
Previous years tax income included in current year accounting profit	283	825
Adjustments relating to previous tax years	(27,798)	754
Change in unrecognized deferred tax asset	1,554	60
Taxable costs not included in accounting profit	-	2,718
Income tax charge	**(321,884)**	**(287,810)**

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% and in Luxembourg 22.80% in 2020 and 2019.

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 22.8% 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. As at December 31, 2020 the subsidiary Play Finance 1 S.A. with its registered office in Luxembourg posted tax losses, which resulted in positive effect of the higher tax rate in the above reconciliation.

In 2020, the Group also corrected tax returns for 2014-2019, which resulted in the payment and recognition of costs on account of overdue income tax with interest in the amount of PLN 20,542 thousand. Please see also Note 41.1.

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Deferred tax assets and liabilities by category

	December 31, 2020	**December 31, 2019**
Net deductible temporary differences		
Potential base for deferred income tax calculation	(904,234)	(886,323)
Potential deferred income tax net asset/(liability), thereof:	**(170,131)**	**(168,401)**
- recognized deferred income tax assets	*3*	-
- recognized deferred income tax liabilities	*(168,655)*	*(168,401)*
- deferred income tax liabilities directly associated with assets held for sale (see Note 12) - recognized	*(3,193)*	-
- not recognized deferred income tax assets	*1,714*	-
Carry-forwards of unused tax losses		
Potential base for deferred income tax calculation	68,812	68,508
Potential deferred income tax net asset/(liability), thereof:	**15,606**	**15,548**
- recognized deferred income tax liabilities	*211*	-
- not recognized deferred income tax assets	*15,395*	*15,548*
Total, netted at subsidiary level		
- recognized deferred income tax assets	**3**	**-**
- recognized deferred income tax liabilities	**(168,444)**	**(168,401)**
- deferred income tax liabilities directly associated with assets held for sale (see Note 12) - recognized	**(3,193)**	**-**
- not recognized deferred income tax assets	17,109	15,548

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 2021 and long-term financial projections. As at December 31, 2020 and December 31, 2019, the P4 Group did not recognize deferred tax assets relating to tax losses in the entities for which the likelihood of future taxable profits that would allow realization of these tax losses is insufficient. The tax losses of P4 have been fully used.

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

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

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Movement in deferred tax assets and liabilities:

	Year ended December 31, 2020	**Year ended December 31, 2019**
Beginning of period:		
Deferred tax assets	**-**	**-**
Deferred tax liabilities	**(168,401)**	**(130,450)**
charged to the income statement	7,407	(11,017)
credited to equity	-	-
resulting from acquisition of subsidiaries	(10,640)	(26,934)
deferred tax liabilities directly associated with assets held for sale (see Note 12)	3,193	-
End of period:		
Deferred tax assets	**3**	**-**
Deferred tax liabilities	**(168,444)**	**(168,401)**

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The deferred tax assets and liabilities consist of the following:

Deferred tax assets

	Carry-forward of unused tax losses	Provisions, accruals and deferred income	Contract liabilities	Fixed and intangible assets	Inventories	Liabilities	Other items	**Total**
As at January 1, 2019	**9,985**	**23,569**	**17,692**	**81,215**	**4,340**	**255,418**	**67**	**392,286**
resulting from acquisition of subsidiaries	-	469	-	-	-	4,406	233	5,108
credited / (charged) to the income statement	(9,985)	14,274	1,655	2,242	(2,104)	(3,749)	51	2,384
As at December 31, 2019	**-**	**38,312**	**19,347**	**83,457**	**2,236**	**256,075**	**351**	**399,778**
credited / (charged) to the income statement	211	24,715	1,477	3,868	(2,236)	15,314	(33)	43,316
As at December 31, 2020	**211**	**63,027**	**20,824**	**87,325**	**-**	**271,389**	**318**	**443,094**

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, 2019	**(2,604)**	**(164,764)**	**(70,804)**	**(2,355)**	**(264,599)**	**(17,475)**	**-**	**(106)**	**(29)**	**(522,736)**
resulting from acquisition of subsidiaries	(28,309)	-	-	-	-	(3,725)	-	-	(8)	(32,042)
charged to the income statement	(6,245)	(1,789)	72	389	(12,027)	6,012	-	102	85	(13,401)
As at December 31, 2019	**(37,158)**	**(166,553)**	**(70,732)**	**(1,966)**	**(276,626)**	**(15,188)**	**-**	**(4)**	**48**	**(568,179)**
resulting from acquisition of subsidiaries	(10,640)	-	-	-	-	-	-	-	-	(10,640)
credited / (charged) to the income statement	494	(41,872)	(3,462)	(133)	6,148	4,739	(818)	(265)	(740)	(35,909)
As at December 31, 2020	**(47,304)**	**(208,425)**	**(74,194)**	**(2,099)**	**(270,478)**	**(10,449)**	**(818)**	**(269)**	**(692)**	**(614,728)**
- thereof directly associated with assets held for sale (see Note 12)	*(842)*	*(2,351)*	-	-	-	-	-	-	-	*(3,193)*

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12. Assets held for sale

On 22 October 2020, Iliad Purple S.A.S. ("Iliad"), as the seller and Sevilla sp. z o.o. (currently Cellnex Poland sp. z o.o.) ("Cellnex") as the buyer, entered into an agreement for the purchase by Cellnex of 60% shares in the share capital of the special-purpose vehicle, to which the Company intends to transfer passive infrastructure comprising approximately 7 thousand locations (base stations). On 26 November 2020, Play Communications entered into the rights and duties of Iliad as the seller under the sales agreement concluded with Cellnex. The transaction received the required approval from the UOKiK President.

Below we present the main categories of assets classified as held for sale and the corresponding liabilities in accordance with IFRS 5 Assets held for sale

	December 31, 2020
ASSETS	
Property, plant and equipment	881,549
Right of use assets	749,045
Assets under construction	52,890
Long term receivables	1,896
	1,685,380
LIABILITIES	
Lease liabilities	673,396
Deferred tax liability	3,193
ARO provision	207,934
	884,523
Net assets directly associated with disposal group	**800,857**

The cash flows relating to assets held for sale and the corresponding liabilities are presented in the statement of cash flows in the line items "Purchase of fixed assets and intangibles and prepayments for assets under construction" and "Repayment of finance liabilities".

The above assets held for sale and the corresponding liabilities do not constitute discontinued operations.

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13. Intangible assets

	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2020	2,869,695	1,441,887	429,279	144,442	4,885,303
Increases	-	641	-	-	641
Transfers and reclassifications	-	166,800	-	10,126	176,926
Acquisition of subsidiaries	-	2,054	23,353	56,000	81,407
Decreases	(89,740)	(6,897)	-	(2,594)	(99,231)
As at December 31, 2020	**2,779,955**	**1,604,485**	**452,632**	**207,974**	**5,045,046**
Accumulated amortization					
As at January 1, 2020	1,199,530	1,049,051	-	38,584	2,287,165
Charge	188,632	152,808	-	21,681	363,121
Transfers and reclassifications	-	(12)	-	(1)	(13)
Decreases	(89,740)	(6,846)	-	(2,591)	(99,177)
As at December 31, 2020	**1,298,422**	**1,195,001**	**-**	**57,673**	**2,551,096**
Net book value as at December 31, 2020	**1,481,533**	**409,484**	**452,632**	**150,301**	**2,493,950**

The transfers recorded in the year ended December 31, 2020 relate mainly to transfers from assets under construction to intangible assets due to the completion of computer and network software and other intangible assets.

The decreases recorded in the year ended December 31, 2020 relate mainly to derecognition of telecommunications licenses which already expired.

The goodwill was recognized primarily on the acquisition of the Germanos Group in 2007 as well as acquisition of 3S Group on August 19, 2019 and acquisition of Virgin Mobile Polska Sp. z o.o. on August 9, 2020 (please see Note 2.5).

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

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Telecommunications licenses

Frequency band	License term from	License term to	Net book value as at December 31, 2020	Net book value as at December 31, 2019
2100 MHz	July 1, 2016	December 31, 2022	43,683	65,524
900 MHz	December 9, 2008	December 31, 2023	43,540	58,053
1800 MHz	February 13, 2013	December 31, 2027	240,414	274,759
800 MHz	January 25, 2016/ June 23, 2016	June 23, 2031	1,004,590	1,104,219
2600 MHz	January 25, 2016	January 25, 2031	149,306	164,114
3700 MHz (regional)	July 1, 2018	December 31, 2020	-	3,496
			1,481,533	**1,670,165**

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	Telecommunications licenses	Computer and network software	Goodwill	Other intangible assets	Total
Cost					
As at January 1, 2019	2,869,695	1,311,569	238,301	50,870	4,470,435
Transfers and reclassifications	-	164,266	-	8,871	173,137
Acquisition of subsidiaries	-	-	190,978	97,311	288,289
Decreases	-	(33,948)	-	(12,610)	(46,558)
As at December 31, 2019	**2,869,695**	**1,441,887**	**429,279**	**144,442**	**4,885,303**
Accumulated amortization					
As at January 1, 2019	974,899	948,413	-	33,694	1,957,006
Charge	224,631	134,117	-	17,500	376,248
Transfers and reclassifications	-	427	-	-	427
Decreases	-	(33,906)	-	(12,610)	(46,516)
As at December 31, 2019	**1,199,530**	**1,049,051**	**-**	**38,584**	**2,287,165**
Net book value as at December 31, 2019	**1,670,165**	**392,836**	**429,279**	**105,858**	**2,598,138**

