



Management's report on the activities of the Company and the Capital Group

for the year ended 31 December 2020

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1. SELECTED FINANCIAL DATA

The following tables set out selected consolidated financial data for the period of 3 and 12 months ending 31 December 2020 and 2019. The selected financial data presented in the tables below is expressed in thousands of PLN, unless otherwise stated. This information should be read in conjunction with condensed consolidated financial statements for the year ending 31 December 2020 as well as the information included in point 3 of this report.

	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
	PLN'000		EUR'000	
Online Segment				
Sales	605 735	688 379	135 384	160 021
Cash sales	589 468	665 150	131 748	154 621
Adjusted EBITDA (IFRS 16)	215 042	223 282	48 063	51 904
EBITDA (IFRS 16)	200 670	213 807	44 850	49 702

	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
	PLN'000		EUR'000	
TV segment				
Sales	26 551	20 321	5 934	4 724
Cash sales	26 551	20 321	5 934	4 724
Adjusted EBITDA (IFRS 16)	1 880	(4 339)	420	(1 009)
EBITDA (IFRS 16)	1 880	(4 580)	420	(1 065)

	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
	PLN'000		EUR'000	
Segments total				
Sales	632 286	708 700	141 318	164 745
Cash sales	616 019	685 471	137 682	159 345
Adjusted EBITDA (IFRS 16)	216 922	218 943	48 483	50 896
EBITDA (IFRS 16)	202 550	209 227	45 271	48 637
Amortization and depreciation	(80 839)	(79 282)	(18 068)	(18 430)
Operating profit	121 711	129 945	27 203	30 207
Result on financial activities	(30 312)	(31 092)	(6 775)	(7 228)
Profit before tax	91 399	98 853	20 428	22 979
Net profit	81 699	71 132	18 260	16 535

	As of 31 December 2020	As of 31 December 2019	As of 31 December 2020	As of 31 December 2019
	PLN'000		EUR'000	
TOTAL ASSETS	1 243 833	1 145 069	269 531	268 890
Non-current assets	887 333	909 137	192 280	213 488
Current assets	356 500	235 932	77 251	55 403
Long-term liabilities	435 538	426 587	94 379	100 173
Short-term liabilities	210 601	205 355	45 636	48 222
Equity	597 694	513 127	129 517	120 495
Share capital	1 457	1 451	316	341
Non-controlling interests	11 036	12 246	2 391	2 876
	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
	PLN'000		EUR'000	
Net cash flows from operating activities	211 024	188 986	47 165	43 932
Net cash flows from investing activities	(65 824)	(109 147)	(14 712)	(25 372)
Net cash flows from financing activities	(31 630)	(72 551)	(7 069)	(16 865)
Total net cash flows	113 570	7 288	25 383	1 694

Conversion into euro was performed based on the following principles:

- amounts presented in zloty as of 31 December 2020 were converted into euro at the exchange rate of 4.6148 (the NBP exchange rate as of 31 December 2020),
- amounts presented in zloty as of 31 December 2019 were converted into euro at the exchange rate of 4.2585 (the NBP exchange rate as of 31 December 2019),
- amounts presented in zloty for the period of twelve months ending 31 December 2020 were converted into euro at the exchange rate of 4.4742 (the arithmetic mean of the NBP exchange rates as of the last day of each month of the year 2020),
- amounts presented in zloty for the period of twelve months ending 31 December 2019 were converted into euro at the exchange rate of 4.3018 (the arithmetic mean of the NBP exchange rates as of the last day of each month of the year 2019),

2. CHARACTERISTICS OF THE WIRTUALNA POLSKA HOLDING CAPITAL GROUP

GENERAL INFORMATION AND PARENT COMPANY'S SCOPE OF ACTIVITIES

Wirtualna Polska Holding SA ("Company") is entered in the Register of Business Entities maintained by the District Court for the Capital City of Warsaw in Warsaw, XIII Division of the National Court Register, under KRS No. 407130. The REGON number assigned by the Statistical Office is: 016366823. The Company headquarters is located in Warsaw at Żwirki i Wigury 16.

The Company was established for an unspecified term. The company core business comprises holding and management activities.

The Company is the Parent Company of Wirtualna Polska Holding Capital Group.

THE SCOPE OF GROUP'S OPERATIONS

Wirtualna Polska is a technology holding. Our websites are based on innovative solutions that allow us to broaden our target group and provide precise services and advertisements.