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14. Property, plant and equipment

	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
Cost							
As at January 1, 2020	1,454	1,522,656	287,518	1,833,562	3,620	115,729	3,764,539
Increases	-	-	63	-	-	-	63
Transfers and reclassifications	(826)	248,008	57,398	262,358	3,894	37,612	608,444
Acquisition of subsidiaries	-	-	407	-	-	33	440
Decreases	(1)	(38,138)	(32,796)	(28,593)	(1,762)	(8,808)	(110,098)
Assets held for sale	(111)	(1,182,731)	(68)	-	-	(26)	(1,182,936)
As at December 31, 2020	**516**	**549,795**	**312,522**	**2,067,327**	**5,752**	**144,540**	**3,080,452**
Accumulated depreciation							
As at January 1, 2020	9	479,129	210,880	967,833	2,418	75,469	1,735,738
Charge	-	76,624	32,536	286,115	292	24,119	419,686
Transfers and reclassifications	(4)	-	6	3,556	2,480	(5)	6,033
Decreases	-	(38,137)	(32,796)	(28,298)	(1,364)	(8,529)	(109,124)
Assets held for sale	(5)	(301,344)	(28)	-	-	(10)	(301,387)
As at December 31, 2020	**-**	**216,272**	**210,598**	**1,229,206**	**3,826**	**91,044**	**1,750,946**
Net book value as at December 31, 2020	**516**	**333,523**	**101,924**	**838,121**	**1,926**	**53,496**	**1,329,506**

The transfers recorded during the year ended December 31, 2020 relate mainly to transfers from assets under construction to fixed assets due to the completion of investment projects.

Buildings represent mainly own telecommunications towers and cost of civil works and materials used for adapting leased property (e.g. roof tops) so that the Group's telecommunications equipment can be installed. In connection with the planned transaction of selling a portion of passive infrastructure, the Group has reclassified these infrastructure elements to a separate line item, "Assets held for sale" (please see Note 12).

Certain proportion of the Property, plant and equipment is also used to generate revenue from operating leases where some assets (towers) 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.

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	Land	Buildings	IT equipment	Telecommunications network and equipment	Motor vehicles	Other	Total
Cost							
As at January 1, 2019	46	1,199,597	264,628	1,433,598	2,885	82,821	2,983,575
Transfers and reclassifications	-	348,978	37,980	344,286	111	36,153	767,508
Acquisition of subsidiaries	1,408	12,711	-	109,537	1,175	267	125,098
Decreases	-	(38,630)	(15,090)	(53,859)	(551)	(3,512)	(111,642)
As at December 31, 2019	**1,454**	**1,522,656**	**287,518**	**1,833,562**	**3,620**	**115,729**	**3,764,539**
Accumulated depreciation							
As at January 1, 2019	5	452,373	181,987	774,463	2,849	60,850	1,472,527
Charge	4	65,438	32,710	245,220	65	17,751	361,188
Transfers and reclassifications	-	(52)	11,264	889	36	-	12,137
Decreases	-	(38,630)	(15,081)	(52,739)	(532)	(3,132)	(110,114)
As at December 31, 2019	**9**	**479,129**	**210,880**	**967,833**	**2,418**	**75,469**	**1,735,738**
Net book value as at December 31, 2019	**1,445**	**1,043,527**	**76,638**	**865,729**	**1,202**	**40,260**	**2,028,801**

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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, 2020	273,611	1,515,797	17,228	32,303	28,383	1,867,322
Increases	62,379	127,106	-	3,139	-	192,624
Asset retirement obligation	-	178,455	-	-	-	178,455
Transfers and reclassifications	3,368	11,154	5,917	204	5,011	25,654
Decreases	(8,523)	(78,048)	(684)	(5,277)	(4,117)	(96,649)
Assets held for sale	(287,693)	(1,156,524)	-	-	-	(1,444,217)
As at December 31, 2020	**43,142**	**597,940**	**22,461**	**30,369**	**29,277**	**723,189**
Accumulated depreciation						
As at January 1, 2020	91,450	857,892	8,451	12,243	12,738	982,774
Charge	26,767	121,118	4,260	6,950	5,351	164,446
Charge from asset retirement obligation	-	8,572	-	-	-	8,572
Transfers and reclassifications	4	-	-	(3,544)	(2,480)	(6,020)
Decreases	(741)	(69,777)	(682)	(3,635)	(2,851)	(77,686)
Assets held for sale	(112,348)	(582,824)	-	-	-	(695,172)
As at December 31, 2020	**5,132**	**334,981**	**12,029**	**12,014**	**12,758**	**376,914**
Net book value as at December 31, 2020	**38,010**	**262,959**	**10,432**	**18,355**	**16,519**	**346,275**

During 2020, the Company remeasured the asset retirement provision and the corresponding asset, which increased the value of the asset (please see also Note 2.4.6). In connection with the planned passive infrastructure sale transaction, the Group has reclassified the right-of-use asset related to the infrastructure elements classified for sale to a separate line item, “Assets held for sale” (please see Note 12).

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN 27 thousand in the year ended December 31, 2020. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed. The costs relating to leases for which the Group applied the practical expedient described in paragraph 5a of the IFRS 16 (leases with the contract term of less than 12 months) amounted to PLN 9,396 thousand in the year ended December 31, 2020.

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

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	Right-of-Use: Land	Right-of-Use: Buildings	Right-of-Use: IT equipment	Right-of-Use: Telecommunications network and equipment	Right-of-Use: Motor vehicles	Right-of-Use: Total
Cost						
As at January 1, 2019	222,483	1,438,820	23,059	32,626	24,032	1,741,020
Increases	54,034	88,898	-	10,801	-	153,733
Asset retirement obligation	-	14,876	-	-	-	14,876
Transfers and reclassifications	-	-	(4,785)	(779)	9,108	3,544
Acquisition of subsidiaries	-	8,183	-	(3,137)	2,741	7,787
Decreases	(2,906)	(34,980)	(1,046)	(7,208)	(7,498)	(53,638)
As at December 31, 2019	**273,611**	**1,515,797**	**17,228**	**32,303**	**28,383**	**1,867,322**
Accumulated depreciation						
As at January 1, 2019	69,490	760,995	15,755	15,201	12,402	873,843
Charge	22,883	123,207	5,436	7,677	6,826	166,029
Charge from asset retirement obligation	-	2,556	-	-	-	2,556
Transfers and reclassifications	-	-	(11,698)	(830)	(36)	(12,564)
Acquisition of subsidiaries	-	(1,783)	-	(3,085)	-	(4,868)
Decreases	(923)	(27,083)	(1,042)	(6,720)	(6,454)	(42,222)
As at December 31, 2019	**91,450**	**857,892**	**8,451**	**12,243**	**12,738**	**982,774**
Net book value as at December 31, 2019	**182,161**	**657,905**	**8,777**	**20,060**	**15,645**	**884,548**

The transfers and reclassifications concern mainly assets that were previously used under lease agreements and were purchased by the Group at the end of the lease period and are currently used as own fixed assets.

The cost relating to variable lease payments that do not depend on an index or a rate amounted to PLN nil in the year ended December 31, 2019. There were no leases with residual value guarantees or leases not yet commenced to which the Group is committed. The costs relating to leases for which the Group applied the practical expedient described in paragraph 5a of the IFRS 16 (leases with the contract term of less than 12 months) amounted to PLN 10,489 thousand in the year ended December 31, 2019.

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16. Assets under construction

	Year ended December 31, 2020	**Year ended December 31, 2019**
Cost		
As at January 1	288,593	440,561
Acquisition of subsidiaries	-	5,502
Additions	921,340	788,854
Radio network	577,979	523,595
Core network and network operations center	121,923	81,540
IT	123,433	127,637
Other capital expenditures	98,005	56,082
Transfers and reclassifications	(811,024)	(944,189)
Disposals	(2,294)	(2,135)
Reclassification to inventories under construction	(80,161)	-
Assets held for sale	(52,890)	-
As at December 31	**263,564**	**288,593**
Accumulated impairment		
As at January 1	2,687	2,219
Impairment charge, net	698	2,255
Utilization of impairment provision	(2,081)	(1,787)
As at December 31	**1,304**	**2,687**
Net book value as at December 31	**262,260**	**285,906**

Assets under construction comprise expenditures on property, plant and equipment as well as intangible assets being under construction.

Transfers and reclassifications represent transfers from assets under construction to property, plant and equipment, to intangible assets and to right-of-use assets.

The Group did not capitalize any interest expense or exchange rate differences during the periods presented.

Contractual commitments for purchase of property, plant and equipment and intangible assets amounted to PLN 171,833 thousand as at December 31, 2020 and PLN 200,466 thousand as at December 31, 2019.