Our mission is to remain the partner of first choice for Poles, providing engaging information, entertainment and services as well as inspiration in everyday decisions. We want to be a reliable trust brand both in terms of content and offer for both users and clients. We, together with our partners, are constantly looking for new solutions to meet the needs of our users.

According to the Mediapanel study, as there were 21.4 million real users of all Internet products of the WP Group in February 2021, they made 3.2 billion page views, spending 25.1 million hours on the portals. The Group's reach is 64.6%.

Wirtualna Polska operates on the Polish online advertising market, offering a wide range of advertising products to its customers. These consists of e.g. modern display advertising, online video advertising, email advertising, mobile device advertising and advertisements based on efficiency model (i.e. billed for website accesses, filling out forms, registrations, purchase of goods or services, lead generation, performance marketing). WP has been developing its sales according to an intelligent programming model, which provides many advanced metrics to measure its campaigns.

Media

Our journalists prepare dozens of materials on daily basis, including interviews, video reports, opinions, reports and news. They provide current information, comment on current events and present tidbits from the world of entertainment. They make Wirtualna Polska a place that Internet users return to every day.

Portals and content



For us and our users, Wirtualna Polska is the centre of everything that happens in Poland. It is thanks to Wirtualna Polska's team of employees and collaborators that WP Home Page has outstripped the competition, rising up to the 1st place in the Mediapanel measurement.

WP's portfolio also includes a number of thematic portals. Each day we present the most important news from Poland and the world, we run the most popular financial service in Poland, we also provide a full overview of sports information as well as of automotive, technological, lifestyle and entertainment content. In March 2020, Polygamia.pl was added to our array of services, and as of September 2020 we offered VibeZ and praca.money.pl.

money.pl >> praca

The team of money.pl, the biggest Polish economic service, launched a new version of the recruitment service praca.money.pl in October. It includes, among others, job offers, guides, a salary calculator and sample documents for job candidates. The publisher also offers employer branding tools for employers, such as content marketing and targeted video and display campaigns. In the new version of praca.money.pl, nearly 60 thousand job offers are available.



The look and architecture of the website were designed with mobile users in mind. The service is created by a completely new editorial team composed of young editors, visual artists as well as consultants and representatives of Generation Z. The website features thematic cycles related to ecology, sex education, the fight against discrimination, mental health, as well as a number of lifestyle topics. The team is made up of people aged 18-23 who work remotely and prepare their material completely outside the publishing cycle of a traditional online medium.

 **Polygamia.pl**

It is one of the oldest gaming websites in Poland. Upon its incorporation into the Wirtualna Polska portfolio, it was thoroughly rebuilt and technologically modernised.

E-mail   **poczta**  **POCZTA**

Other services that facilitate communication to our users are also WP Poczta and o2 poczta. They offer unlimited inbox sizes and attachments of up to 100 MB. They stand apart for their superior level of safety and business solutions. In 2020, we focused on developing a variety of e-mail features, among others, by introducing the 1Login od WP service. Not only does it allow for additional two-step account security, but it also facilitates logging in to many other services. By the end of 2020, more than 3 million Internet users used this service.

Television **WP** | telewizja

Telewizja WP's programmes include movies and shows from all over the world, never before broadcast on Polish FTA TV channels. The offer of the TV station entails signature commentary programmes, entertainment shows, documentaries and home renovation and decoration programmes. According to data published by Nielsen Audience Measurement, Telewizja WP in 2020 achieved a record-breaking 0.67% SHR in the commercial group of people aged 16-49. It has thus outperformed all MUX8 channels, also in terrestrial and cable distribution. Overall, in 2020 Telewizja WP reached 9.5 million viewers, an increase by 7 percentage points compared to 2019.

Telewizja WP is available terrestrially on the 8th multiplex (MUX8), on Cyfrowy Polsat and CANAL+ platforms, in the best cable networks and via the WP Pilot service.

Video **WP** pilot

Our users can also tune into traditional television online. WP Pilot enables them to watch over 100 TV channels, of which 30 are entirely free of charge. The service is available without any contracts or decoding devices. In 2020, we also developed streaming of live events, which was very popular amongst Internet users, including broadcasts of sports events and concerts. The television can be watched on the website, through the application for Android, iOS, Windows and Xbox, as well as with the use of Chromecast and Airplay.