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17. Contract costs

	Year ended December 31, 2020	Year ended December 31, 2019
Cost		
As at January 1	773,960	732,553
Additions	405,089	383,461
Disposals - terminated contracts	(391,771)	(342,054)
As at December 31	**787,278**	**773,960**
Accumulated amortization		
As at January 1	399,880	359,900
Charge (including impairment)	388,677	382,035
Disposals (including impairment) - terminated contracts	(391,772)	(342,055)
As at December 31	**396,785**	**399,880**
Net book value as at December 31	**390,493**	**374,080**

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

18. Finance receivables

	December 31, 2020	December 31, 2019
Long-term finance receivables		
PC S.A. PLN Notes due in 2022	145,380	201,998
	145,380	**201,998**
Short-term finance receivables		
PC S.A. PLN Notes due in 2021	322,405	-
Accrued interest on notes	362	294
	322,767	**294**

In 2020, the Group purchased the following notes:

- On May 28, 2020, P4 purchased series C notes issued by Play Communications worth PLN 87,000 thousand. The maturity date of the notes is May 28, 2021. Interest is calculated based on 3M WIBOR rate plus margin and is capitalized quarterly. As at December 31, 2020, accrued interest was PLN 157 thousand.
- On May 25, 2020, P4 purchased series D notes issued by Play Communications worth PLN 87,000 thousand. The maturity date of the notes is September 25, 2021. Interest is calculated based on 3M WIBOR rate plus margin and is capitalized quarterly. As at December 31, 2020, accrued interest was PLN 29 thousand.
- On December 11, 2020, P4 purchased series E notes issued by Play Communications worth PLN 41,000 thousand. The maturity date of the notes is December 11, 2021. Interest is calculated based on 3M WIBOR rate plus margin and is payable quarterly. As at December 31, 2020, accrued interest was PLN 45 thousand.
- On December 29, 2020, P4 purchased series F notes issued by Play Communications worth PLN 106,000 thousand. The maturity date of the notes is December 29, 2021. Interest is calculated based on 3M WIBOR rate plus margin and is payable quarterly. As at December 31, 2020, accrued interest was PLN 12 thousand.

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In 2019, the Group purchased the following notes:

- On February 1, 2019, P4 purchased series J notes issued by Play Communications worth PLN 11,000 thousand. Interest was calculated based on 1Y WIBOR rate plus margin. On March 20, 2019, Play Communications redeemed the notes in full with interest.

- On February 25, 2019, P4 purchased series A notes issued by Play Communications worth PLN 61,000 thousand. The maturity date was February 28, 2022. Interest was calculated based on 1Y WIBOR rate plus margin. On March 20, 2019, Play Communications redeemed the notes in full with interest.

- On December 13, 2019, P4 purchased series B notes issued by Play Communications worth PLN 202,000 thousand. The maturity date of the notes is December 16, 2022. Interest is calculated based on 6M WIBOR rate plus margin and is payable semi-annually. On February 28, 2020, receivables under series B notes were partially offset with notes liabilities under series A notes in the amount of PLN 56,618 thousand. As at December 31, 2020, accrued interest was PLN 119 thousand.

19. Long-term receivables

	December 31, 2020	**December 31, 2019**
Long-term receivables	14,422	15,620
Impairment of long-term receivables	(368)	(368)
	14,054	**15,252**

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

20. Other finance assets

Other finance assets comprise finance lease receivables and investments in shares of third-party entities.

	December 31, 2020	**December 31, 2019**
Long-term investments	232	239
Long-term lease receivables	12,207	11,348
Other long-term finance assets	**12,439**	**11,587**
Short-term lease receivables	7,002	6,260
Other short-term finance assets	**7,002**	**6,260**

20.1 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, 2020 the Group recognized finance lease receivables in relation to dark fiber and IT equipment lease contracts.

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

	December 31, 2020	December 31, 2019
Year 1	6,808	6,884
Year 2	4,772	5,127
Year 3	3,002	2,768
Year 4	1,590	1,399
Year 5	449	607
Year 6 and onwards	4,583	2,348
Undiscounted lease payments	**21,204**	**19,133**
Unguaranteed residual values	-	-
Less: unearned finance income	(1,995)	(1,525)
Present value of minimum lease payments	**19,209**	**17,608**
Impairment Losses	-	-
Net investment in the lease	**19,209**	**17,608**

The Group enters also into lease agreements 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.

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

	December 31, 2020	December 31, 2019
Year 1	32,826	26,428
Year 2	25,966	20,136
Year 3	16,088	11,264
Year 4	10,268	6,353
Year 5	5,767	3,044
Year 6 and onwards	4,053	3,339
total lease payments	**94,968**	**70,564**

21. Inventories

	December 31, 2020	December 31, 2019
Goods for resale	122,612	150,677
Goods in dealers' premises	36,751	32,479
Materials	194	1,926
Inventories under construction	80,161	-
Impairment of goods for resale	(13,008)	(15,935)
	226,710	**169,147**

In connection with the planned sale of a portion of its passive infrastructure, in the line item "Inventories under construction" the Group presented the infrastructure elements that as at December 31, 2020 were assets in construction and were not presented as assets held for sale (please see Note 12) but will be sold in the future.

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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, 2020	**Year ended December 31, 2019**
Beginning of period	**(15,935)**	**(14,975)**
- (charged)/credited to income statement	2,927	(960)
End of period	**(13,008)**	**(15,935)**

The net increase/decrease of the provision for inventories is recognized in the costs of goods sold.

22. Trade and other receivables

	December 31, 2020	**December 31, 2019**
Trade receivables	814,531	866,789
Expected credit loss	(118,674)	(136,815)
Trade receivables (net)	**695,857**	**729,974**
VAT and other government receivables	995	1,409
Other receivables	574	618
Other receivables (net)	**1,569**	**2,027**
	697,426	**732,001**

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 "hold 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, 2020, trade receivables in the amount of PLN 118,674 thousand (December 31, 2019: PLN 136,815 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.

As at December 31, 2020, trade receivables in the amount of PLN 130,265 thousand (December 31, 2019: PLN 175,915 thousand) were overdue but were not covered by the impairment allowance. These relate mainly to individual customers for whom there is no history of default.

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The ageing analysis of trade receivables (net) that were not impaired is as follows:

	December 31, 2020	**December 31, 2019**
Current	565,592	554,059
Overdue 0 to 3 months	106,846	134,964
Overdue 3 to 6 months	10,370	14,615
Overdue over 6 months	13,049	26,336
	695,857	**729,974**

The value of overdue receivables in 2020 decreased in comparison to previous years mainly due to significant sales transaction to collection agencies during 2020.

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

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

	Year ended December 31, 2020	Year ended December 31, 2019
Beginning of period	**(136,815)**	**(163,796)**
- charged to income statement	(85,311)	(62,008)
- utilized	103,452	88,989
End of period	**(118,674)**	**(136,815)**

In 2020 the Group recognized a higher impairment allowance for expected credit losses as compared to 2019 in connection with the estimated deterioration of recoverability due to the COVID-19 pandemic.

Utilization of provision in 2020 increased in comparison to previous years due to significant transactions of sales of impaired receivables to collection agencies. For explanation of changes in the amounts charged or credited to income statement please see Note 9.

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

Credit risk exposure resulting from the Group's trade receivables as at December 31, 2020 and December 31, 2019 is as follows:

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

December 31, 2019	**Not past due**	**Overdue 0 to 3 months**	**Overdue 3 to 6 months**	**Overdue over 6 months**	**Total**
Expected credit loss	3.8%	10.2%	52.6%	76.0%	
Total trade receivables, gross	576,065	150,371	30,834	109,519	866,789
Accumulated impairment loss	**(22,006)**	**(15,407)**	**(16,219)**	**(83,183)**	**(136,815)**
Total trade receivables, net	**554,059**	**134,964**	**14,615**	**26,336**	**729,974**

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23. Contract assets

	December 31, 2020	**December 31, 2019**
Contract assets	1,515,144	1,537,248
Impairment of contract assets	(91,588)	(81,326)
	1,423,556	**1,455,922**

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 2.4.3.

Expected credit loss rate for contract assets as at December 31, 2020 and 2019 amounted to 6% and 5.3%, respectively.

In the year ended December 31, 2020 and in the comparative period the value of the contract assets relating to contracts actually disconnected is presented in line "utilization" below, whereas the line "charged to income statement" represents the changes in estimated credit losses which the Group expects to incur in future.

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

	Year ended December 31, 2020	**Year ended December 31, 2019**
Beginning of period	(81,326)	(74,688)
- charged to income statement	(93,485)	(95,549)
- utilization	83,223	88,911
End of period	**(91,588)**	**(81,326)**

For explanation of changes in the impairment charged to profit and loss account – please see Note 9.

Movements in the contract assets balance for the years ended: December 31, 2020 and December 31, 2019 were as follows:

	Year ended December 31, 2020	**Year ended December 31, 2019**
Contract assets, net - Beginning of period	**1,455,922**	**1,392,630**
Additions	1,352,170	1,434,034
Invoiced amounts transferred to trade receivables	(1,291,051)	(1,275,193)
Impairment, charged to income statement	(93,485)	(95,549)
Contract assets, net - End of period	**1,423,556**	**1,455,922**

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.

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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.

24. Prepaid expenses

	December 31, 2020	December 31, 2019
Distribution and selling costs	9,064	5,502
Network and IT maintenance	10,974	14,439
Other	8,857	8,818
	28,895	**28,759**

As of December 31, 2020 and in the comparative period other prepaid expenses include mainly advance payments for services.

25. Cash and cash equivalents

	December 31, 2020	December 31, 2019
Petty cash	352	714
Balances deposited with banks	840,384	284,157
Other cash assets	523	877
	841,259	**285,748**

As of December 31, 2020 and December 31, 2019 balances deposited with banks included, among others, cash related to VAT received through split payment process imposed by new laws effective from July 1, 2018.

26. Shareholders' equity

26.1 Share capital

As at December 31, 2020 and as at December 31, 2019, 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 500 per share.

26.2 Other supplementary capital

On June 9, 2017, the Ordinary Shareholder Meeting of the Company allocated the supplementary capital (share premium) of PLN 1,225,745 thousand to cover previous year losses.

Supplementary capital is also credited or charged with effects of measurement and settlements of equity-settled retention programs. In July 2017, the shares of Play Communications were listed on the Warsaw Stock Exchange ("WSE"). The Initial Public Offering ("IPO") was considered an event triggering the final settlement of the retention programs granted to members of P4's Management Board: EGA MB Plan, PSA 1, PSA 2 and PSA 3 Plans. On July 27, 2017 the payouts from these programs were exercised and programs ended. Upon the IPO, on July 27, 2017, the members of the Management Board of P4 and key employees have entered into new equity-settled retention programs. For detailed descriptions of the plans, including the amounts affecting the value of supplementary capital, please see Note 30.

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26.3 Retained earnings

In the financial year ended December 31, 2020, the Group paid out a dividend of PLN 740,000 thousand to the parent company.

In the financial year ended December 31, 2019, the Group paid out a dividend of PLN 530,000 thousand to the parent company.

27. Finance liabilities - debt

Financial liabilities are recognized initially at fair value, net of the transaction costs incurred. Bank loans, finance lease liabilities and notes liabilities are subsequently stated at amortized cost (see also Note 43.20).

	December 31, 2020	**December 31, 2019**
Long-term finance liabilities		
Long-term bank loans	3,406,493	3,184,742
Long-term notes liabilities	1,247,738	806,555
Long-term lease liabilities	277,042	822,510
Other debt	1,332	6,146
	4,932,605	**4,819,953**
Short-term finance liabilities		
Short-term bank loans	116,371	110,799
Short-term notes liabilities	800	1,382
Short-term lease liabilities	82,753	168,251
Other debt	6,209	20,532
	206,133	**300,964**
	5,138,738	**5,120,917**

27.1 Bank loans

	December 31, 2020	**December 31, 2019**
Long-term bank loans		
Senior Facilities (SFA)	3,406,493	3,184,742
	3,406,493	**3,184,742**
Short-term bank loans		
Senior Facilities (SFA)	116,371	110,799
	116,371	**110,799**
	3,522,864	**3,295,541**
the balance of unamortized fees	19,832	36,673
the weighted average effective interest rate	2.58%	4.71%

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

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27.1.1 Senior Facilities Agreement (SFA)

On March 7, 2017, P4 and Play Communications entered into PLN 7,000,000 thousand Senior Facilities Agreement with a consortium of banks. The financing amount included a term loan of PLN 6,600,000 thousand and a renewable loan of PLN 400,000 thousand.

On March 20, 2017, the Company drew down the amount of PLN 4,165,000 thousand under the above agreement. On March 20 and 21, 2017, Play Communications drew down the amount of PLN 2,278,000 thousand under the above agreement. The remaining amounts under the available term loan facility were cancelled. Additionally, under the SFA, the Company may use available financing under the revolving credit facility up to PLN 400,000 thousand, which was undrawn as at December 31, 2020.

The funds were used to repay EUR 5.25% Senior Secured Notes maturing in 2019, EUR Floating Rate Senior Notes maturing in 2019 and EUR 6.5% Notes maturing in 2019 issued by the Group and to cover all costs related to repayment of the notes as well as to purchase A Series Notes issued by Impera Holdings S.A. on March 20, 2017.

The loan drawn down under Facility A in the amount of PLN 1,580,000 thousand was initially repayable in semi-annual instalments. The first two instalments, each one in the amount of 8% of the total Facility A amount, were due and repaid in March 2018 and September 2018 respectively. Further instalments, each of which was to represent 12% of the total Facility A amount, would be repaid semi-annually till March 2022. According to the Amendment signed on January 8, 2019 (for more details please see below), the repayment schedule was changed: the future semi-annual instalments were decreased to 8.45% of total outstanding Facility A amount and the repayment of the last instalment in March 2022 was increased to PLN 654,310 thousand.

The loan drawn down under Facility B in the amount of PLN 1,765,000 thousand is repayable in full on September 20, 2022.
The loan drawn down under Facility C in the amount of PLN 820,000 thousand was to be repayable in full on March 20, 2023. Facility C was repaid in full in 2020.

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

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

The present value of bank loans approximates their fair value. The discount rate for the fair value calculation approximates the effective interest rate.

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

- senior secured leverage: the ratio of consolidated senior secured net debt (limited to borrowings ranking pari passu with the facilities under the Intercreditor Agreement) to consolidated EBITDA shall not exceed certain thresholds on each relevant quarter test date, the threshold starting from the level 4.25:1 and gradually decreasing to 3.75:1;
- total leverage: the ratio of consolidated total net debt to consolidated EBITDA shall not exceed certain thresholds on each relevant quarter test date, the threshold starting from the level 5.25:1 and gradually decreasing to 3.75:1;
- - cashflow cover (the ratio of consolidated cash flows to net debt service) and interest cover (the interest coverage ratio): when Total Leverage is above 2.75:1, cashflow cover shall not be less than 1.0 on each relevant quarter test date; when Total Leverage is below 2.75:1 the ratio of consolidated EBITDA to net finance costs shall not be less than 2.75:1 on each relevant quarter test date.

All covenants were met in 2020 and in 2019.

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

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On January 8, 2019 P4 and Play Communications entered into a Second Amendment and Restatement Agreement to the Senior Facilities Agreement, which, among other, have the following amendments to the SFA:

1. Amending the SFA amortization profile (for P4 and Play Communications together) by decreasing annual capital repayments to PLN 346.8 million (from PLN 586.3 million) in the years 2019-2021 and increasing repayment in March 2022 to PLN 1,015.7 million (from PLN 293.1 million);
2. Ability to allocate voluntary prepayment to any term loan or any instalment of the SFA at P4's and Play Communications' sole discretion;
3. Ability to request release of security established in connection with the SFA (excluding the release of guarantees granted pursuant to the SFA) when the level of consolidated net debt to adjusted EBITDA (the "Leverage") is less than or equal to 2.00:1 with an obligation to re-establish previously released security if the Leverage becomes greater than 2.00:1;
4. Modification of Change of Control definition in a way that change of control occurs if any shareholder other than two largest shareholders at the time holds more than 33⅓% of share capital, while any restrictions on those largest shareholders have been removed;
5. Decrease of the margin over WIBOR by 0.25pp when Leverage falls below 3.00:1 and introduction of new levels of total Leverage which trigger further decrease of margin.
6. Amendment to the financial covenant changing the level of Leverage below which interest cover is tested instead of the ratio of consolidated cash flows to net debt service ("cashflow cover") from 2.75:1 to 3.00:1;
7. Amending the Consolidated EBITDA calculation base from last half a year annualized to last twelve months;
8. Optional introduction of unsecured bond program as part of Permitted Financial Indebtedness in the amount of up to PLN 2 billion;
9. Other amendments to definitions of Consolidated Cashflow, Consolidated EBITDA, Acceptable Funding Sources and Permitted Acquisitions, with adjustments to the ratio calculation rules;
10. Other technical amendments and clean-ups.

On April 14, 2020, the Group finalized the drawdown of an additional Facility D in the amount of PLN 1,200,000 thousand. Interest for Facility D is calculated based on 3M WIBOR rate plus margin and is payable quarterly. The loan drawn down under Facility D is payable in full on April 14, 2023.

In connection with a takeover bid announced on September 21, 2020, by iliad Purple S.A.S. ("iliad Purple") to acquire 100% shares in Play Communications, on November 17, 2020, the Group signed an annex to SFA, which conditionally changed the definition of the Group's owners ("Relevant Holders") currently understood as Iliad S.A. in Paris and its subsidiaries or affiliates and other changes were made to definitions in SFA. The condition for amendments to come into effect was the acquisition by iliad Purple of a majority stake in Play Communications. The condition was fulfilled on November 25, 2020.

During 2020 and in 2019, due to favourable cash position, the Group made voluntary prepayments of the principal of Senior Facilities Agreement (SFA) in the amount of PLN 994,571 thousand in 2020 and PLN 579,985 thousand in 2019:

1. On February 26, 2019 Facility A instalment originally maturing on March 29, 2019 in the amount of PLN 112,148 thousand plus accrued interest,
2. On August 30, 2019 Facility A instalment originally maturing on September 30, 2019 in the amount of PLN 112,148 thousand plus accrued interest,
3. On December 13, 2019 Facility C instalment originally maturing on March 20, 2023 in the amount of PLN 243,540 thousand plus accrued interest,
4. On December 17, 2019 Facility A instalment originally maturing on March 31, 2020 in the amount of PLN 112,148 thousand plus accrued interest.
5. On April 16, 2020 Facility C instalment originally maturing on March 20, 2023 in the amount of PLN 493,000 thousand plus accrued interest.
6. On May 29, 2020 Facility A instalment originally maturing on September 30, 2020 in the amount of PLN 112,148 thousand plus accrued interest.
7. On September 30, 2020 Facility A instalment originally maturing on March 31, 2021 in the amount of PLN 112,148 thousand plus accrued interest.
8. On December 15, 2020 Facility C instalment originally maturing on March 20, 2023 in the amount of PLN 83,460 thousand plus accrued interest (final repayment).