Radio **OPEN FM**

OpenFM is the most popular Polish Internet radio. Listeners can tune into nearly two hundred different music stations, divided into thematic categories. The service is available at www.open.fm and via the mobile application on Android and iOS devices.

Advertising

Wirtualna Polska operates on the Polish online advertising market, offering a wide range of advertising products to its customers. These consist of e.g. modern display advertising, including online video advertising, email advertising, mobile device advertising and efficiency model based advertising (i.e. billed for website accesses, filling out forms, registrations, purchase of goods or services, lead generation, performance marketing). WP has been developing its sales according to an intelligent programming model, which provides many advanced metrics to measure its campaigns.

The year 2020 saw numerous new additions to the video advertising offering, including short Bumper Video Ads, Vertical Video Ads in response to users watching video materials on their phones in a vertical position, and further development of engaging Interactive Video Spots with a poll or a product board. WP has also introduced the WP Custom offer, which is based on a flexible approach to accounting for display visibility standards selected by advertisers. In 2020, in the big-data area of advertising, we developed consumer profiles that allow us to precisely target users who use specific portals and services.

WP's strategy is based on signature technological solutions and innovations within the holding. WP Marketing Platform is a comprehensive technological platform created by us in 2020. It is used to conduct effective advertising activities on our own areas, the areas of Wirtualna Polska Holding companies and the areas of external publishers cooperating with WP. It features an advanced adserver carrying out campaigns based on user data, multi-step engagement scenarios and effective transaction finalisation. Amongst Wirtualna Polska's innovations special attention should be paid to the WP Sales Booster solution, which is responsible for the implementation of effective sales campaigns with the use of artificial intelligence algorithms allowing for a dynamic selection of a target group, area purchase rates, etc. in selected industries, e.g. fashion, depending on the changing market reality. The basis underlying WP Sales Booster is its ability to dynamically select the target group, the area purchase rate and the presentation of relevant products.

E-commerce

E-commerce of the WP Group is an extensive solution that guarantees the effective reach to recipients, providing users with information about trends and purchase recommendations. The Group operates in the areas of tourism, fashion, interior design and house design, financial services, and in the automotive sector.

In 2020, a significant part of the Group's operations was affected by the outbreak of the COVID-19 pandemic. Lockdown, movement restrictions (particularly relevant to the travel industry) and the general economic downturn have made the Group adapt its business to the new market situation. The companies have taken a number of actions related to seeking new sources of income and reducing costs with a view to continue operations in the face of high uncertainty. At the same time, it should be emphasised that the period since March 2020 has also been intensively used by the Group companies for activities related to the product development, introduction of process optimisations and implementation of technological initiatives. These measures are expected to improve the competitive advantage of the Group companies in the post-pandemic period.



Tourism portals of the Group provide a complete offer to travellers and those looking for accommodation in Poland and abroad. Wakacje.pl is the first tourist portal in Poland and a dynamically developing network of brick-and-mortar locations throughout Poland. Every day, the portal presents current offers of the largest renowned tour operators. Wakacje.pl supports consumers in purchasing decisions due to a unique database of reviews related to hotels and destinations, and thanks to the largest tourist discussion forum, featuring interesting daily topics and travel reports. Users interested in domestic holiday can use nocowanie.pl portal that has the biggest database of domestic accommodation in Poland.

Fashion

The mission to support our users in their everyday decisions is also demonstrated by the services offered in the two largest fashion search engines in Poland: domodi.pl and allani.pl. These portals offer several hundred thousand products from hundreds of online shops.

Interior and house design



Homebook.pl is a modern platform for interior design professionals and enthusiasts. It offers users the possibility to search among hundreds of thousands of products from hundreds of shops in the home and interior category. It also has an extensive inspiration section where interior design, advice and trends are presented, and a database of interior design specialists. Extradom.pl specializes in the sale of house design plans online. Both brands integrate the consumers' purchasing journey from the house design, through building materials, up to the interior design.

Financial services direct.money.pl totalmoney.pl Finansowy supermarket

We also assist users in important financial decisions. WP Group's services compare and make it possible to select the best insurance, credit, loan, card and account offers. Our experts use plain language, and the content they create makes it possible to find one's way through the complex world of finance. For those interested in in-depth knowledge, they also prepare professional rankings and analyses.