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9. On December 31, 2020 Facility B instalment originally maturing on September 20, 2022 in the amount of PLN 193,814 thousand.

27.1.2 ING Bank Śląski S.A. loan (repaid in 2019)

As at August 19, 2019 upon the acquisition of 3S Group, the Group's bank loans liabilities comprised also fair value of ING Bank Śląski facilities in the amount of PLN 67,611 thousand resulting from business combination (see note 2.5). The credit agreement signed on December 19, 2018 by the 3S Group with ING Bank Śląski S.A. included PLN 86,400 thousand term loan facilities (Facility A and B) and PLN 10,000 thousand overdraft facility (Facility C). The purpose of the facilities was to refinance old debt, pay due CIT, finance capital expenditures allowed under the agreement and finance working capital needs. Facilities A and B were drawn down in the amount of PLN 68,347 thousand. Facility A was repayable in monthly instalments; the first instalment was due in January 2019; the last instalment was due in December 2025. Facility B was due in full in December 2025 and Facility C was available until December 2020. Interest was calculated based on 1M WIBOR rate plus margin.

On October 17, 2019 the Group voluntarily closed the overdraft facility and repaid the full outstanding amount of the ING Bank Śląski term loan in the amount of PLN 63,795 thousand.

27.1.3 Santander Bank Polska S.A. (formerly Bank Zachodni WBK S.A.) loan

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

The facility is available until May 31, 2021. Interest is calculated based on 1M WIBOR rate plus margin.

As at December 31, 2020, the overdraft line was fully available.

27.1.4 Millennium Bank loan

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

The facility is available until November 12, 2021. Interest is calculated based on 1M WIBOR rate plus margin.

As at December 31, 2020, the overdraft line was fully available.

27.1.5 mBank loan

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

facility is available until April 15, 2021. Interest is calculated as ON WIBOR rate plus margin.

As at December 31, 2020, the overdraft line was fully available.

27.1.6 DNB Bank loan

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

The facility is available until September 3, 2021. Interest is calculated based on 1M WIBOR rate plus margin.

As at December 31, 2020, the overdraft line was fully available.

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27.2 Notes

	December 31, 2020	December 31, 2019
Long-term notes liabilities		
PLN Floating Rate Notes	1,247,738	748,361
PLN Floating Rate Notes (purchased by PC S.A.)	-	58,194
	1,247,738	**806,555**
Short-term notes liabilities		
Accrued interest related to notes	800	1,382
	800	**1,382**
	1,248,538	**807,937**
the balance of unamortized fees	2,262	1,640
the weighted average effective interest rate	2.08%	3.61%

27.2.1 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 National Securities Depository. 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, are paid semi-annually. The first interest payment was made on June 13, 2020.

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

The fair value of Series A notes as at December 31, 2020 was PLN 752,990 thousand and was composed of 1.003 of the nominal value of the notes plus accrued interest. The inputs used in determining the fair value of the notes fall within Level 1 of the fair value hierarchy (fully observable inputs for assets and liabilities, e.g. prices from active markets for identical assets and liabilities).

27.2.2 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 National Securities Depository. 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 will be 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.

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

27.2.3 Series A2 Unsecured Notes (repaid in 2020)

On March 23, 2020, the Company issued Series A2 PLN Floating Rate Notes with the aggregated value of PLN 220,000 thousand. The Notes were subscribed by Play Communications and the Company repaid the notes in full on May 8, 2020.

27.2.4 Series A Unsecured Notes (repaid in 2020)

On July 27, 2017, P4 issued Series A PLN Floating Rate Notes with the aggregated value of PLN 285,309 thousand. The Notes were subscribed by Play Communications. The maturity date of the notes is set at June 30, 2022. Interest on the notes is calculated at the rate of 1Y WIBOR plus margin. Accrued interest is payable on the date of redemption of the notes.

On December 22, 2017, the principal of the notes of PLN 116,315 thousand and accrued interest of PLN 2,759 thousand were partially set off against the Company's note receivables from Play Communications.

On December 19, 2018, the principal of the notes of PLN 67,000 thousand and accrued interest of PLN 1,838 thousand were partially set off against the Company's note receivables from Play Communications (see Note 18).

On August 30, 2019, the Group made a partial repayment of the principal of the notes of PLN 61,000 thousand and interest of PLN 597 thousand.

On February 28, 2020, the Group made a full repayment of the principal of the notes of PLN 56,618 thousand and interest of PLN 2,209 thousand.

27.2.5 Series A1 Unsecured Notes (repaid in 2019)

On March 22, 2019, P4 issued Series A1 PLN Floating Rate Notes with the aggregated value of PLN 250,000 thousand. The Notes were subscribed by Play Communications. The maturity date of the notes was set at June 24, 2019. Interest on the notes was calculated at the rate of 3M WIBOR plus margin. In the year ended December 31, 2019, the Company made a full repayment of the notes with interest in the amount of PLN 1,344 thousand.

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27.3 Lease liabilities

	December 31, 2020	December 31, 2019
Long-term lease liabilities		
Telecommunications sites	145,660	729,306
Points of sale	38,095	46,099
Dark fiber optic cable	8,812	13,177
Collocation centers	12,898	4,906
Offices and warehouse	52,964	14,793
IT equipment and telecommunications equipment	12,336	8,359
Motor vehicles	6,277	5,870
	277,042	**822,510**
Short-term lease liabilities		
Telecommunications sites	19,609	100,837
Points of sale	30,495	29,185
Dark fiber optic cable	5,890	6,097
Collocation centers	3,557	5,342
Offices and warehouse	6,078	11,588
IT equipment and telecommunications equipment	10,009	8,138
Motor vehicles	7,115	7,064
	82,753	**168,251**
	359,795	**990,761**

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

The decrease in lease liabilities as at December 31, 2020 as compared to December 31, 2019 is due to a change in presentation of a portion of lease liabilities as liabilities directly linked to assets available for sale (see Note 12). Nevertheless, the total value of lease liabilities increased as at December 31, 2020 compared to December 31, 2019, mainly as a result of an increased number of facilities leased for base stations and in connection with recognition of the liability under the office space lease agreement for P4's new head offices at ul. Wynalazek 1 in Warsaw. The balance of finance lease liabilities increased also due to factors such as: the exchange rate for contracts denominated in foreign currencies or the interest rate for new contracts.

27.4 Other finance liabilities

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

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27.5 Changes in finance liabilities

	Year ended December 31, 2020	Year ended December 31, 2019
Bank loans		
As at January 1	**3,295,541**	**3,872,833**
Cash inflows	1,200,000	45,000
Acquisition of subsidiaries	-	67,619
Interest accrued	148,702	188,360
Cash outflows: interest paid	(115,655)	(169,645)
Cash outflows: other payments	(11,137)	(16,022)
Cash outflows: repayment of principal	(994,587)	(692,604)
As at December 31	**3,522,864**	**3,295,541**
Notes		
As at January 1	**807,937**	**114,285**
Cash inflows	720,000	1,000,000
Interest accrued	22,188	8,234
Cash outflows: interest paid	(23,673)	(1,942)
Cash outflows: other payments	(1,540)	-
Set-off	(57,024)	-
Cash outflows: repayment of principal	(220,000)	(311,000)
Transaction costs	650	(1,640)
As at December 31	**1,248,538**	**807,937**
Lease		
As at January 1	**990,761**	**984,208**
New leases	217,753	146,550
Acquisition of subsidiaries	-	23,711
Modifications or terminations of lease contracts	(6,042)	(2,289)
Interest accrued	57,387	59,167
Effect of changes in foreign exchange rates	7,293	(735)
Liabilities directly associated with assets held for sale (see Note 12)	(673,396)	-
Lease payments	(233,961)	(219,851)
As at December 31	**359,795**	**990,761**
Other debt		
As at January 1	**26,678**	**29,617**
Acquisition of subsidiaries	-	54
New contracts	8,706	21,208
Interest accrued	749	768
Cash outflows: interest paid	(750)	(768)
Cash outflows: other payments	(12)	-
Effect of changes in foreign exchange rates	(38)	(46)
Cash outflows: repayment of principal	(27,792)	(24,155)
As at December 31	**7,541**	**26,678**

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

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Other payments relating to loans and notes represent the fees incurred in relation with the Senior Facilities Agreement signed in March 2017 – please see Note 27.1.1 and transaction fees paid in relation to the issue of notes in December 2019 and December 2020 – see Notes 27.2.1 and 27.2.2.

27.6 Assets pledged as security for finance liabilities

The Senior Facilities are currently secured by:

- financial and registered pledge over the shares in P4 established by Play Communications as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- civil and registered pledge over the rights of the general partner in Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. established by 3GNS sp. z o.o. as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- civil and registered pledge over the rights of the limited partner in Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. established by P4 as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- financial pledges over bank accounts established by P4 as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- financial pledges over bank accounts established by Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- powers of attorney to the bank accounts granted by P4 and Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. in favor of Santander Bank Polska S.A.;
- registered pledge over the collection of assets (including, without limitation, material intellectual property and insurance (if any)) of P4 established by P4 as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- registered pledge over the collection of assets (including, without limitation, material intellectual property and insurance (if any)) of Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. established by Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- assignment relating to intra-group receivables executed by P4 as assignor in favor of Santander Bank Polska S.A. as assignee; / registered pledge on intra-group notes established by P4 as pledgor in favor of Santander Bank Polska S.A. as pledgee;
- assignment relating to intra-group receivables executed by Play Communications as assignor in favor of Santander Bank Polska S.A. as assignee; / registered pledge on intra-group notes established by Play Communications as pledgor in favor of Santander Bank Polska S.A. as pledgee (the pledge was released in connection with the repayment and retirement of notes and removed from the register in 2020);
- assignment relating to intra-group receivables executed by Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. as assignor in favor of Santander Bank Polska S.A. as assignee; and
- submissions to enforcement executed by P4 sp. z o.o., Play Communications S.A. and Play 3GNS spółka z ograniczoną odpowiedzialnością sp.k. in favor of Santander Bank Polska S.A.