Automotive superauto.pl

Purchasing and financing of cars is another area of e-commerce in which WP operates through its superauto.pl service. It presents a wide range of new cars from authorised dealers of different brands. The highest standard of services provided by a team of experienced consultants enables individual and corporate customers to finance the purchase of a new car without leaving home, by way of lease, rental or credit.

The table below presents the Group's market position against competitors.

No.	Entity	Real Users (mln)	Page views (bln)	Time spent (mln hrs)
1	Group Google	28,0	8,5	76
2	Group Youtube	25,1	0,9	162
3	facebook.com	21,8	1,7	99
4	Group Wirtualna Polska	21,4	3,2	52
5	Group RAS Polska	21,2	2,2	42
6	Facebook App	21,2	0,0	0
7	Group Allegro	21,0	3,3	41
8	Aplikacja Messenger	20,8	0,0	0
9	Group Polsat-Interia	19,9	1,5	20
10	Group OLX	17,9	4,8	47

Source: Mediapanel, February 2021

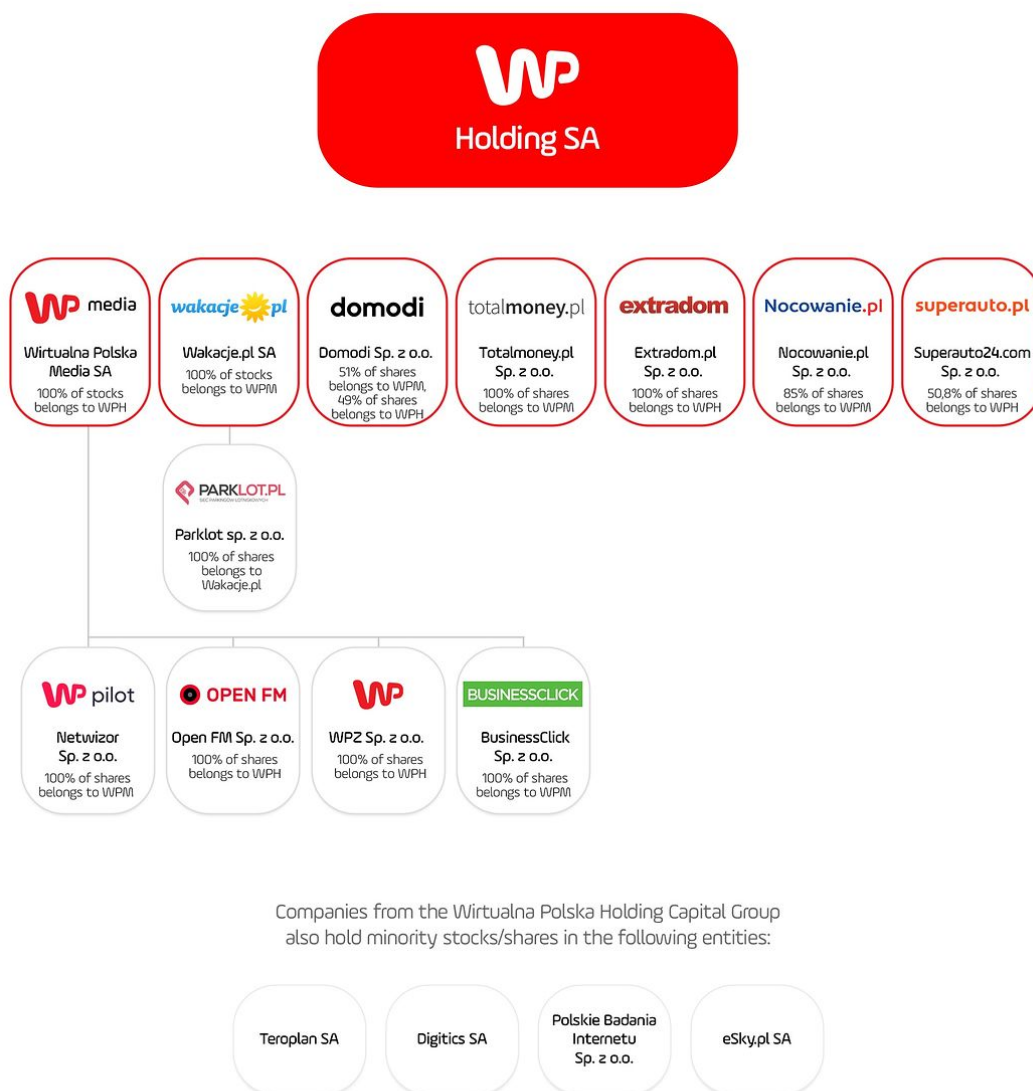
The table below presents the Group's position in various thematic categories:

Category	Real Users (RU)	Rank
Lifestyle	13 954 032	1
Health and medicine	10 436 040	1
Business, finance, law	9 953 928	1
Gossip, celebrities life	8 840 664	1
Sport	7 695 648	1
Movies, TV series, cinema	6 743 736	1
New technologies	6 186 456	1
Tourism	4 846 392	1
Women's websites	7 764 984	2
Automotive	5 620 752	2
Children, family	3 383 856	2
Information and journalism	12 339 864	3
Culture and Entertainment	9 589 752	3
Culture and literature	1 621 944	3
Diets, weight loss, fitness	1 309 608	3
Photography and graphics	859 248	4
VOD services	2 842 128	5
Weather	1 873 368	5
Kitchen, cooking	2 982 744	6
Computer games	1 006 992	9
Work	441 936	17

Source: Mediapanel, February 2021

STRUCTURE OF THE WIRTUALNA POLSKA HOLDING CAPITAL GROUP

The following diagram presents the structure of the Group as of 31 December 2020.



Changes in Group's structure

During 2020, the Group did not finalize any acquisition processes.

Mergers in 2020

On 2 January 2020, Totalmoney.pl Sp. z o.o. and Finansowysupermarket.pl Sp. z o.o. merged by transferring all assets of Finansowysupermarket.pl sp. z o. o. to Totalmoney.pl Sp. z o.o.

On 1 February 2020, Wirtualna Polska Media SA and Autocentrum.pl SA merged by transferring all assets of Autocentrum.pl SA to Wirtualna Polska Media SA.

On 1 July 2020, Wakacje.pl SA and Travel Network Solutions Sp. z o.o. merged by transferring all assets of Travel Network Solutions Sp. z o.o. to Wakacje.pl SA.

On 1 October 2020, Nocowanie.pl Sp. z o.o. and eHoliday.pl Sp. z o.o. merged by transferring all assets of eHoliday.pl Sp. z o.o. to Nocowanie.pl Sp. z o.o.

■ **Changes in the Group's structure after the balance sheet date**

There were no changes in the capital structure of the Group besides those described above.

— **DEVELOPMENT STRATEGY AND THE PROSPECTS OF WIRTUALNA POLSKA HOLDING SA AND ITS CAPITAL GROUP**

In the Management Board's opinion, the following tendencies will affect the Company's and Group's operations:

- The continuing growth in the share of online advertising in the total expenditure on advertising in Poland;
- The fastest growing segments of online advertising in Poland will include video advertising, which is an element of modern display as well as adds on mobile devices. This will be caused mainly by increasing availability and decreasing prices of fast Internet connections, as well as the growing popularity of smartphones and tablets;
- The dynamic growth of the e-commerce market in Poland in the coming years, which will be caused both by a greater number of people making purchases via the Internet and the greater number and value of transactions concluded on the Internet as well as development of modern mobile payment systems and development of logistics infrastructure- in particular deliveries in less than 2 hours (food, local purchases) and 48 hours (for traditional e-commerce), as well as pick-ups in parcel machines and kiosks.
- Decline in foreign tourism interest due to the spread of the SARS-Cov-2 coronavirus. During the entire year 2020, Wakacje.pl noticed significant drops in sales of foreign trips, as well as cancellations by customers of previously made reservations. Currently, the most important factors influencing the development of demand are the epidemic restrictions in force (both in the country and in destination destinations), the effectiveness of vaccination programs and the general economic situation of households. Information from the contractors of Wakacje.pl indicates that tour operators in 2021 will be able to reach 65% of the 2019 volume of trips offered. It should be emphasized, however, that the actual level of service provision on the organized foreign tourism market will directly depend on the development of the epidemic situation in the world, and therefore may be subject to very significant fluctuations. The company's management board monitors the development of the situation in this sector on an ongoing basis and adjusts the activities of wakacje.pl accordingly. However, it cannot be ruled out that this year, as in 2020, the intermediation in the sale of foreign trips may have a negative impact on the Group's financial results.
- Increase in sales due to an improvement in the effectiveness of advertising by using the Group's current resources (information on user behaviour and big data analyses) for improved matching of advertising content to user profiles as well as presenting to the clients ready general or individually targeted consumer segments;
- The largest traditional marketers and, to an increasing extent, e-commerce entities (large e-stores) from advertising ecosystems (platforms) such as WP Group, expect comprehensive, packaged activities - from image formats through engaging special actions to the so-called performance campaigns (settled based on the effect). The WP Group is ready today (in terms of technology and people) and plays the role of a one-stop shop (a place to handle all your needs) and sees yourself as a beneficiary of the growing requirements of advertisers as to the effectiveness of the campaign measured by sales;
- The more intensive use of a real-time automated purchase model of advertising space on the Polish online market, which is currently having a positive effect on the Group's revenues;
- Raising conversions on Group's e-commerce websites due to development of recommendation and personalization mechanisms (big data, machine learning). The scale of the Group's activity in individual portals allows to increase investments in solutions, the cost of which is prohibitive for small and medium-sized players. The development of these tools is also one of the synergies in the Group.
- The positive effect of the revenue and cost synergies expected by the Group as a result of its acquisitions;
- Increase in costs, in particular salaries, resulting from the improvement of the quality of content made available to users and the development of the number and quality of video content.