After the amendment of SFA on 8 January 2019, the Group is able to request release of security established in connection with the SFA (excluding the release of guarantees granted pursuant to the SFA) when the level of consolidated net debt to adjusted EBITDA (the “Leverage”) is less than or equal to 2.00:1 with an obligation to re-establish previously released security if the Leverage becomes greater than 2.00:1.

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28. Other finance liabilities

	December 31, 2020	December 31, 2019
Current finance liabilities at fair value through other comprehensive income	-	4,685
Other finance liabilities	**-**	**4,685**

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

The effective portion of changes in the fair value of the above-mentioned finance assets and finance liabilities resulted in other comprehensive income of PLN 1,787 thousand for the year ended December 31, 2020 (and in 2019 the Group posted other comprehensive loss in the amount of PLN 7,827 thousand).

As at December 31, 2020 the Group had no active interest rate hedging transactions as the last IRS coupon was settled on June 30, 2020. In 2020 the Group recognized gain in profit and loss on the settlement of IRS in the amount of PLN 2,898 thousand (see also Note 10).

29. Provisions for liabilities

	December 31, 2020	December 31, 2019
Assets retirement provision	29,315	58,917
Other long-term provisions	18,689	11,447
Short-term provisions	2,534	6,417
	50,538	**76,781**

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Movements of the provisions are as follows:

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2020	**58,917**	**11,447**	**6,417**	**76,781**
Increase	179,129	4,273	-	**183,402**
Acquisition of subsidiaries	-	2,969	-	**2,969**
Reclassification to liabilities directly associated with assets held for sale	(207,934)	-	-	**(207,934)**
Decrease:	(797)	-	(3,883)	**(4,680)**
- reversal of provisions	(141)	-	(3,883)	**(4,024)**
- utilization	(656)	-	-	**(656)**
As at December 31, 2020	**29,315**	**18,689**	**2,534**	**50,538**

	Assets retirement provision	Other long-term provisions	Short-term provisions	Total
As at January 1, 2019	**43,463**	**5,616**	**3,435**	**52,514**
Increase	17,456	1,404	3,875	**22,735**
Acquisition of subsidiaries	-	6,877	-	**6,877**
Decrease:	(2,002)	(2,450)	(893)	**(5,345)**
- reversal of provisions	(1,505)	(484)	(10)	**(1,999)**
- utilization	(497)	(1,966)	(883)	**(3,346)**
As at December 31, 2019	**58,917**	**11,447**	**6,417**	**76,781**

The Group recognizes a provision for asset retirement obligations primarily for the obligation to dismantle the telecommunications constructions from the leased property and other space for other telecommunications equipment ("sites") which need to be restored to previous state when the lease ends.

In 2020 the provision increased mainly due to an increase in estimated unit costs of dismantling telecommunication constructions from the leased properties, which led to an increase in the net carrying amount of right-of-use assets (see also Note 2.4.6). In connection with the planned transaction of selling a portion of passive infrastructure (see Note 12), as at December 31, 2020, the Group reclassified a portion of the provision to a separate line "Liabilities directly associated with assets held for sale".

Other long-term and short-term provisions relate to legal, regulatory matters or arise under commercial contracts (see also Note 43.23).

30. Incentive and retention programs

In 2020 and 2019 Play Communications operated the following incentive and retention programs: PIP, PIP 2, PIP 3, VDP 4, VDP 4 bis in which individuals employed in the P4 Group participated. A detailed description of these equity-settled programs is provided below.

In September 2020 the Board of Directors of Play Communications decided to change the rules of all incentive and retention programs in connection with the tender offer to subscribe for the sale of the shares in Play Communications published on 21 September 2020 by Iliad S.A.S. in Paris ("Iliad"). Following the tender offer, Iliad acquired more than 80% shares of Play Communications and accordingly the incentive and retention programs were changed to cash-settled programs (for the P4 Group, the programs continue to be measured as equity-settled, since Play Communications is the owner of the program and the party obligated to make the cash payments). In the future

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program members will be entitled to receive a Cash Award. The value of the Cash Award will depend on remaining number of Original Shares held and the price of the Company's shares in the tender offer (PLN 39) or other performance measures which might be defined in the rules of the programs in future. The Cash Awards will be payable in tranches corresponding to lock-up periods foreseen previously in the programs. The method of measurement of the incentive and retention programs in the financial statements of the P4 Group prepared as at December 31, 2020 has not changed and remains the same as in 2019.

PIP and VDP 4

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

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

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

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

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

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

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

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

PIP 2

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

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

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

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

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

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

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

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

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

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

PIP 3

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

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

An Investment Share held by or on behalf of the member on the day before each anniversary of the Start Date became a Qualifying Investment Share.

On the first to fifth anniversaries of the Start Date (the date can differ for each member) the members of PIP 3 received Award Shares, provided that:

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

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

The exact number of Award Shares depended on the performance measures, i.e. the value of Play Communications' shares in comparison to other companies among WIG20 index and the selected European telecommunications companies. The performance was measured as total shareholders reward (in relation to a company, the change of

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such company's market capitalization over the relevant performance period, plus any dividends or any other cash payments to the company's shareholders, other than in respect of services provided, expressed as a percentage of the opening value at the start of the relevant performance period). 50% of the multiple depended on the WIG20 percentage while the other 50% depended on the performance level for selected European telecommunications companies.

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

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

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

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

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

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

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

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

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

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

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

30.1 Change of value of the programs

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

Changes in value of the plans are presented below.

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

	Other reserves - effect of valuation of equity-settled incentive and retention programs
As at January 1, 2019	**(214,269)**
Granted during the period	1,292
Changes in valuation during the period	14,305
As at December 31, 2019	**(198,672)**

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

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31. Trade and other payables

	December 31, 2020	December 31, 2019
Trade payables	671,317	672,344
Investment payables	207,677	122,738
Government payables	72,427	64,252
Employee payables	-	9
Other	4,401	4,488
	955,822	**863,831**

The increase in trade and other payables results from the phasing of payments.

32. Accruals

Accruals include accruals for employee bonuses and unused holidays.

33. 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.
The balance of contract liabilities as at December 31, 2020 and December 31, 2019 consisted of the Group's obligation to perform services prepaid by contract and pre-paid services.

	December 31, 2020	December 31, 2019
Prepaid services	73,516	70,802
Contract services	41,580	31,024
	115,096	**101,826**

The table below presents amounts recognized as service revenue during the reporting periods for which the customers had paid in advance and which had been presented as contract liabilities before the beginning of the reporting period.

	Year ended December 31, 2020	Year ended December 31, 2019
Revenue recognized in the reporting period that was included in the contract liability balance at the beginning of the period	94,912	86,771

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34. Deferred income

	December 31, 2020	December 31, 2019
Prepaid services	66,135	88,129
Contract services	142,288	145,023
	208,423	**233,152**

The decline in deferred income under prepaid services in 2020 resulted from writing off the expired top-ups sold to distributors in previous years but not used by end customers. The revenue on this account is presented in the other operating income line item (see Note 9).

Deferred income on sales of prepaid services comprises the value of prepaid products delivered to a distributor but not yet transferred to the end customer.
Prepaid products transferred to end customer and not used are presented as contract liabilities (see also Note 33) while amounts of prepaid products used by end customers are recognized as service revenue in the statement of comprehensive income.

Deferred income on sales of contract services comprises amounts relating to services that will be delivered in the future which are billed to a customer in advance but not yet due, whereas amounts billed in advance and due are presented as contract liabilities (see Note 33). Deferred income balances for contract services depend on whether due date for services is after or before the reporting date and may vary significantly between reporting dates.

35. 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, 2020	December 31, 2019
Cash and cash equivalents in statement of financial position	841,259	285,748
Interest accrued on cash	(8)	-
Cash and cash equivalents in statement of cash flows	**841,251**	**285,748**

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36. 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, 2020	Year ended December 31, 2019
(Increase)/decrease of inventories	23,248	2,253
(Increase)/decrease of receivables	24,760	137,018
(Increase)/decrease of prepaid expenses	3,187	(6,063)
Increase/(decrease) of payables excluding investment payables	(2,720)	(68,275)
Increase/(decrease) of accruals	(18,194)	38,856
Increase/(decrease) of deferred income	(29,402)	(6,673)
(Increase)/decrease of long-term receivables	(33)	(511)
Increase/(decrease) of other non-current liabilities	(9)	(4)
Changes in working capital and other	**837**	**96,601**
(Increase)/decrease in contract costs	(16,412)	(1,427)
(Increase)/decrease in contract assets	32,367	(63,292)
Increase/(decrease) in contract liabilities	7,664	8,708
	24,456	**40,590**

In 2020 there were no significant changes in the item “Changes in working capital and other”. Changes in this line item in 2019 was affected primarily by: a decrease in receivables, a decrease in current payables other than investment payables and an increase in accruals.

The decrease of receivables in 2019 resulted mainly from the decrease in international roaming receivables due to collection of international roaming discounts as well as change in invoicing pattern with roaming partners.

The changes in payables in 2019 are affected mostly by the phasing of payments of interconnection liabilities.

The increase in accruals in 2019 was driven mainly by the increase of accruals for employee bonuses.

The decrease in contract assets in 2020 resulted from lower sales of goods as a result of temporary restrictions in the operation of some of our stores in connection with the COVID-19 pandemic.

37. Segment reporting

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

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

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38. Related party transactions

38.1 Remuneration of management and supervisory bodies

Cost of remuneration (including accrued bonuses and special bonuses) of members of Boards of Directors or Management Boards in Group entities incurred in the year ended December 31, 2020 were PLN 19,399 thousand (PLN 16,865 thousand in the year ended December 31, 2019).

Additionally, members of the P4's Management Board participated in the equity-settled incentive and retention programs (please see Note 30). The valuation of the programs resulted in cost recognized by the Group in the amount of PLN 878 thousand in the year ended December 31, 2020 and the cost of PLN 15,605 thousand in the year ended December 31, 2019 Relating costs are included in general and administrative expenses in the consolidated statement of comprehensive income.

During 2019 and in the year ended December 31, 2020, members of the P4's Management Board received shares of Play Communications under PIP, PIP 2 and PIP 3 incentive and retention programs (see also Note 30) and also purchased the shares individually without connection to the programs.

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 891 thousand in the year ended December 31, 2020 and PLN 1,520 thousand in the year ended December 31, 2019.

Cost of remuneration of members of Supervisory Boards in Group entities incurred in 2020 amounted to PLN 156 thousand.

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

38.2 Related party transactions with entities linked to Shareholders

Below we present the balances of transactions made with Play Communications S.A. and its related entities.
The transactions were concluded on the terms that do not differ materially from market terms.

	December 31, 2020	**December 31, 2019**
Long-term receivables - debt securities	145,380	201,998
Short-term receivables - debt securities	322,405	394
Trade receivables	543	370
Long-term finance liabilities - debt	-	58,194
Trade and other payables	4	2

	Year ended December 31, 2020	**Year ended December 31, 2019**
Dividend payment	(740,000)	(530,000)
Service revenue	149	-
Interconnection, roaming and other service costs	(21)	-
Other operating income	1,115	288
Interest expense	(1,448)	(6,851)
Interest income	8,881	555
Other finance income	1,563	2,822

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39. Auditor's fees

	Year ended December 31, 2020	Year ended December 31, 2019
Audit fees	489	385
Other attesting fees	345	45
Other fees	52	39
	885	**469**

40. license requirements

40.1 2100 MHz and 900 MHz license requirements

As of the date of issuance of these Financial Statements, the Group believes to have met the coverage obligations imposed in the frequency reservation decisions relating to 2100 MHz and 900 MHz spectrums.

40.2 1800 MHz license requirements

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

40.3 800 MHz license requirements

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

40.4 2600 MHz license requirements

Four reservation decisions in the 2600 MHz spectrum granted to P4 on January 25, 2016 require that P4 must commence provision of services which utilize 2600 MHz frequencies no later than in 36 months from the date of the frequency reservation. As of the date of issuance of these Financial Statements, the Group has fulfilled all these obligations.

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41. Contingencies and legal proceedings

41.1 Tax contingent liabilities

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

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

Tax settlements, together with other areas of legal compliance (e.g. customs or foreign exchange law) are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. The tax authorities may at any time inspect the books and records and may impose additional tax assessments with penalty interest and penalties within 5 years from the end of the year in which a tax is due. In some cases, it is difficult to predict the ultimate outcome.

P4 was subject to the tax audit concerning its settlements of the corporate income tax for 2014, 2015, 2016 and 2017. It ended with the issuance by the tax authority of decisions recognizing as correct the P4's settlements under license fees incurred to a related party, i.e. Play 3GNS Spółka z ograniczoną odpowiedzialnością sp. k. At the same time, in the audits for all the years, the authority challenged the value of amortization charges included in P4's tax settlements assuming that their initial value is marked by the lower threshold specified in the trademarks valuation report prepared by an independent entity. As a result of this finding, the deduction of amortization charges was partially challenged in each of the audited years. P4 did not challenge the results of the above audits and submitted the appropriate corrections of CIT-8 tax returns for 2014-2019 and paid the overdue tax payables with interest. Please see also Note 11.

P4 was also subject to customs and tax audits in respect of withholding tax settlements. The audits concerned the performance of the obligations of a tax remitter in relation to the withholding tax on the interest paid by P4 in tax years 2015, 2016 and 2017. As a result of the audit, the authority concluded that P4 was obligated to charge tax on the interest is paid out under the notes it issued while using the 5% rate instead of 0%. P4 did not challenge the results of the above audit and submitted the appropriate corrections of CIT-10Z tax returns for 2015-2017 and paid the overdue tax payables with interest. Please see also Note 0.

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

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

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

41.2 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

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decision of 27 October 2015 refused to annul the tender. Polkomtel, PIRC, and Sferia placed with the UKE President requests for reconsideration of the decision. In May 2016, 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. The Group assesses the risk of the outcome that would be unfavourable for the Group as low.

In July 2013 Sferia S.A., Polkomtel Sp. z o.o. and Emitel S.A. applied for reconsideration of the three decisions on reservation of 1800 MHz frequencies for P4. Sferia, Polkomtel and Emitel demand, inter alia, the cancelation of the three decisions and suspension of this proceeding until the proceeding regarding the annulment of the 1800 MHz tender is finalized. UKE President in its decisions of October 30, 2015 upheld all P4's three reservation decisions for the frequencies in the 1800 MHz spectrum. Polkomtel appealed against the UKE President's decisions at the Voivodship Administrative Court. In March 2016, acting as a party to the proceedings, P4 filed its response to the Polkomtel's motions to withhold the enforceability of three 1800 MHz frequency reservation decisions and requested the court to dismiss the motion. In all three proceedings the court refused to withhold the enforceability of the three 1800 MHz frequency reservation decisions issued for P4. In July 2016, P4 filed its answers to the Polkomtel's appeals against the 1800 MHz frequency reservation decisions for P4 and requested the court to dismiss the appeals in the entirety. The Voivodship Administrative Court in judgments of August 25, 2016 and August 30, 2016 dismissed Polkomtel's complaints in all three cases of the 1800 MHz reservations for P4. The judgements were appealed against at the Supreme Administrative Court by Polkomtel. On March 5, 2019, April 10, 2019 and May 31, 2019, the Supreme Administrative Court dismissed Polkomtel's appeal regarding P4's 1800 MHz frequency reservations. The judgements are final.

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

In November 2015, Polkomtel, T-Mobile and Net sp. z o.o. applied to the UKE President for the annulment of the auction for the 800/2600 MHz frequency in its entirety, claiming the violation of procedures applicable to the allocation of frequencies. The motions to invalidate the tender initiated administrative proceeding before the UKE President. President of UKE in its decision of June 15, 2018 refused to invalidate the auction. Polkomtel, T-Mobile and Net Net sp. z o.o. w likwidacji requested reconsideration of the decision. The President of UKE upheld the decision refusing to invalidate the auction in its decision of November 12, 2019. Polkomtel appealed against the decision to the Voivodship Administrative Court, which dismissed the appeal in its judgement of December 1, 2020. At this stage it is difficult to assess P4's legal risk associated with the aforementioned motions.
In February 2016, Polkomtel, T-Mobile and Net sp. z o.o. applied to the UKE President for reconsideration of the decision on reservation of 800/2600 MHz frequencies for P4, petitioning among others to repeal the decision and award the above frequency reservation again. The motions initiate administrative procedures before the President of UKE. In June 2016, The UKE President issued new decisions on reservation of 800/2600 MHz frequencies and in the case of P4's 800 MHz frequency reservation decided to exchange Block D with Block C. Polkomtel appealed against the UKE President's decisions at the Voivodship Administrative Court. T-Mobile also appealed against the two decisions on reservation of 800 MHz with regard to Block C and E. The Voivodship Administrative Court in Warsaw in judgments of January 30, 2017 dismissed Polkomtel's and T-Mobile's complaints against the decisions for P4 in all five 800/2600 MHz reservation cases. The judgements were appealed against at the Supreme

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Administrative Court by Polkomtel and T-Mobile. With judgements of October 8, 2019 and November 28, 2019, the Supreme Administrative Court dismissed the appeals from Polkomtel and T-Mobile.

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, the Arbitral Tribunal dismissed P4's claim due to the conflict of P4's claim with the regulatory obligations of T-Mobile and P4 and awarded costs of proceedings from P4 to T-Mobile. P4 may appeal against the arbitral award to a court of appeal.

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

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

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

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

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, which represent the Group's best estimate of the amounts, which are probable to be paid. The actual amounts of penalties, if any, are dependent on a number of future events the outcome of which is uncertain, and, as a consequence, the amount of the provision may change at a future date. For the total amount of provisions, including the provisions for pending legal cases, please see Note 29.

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42. Events after the reporting period

On March 9, 2021, the B series Notes issued by the Company in December 2020 (see Note 27.2.2) 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.