The main goal of the Group is to maintain the position of the largest Polish technology holding company in the media and e-commerce industry. The Group would like to achieve this through the implementation of the following strategic goals and development directions:

- **Technology development** – implementation of mechanisms and technology enabling better personalisation of services and content to the expectations of recipients. Work on projects enabling advanced targeting and personalization of ads.
- **Big data** - the use of the key competitive advantage of the Group, i.e. diverse data sets on consumer behaviour of Poles;
- **E-commerce** - using the potential of the fast-growing e-commerce market in key product categories;
- **Acquisitions** - strengthening the Group's organic growth through acquisitions of other entities;

- **E-mail** - maintenance and development of electronic mail services as a communication tool and source of information essential for personalizing content, services and advertising;
- **Mobile** - acquiring and maintaining a leadership position in Poland in mobile ads;
- **Video online** - acquiring and maintaining a leading position in Poland in online video advertising, through e.g. increased investments in own productions and foreign libraries purchases.

In 2020, the Group consistently implemented the strategic objectives described above and plans to continue them in subsequent periods. Below is a description of the main achievements in the individual strategic areas of the Group and plans for subsequent periods:

- **Modern display / ecommerce / performance** - in 2020, our work focused, inter alia, on creating our own advertising platform WP Marketing Platform, which is used to conduct effective advertising activities both on the Group's own and 3rd party's inventory. It includes an advanced adserver implementing campaigns based on user data, multi-stage engagement scenarios and effective closing of transactions (WP Marketing Cloud / WP Audience Center / WP Sales Booster), tracking and business efficiency analysis of media activities (WP Pixel / WPMetrics) and technology recognizing users on different devices (WP Cross-Device) all prepared for the world without 3rd party cookies (WP Universal ID).

The second half of 2020 also meant intensive work on a self-serving and optimisation system - the ADS.WP.PL application is dedicated to e-commerce customers and includes products dedicated to e-commerce, it will be made available in the first quarter of 2021. The unique value of the solution is the possibility of ordering a campaign in the ROAS model, which makes the campaign costs dependent on the revenues generated by it in the online store.

In addition, we have designed and implemented our own identification mechanism (1Login) that allows logging in to both to our e-mail services, as well as to most of WPH and some external services and websites. In 2020, we implemented 1Login for all the services of Wirtualna Polska Media, as well as most of the Holding websites. We also acquired the first external partners who implemented our solution to their websites.

Since the beginning of the pandemic, there has been a significant increase in the number of user-generated comments (on average by approx. 75% per month). To support our team of moderators, we have created a system based on artificial intelligence - WPModeration, which guards the rights and generally accepted principles of online opinions and prevents hate speech.