On March 12, 2021, the Group made a voluntary repayment of Facility B under SFA in the amount of PLN 190,000 thousand and interest.

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

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43. Summary of significant accounting policies

43.1 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 an associate, an entity in which the Group has significant influence, is accounted for using the equity method.

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

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

43.2 Foreign currency transactions

43.2.1 Functional and presentation currency

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

43.2.2 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,

As at the balance sheet date, 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:

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Currency	December 31, 2020	December 31, 2019
EUR	4.6148	4.2585
GBP	5.1327	4.9971
USD	3.7584	3.7977

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

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.

43.3 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:
- voice and SMS telecommunications;
- data transfer;
- television and video on demand;
- value added services;
- interconnection;
- international roaming;
- sales of handsets and other equipment.

Revenues from voice, SMS telecommunications and data transfer include charges for telecommunications traffic originated in the Play network 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 43.10). 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 2.4.1. Stand-alone selling prices for telecommunications services and lease services are set based on prices for non-bundled offers with the same range of services.

Services purchased by a customer beyond the contract are treated as separate contracts and recognition of revenue from such services is based on the actual airtime or data usage, or is made upon the expiration of the Group's obligation to provide the services.
Mobile services are billed on a monthly basis and payments are due shortly after the bill date.

Telecommunications revenue from the sale of prepaid products in single-element contracts (i.e. with one performance obligation for telecommunications services) is recognized at the face value of a prepaid top-up sold, net of VAT due. The difference between the face value of prepaid offerings and the value for which the offerings are sold by the Group to its distributors constitutes commission earned by the distributors, who act as agents. The Group

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acts as a principal in such agreements. The costs of prepaid commissions are recognized as other service costs when the distribution service is provided, i.e. when the prepaid product is delivered to the end customer. The revenue from the sale of prepaid products is deferred until the end customer commences using the product and presented in the statement of financial position as deferred income when the prepaid product is held by a distributor or as contract liability when the prepaid product has been transferred to the end customer but not yet used. The revenue from the sale of prepaid products is recognized in the profit or loss as telecommunications services are provided, based on the actual airtime or data usage at an agreed tariff, or upon expiration of the obligation to provide the service.

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

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

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

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

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

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

43.4 Interest income

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

43.5 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.

43.6 Deferred tax

Deferred income tax is calculated using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for tax losses. Deferred tax is not recognized when temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting

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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.

43.7 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 labour 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	20-25
Computers	3-5
Telecommunications equipment	3-7
Motor vehicles	2-3
Other	1-5

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

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

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

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43.8 Right-of-use assets and lease liabilities

The Group is a party to lease contracts for, among others:
a) land for telecommunications constructions,
b) buildings:
- 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 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	6-14
Buildings	2-13
Computers	3-5
Telecommunications equipment	2-11
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

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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;
- payments of penalties for terminating the lease if the lease term reflects the lessee exercising an option to terminate the lease.

The lease payments exclude variable elements which are dependent on external factors such as e.g. operating revenue in the point of sale leased. Variable lease payments not included in the initial measurement of the lease liability are recognized directly in the profit and loss.

The lease payments are discounted using the Group's incremental borrowing rate or the rate implicit in the lease contract.

The lease term determined by the Group comprises:
- non-cancellable period of lease contracts,
- periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option,
- periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

After the commencement date, the Group measures the lease liability by:
- increasing the carrying amount to reflect interest on the lease liability,
- reducing the carrying amount to reflect lease payments made, and
- re-measuring the carrying amount to reflect any reassessment or lease modifications.

Accounting by the lessor
In 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 is for at least 3/4 of the economic life of the asset even if title is not transferred,
– at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the 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.

43.9 Intangible assets

43.9.1 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.

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43.9.2 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.

43.9.3 Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognized in the profit or loss.

Goodwill on acquisition of subsidiaries is included in intangible assets. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

For the purpose of impairment testing, goodwill is allocated to cash-generating units, not larger than an operating segment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, but not larger than operating segment and not larger than units for which goodwill is analysed and assessed by the Management Board. The Group allocates goodwill to the entire Play Group as a single cash-generating unit.

43.9.4 Intangible assets under construction

Intangible assets under construction represent mainly software under development and are presented in Assets under construction.

43.10 Contract costs

Contract costs eligible for capitalization as incremental costs of obtaining a contract comprise commission on sale relating to postpaid contracts and “mix” contracts (contracts for a specified number and value of top-ups) with acquired or retained subscribers. Contract costs are capitalized in the month of service activation if the Group expects future benefits in connection with the incurred costs. Contract costs comprise sales commissions to dealers and to own salesforce which can be directly attributed to an acquired or retained contract. Capitalized contract costs are recognized as non-current assets as the Group expects economic benefits from these assets to be received in a period longer than 12 months.

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

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

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

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

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previous contract and the retention contract term. Amortization period of the contract cost relating to the previous contract is then shortened to be in line with the actual contract term.

Contract costs capitalized are impaired if the customer is disconnected or if the asset's present value exceeds projected discounted future cash flows relating to the contract. An impairment loss is recognized in profit or loss to the extent that the carrying amount of an asset exceeds the remaining amount of consideration that the Group expects to receive in exchange for the goods or services to which the asset relates less the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

43.11 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 are reversed if the carrying amount of the previously impaired asset is lower than its recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized for the asset in prior years.

43.12 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 variable 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.
Inventories under construction include infrastructure elements that as at the balance sheet date were assets in construction but are held for sale in the future in connection with the planned sale of a portion of passive infrastructure.

43.13 Trade and other receivables

The receivables are recognized initially at fair value less provision for expected credit losses and subsequently measured at amortized cost using the effective interest method. According to IFRS9, from 1 January 2018, the Group measures the impairment provision at an amount equal to lifetime expected credit losses for trade receivables, lease receivables, cash and cash equivalents and contract assets. 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

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probability of default or delinquency in payments and the probability that debtor will enter into financial difficulties or bankruptcy. When determining whether the recognition of lifetime expected credit loss is required under IFRS 9, the Group 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.

43.14 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.

43.15 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.

43.16 Cash and cash equivalents in statement of financial position

Cash and cash equivalents include cash in hand, cash at bank, short-term deposits with original maturities of 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.

43.17 Cash and cash equivalents in statement of cash flows

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

43.18 Retirement benefits

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

The State Plan is funded on a pay-as-you-go basis, i.e. the P4 Group is obliged to pay the contributions as they fall due based upon a percentage of salary. If the P4 Group ceases to employ members of the State Plan, it will have no obligation to pay any additional benefits. The State Plan is a defined contribution plan. The expense for the contributions is charged to the profit or loss in the same period as the related salary expense.

The P4 Group has no other employee retirement plans.

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43.19 Incentive and retention programs

The Play Group 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.

Under the terms of the cash-settled share-based programs, members of the programs are entitled to remuneration paid in cash whose value is dependent on the fair value of the Play Group as at the disposal of the shares by the shareholder or shareholders ("liquidity event") or at the end of a program if the liquidity event has not occurred. Liabilities relating to cash-settled share-based incentive and retention programs are measured at the fair value of the liability at each end of the reporting period. Changes in the fair value of the liability are recognized in the profit or loss.

Under the terms of equity-settled programs, the members of the programs are entitled to receive the Company's shares if certain conditions are met. The 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. For significant accounting estimates in relation to valuation of the programs, please see Note 2.4.4. The cost is recognized in the statement of comprehensive income in line with vesting conditions, which are described in Note 30.

43.20 Financial liabilities

Financial liabilities are recognized initially at fair value, net of the transaction costs incurred. After the initial recognition, bank loans, finance lease liabilities and notes liabilities are measured at amortized cost; any difference between proceeds (net of transaction costs) and the redemption value is recognized in the statement of comprehensive income over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in profit or loss unless they are capitalized.

Financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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

43.21 Derivative instruments

43.21.1 Derivatives embedded in host contracts

Derivatives embedded in host contracts are accounted for as separate derivatives if and only if:

- the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- the hybrid (combined) instrument is not measured at fair value with changes in fair value recognized in profit or loss.

In case of an early redemption option embedded in a host debt instrument, the close relation to the host instrument 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 an early redemption option does not reimburse the issuer for an amount up to the approximate present value of lost interest for the remaining term of the host contract (lost interest is the product of the principal amount prepaid multiplied by the interest rate differential. The interest rate differential is the excess of the effective interest rate of the host contract over the effective interest rate the entity would receive at the early redemption date if it reinvested the principal amount prepaid in a similar contract for the remaining term of the host contract).

Otherwise the early redemption option is not regarded as closely related and as such is subject to separate recognition and measurement.

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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.

43.21.2 Derivative instruments designated as hedges

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

On the date a derivative contract is entered into, the Group distinguishes the following types of hedging derivatives:
(i) a hedge of the fair value of a recognized assets or liabilities (fair value hedge), or
(ii) a hedge of highly probable forecast transactions (cash flow hedge).

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

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

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

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

The fair values of interest rate swaps used for cash flow hedge are disclosed in Note 27. 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).

43.22 Trade liabilities

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

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43.23 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.

43.24 Deferred income

Deferred income on sales of contract services comprises amounts relating to services that will be delivered in the future, which are billed to a customer in advance but not yet due. Deferred income on sales of prepaid products comprises the value of prepaid products delivered to a distributor but not yet transferred to the end customer.

43.25 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.

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