- **Big data** - in 2020, we continued working on the goal of making WP a data driven organization, implementing new business dashboards based on developed technologies supporting the work of the entire organization. In addition, we have completed the implementation of GA360 on the services of Wirtualna Polska Media, which allows us to map and understand the behaviour of our users and their characteristics more efficiently. We have also introduced the possibility of targeting advertisements using consumer profiles that allow us to precisely reach actual users using specific services and WP Trapping geolocation profiles. In following periods, we will continue to work on the Analytical Hub by implementing new business dashboards, expanding data sets and further improving their quality;
- **Personalization on websites** – we continued improving the mechanisms of personalizing material recommendations for users of WP websites on article pages. We have introduced new bigdata mechanisms launched on the Home Page, we have expanded the space in which teasers are tailored to the preferences and interests of the user (mechanisms personalizing the content using the knowledge of user demographics and their location - both precise data and extrapolated);
- **Mobile** - in 2020, in the mobile area we focused on reducing the time of access to our mobile websites. We significantly improved the effectiveness of the mobile channel in our campaigns, achieving high, double-digit increases in revenues, while continuing to improve the ratio between advertising prices in mobile and desktop campaigns. The year 2020 was a breakthrough for us, because for the first time both our home page and all websites of the media product (in total) achieved a greater reach in mobile than on the desktop. In addition, in 2020 we completed our original project aimed at young people - VibeZ. It is a product dedicated to the mobile channel and Generation Z, which looks for information and spends its free time in this channel. This product was appreciated by the industry and awarded at the Mobile Trends Awards Gala
- **E-mail** - The mail product in 2020 addressed two main aspects: user safety and the convenience of using the service in new pandemic circumstances.

In terms of security, thanks to providing Users with the new 1Login login mechanism from WP, apart from the convenience of logging-in not only to the e-mail accounts, they also gained the possibility of additionally securing access to their account using the second authentication method (2FA). In addition, in response to the growing

threats in the field of cybersecurity, the e-mail anti-spam policy service has been tightened and new mechanisms have been introduced to protect users against unwanted and dangerous correspondence.

In terms of the convenience of using the service, in response to the increased interest in mail services and the transfer of many life processes from offline to online, new folders related to the handling of e-prescriptions, communication related to teaching - school and spending free time - gaming were introduced.

In 2020, users logged in to the service much more often and used mobile applications more willingly.

- Video - in January 2020**, we launched the most modern video production space in the Polish Internet. We have 3 studios with a total area of 1500 square meters, the studios are equipped with the most modern production equipment, we have, among others, camera robots, a 1000-inch vision wall, as well as a special scenography based on 28 light sectors. Modern photo equipment, drones and remote video transmission sets are also available. For our users, before the first lock-down, we launched a special program in which we reported live events related to the coronavirus. The program still enjoys great viewership. In autumn, we launched the production of 4 new online formats, one of which ("Idea for a house") will also be broadcast by WP TV in 2021. In addition, in 2020, we implemented an innovative offer to purchase a video campaign in accordance with personalized expectations regarding quality parameters, we offered customers new richmedia video formats, and expanded the offer of outstream and display campaigns in the player space.

Since the Company's activity is limited to holding activities, its prospects and tendencies are in fact the same as for the Group as a whole.

3. DISCUSSION ON THE OPERATING RESULTS AND THE FINANCIAL SITUATION OF THE WIRTUALNA POLSKA HOLDING CAPITAL GROUP

The financial data for the twelve months ending 31 December 2020 and 31 December 2019 was audited by an independent auditor, whereas the financial information for the fourth quarter of 2020 and 2019 was not subject to any audit or review. The information presented in the following table should be read in conjunction with the information included in the consolidated financial statements.

SELECTED FINANCIAL DATA FROM THE CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the main positions of the income statement for the year ending 2020 and 2019

PLN'000	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Change	Change %
Online Segment				
Sales	605 735	688 379	(82 644)	(12,0%)
Cash sales	589 468	665 150	(75 682)	(11,4%)
Adjusted EBITDA (IFRS 16)	215 042	223 282	(8 240)	(3,7%)
EBITDA (IFRS 16)	200 670	213 807	(13 137)	(6,1%)
TV segment				
Sales	26 551	20 321	6 230	30,7%
Cash sales	26 551	20 321	6 230	30,7%
Adjusted EBITDA (IFRS 16)	1 880	(4 339)	6 219	(143,3%)
EBITDA (IFRS 16)	1 880	(4 580)	6 460	(141,0%)
Segments total				
Sales	632 286	708 700	(76 414)	(10,8%)
Cash sales	616 019	685 471	(69 452)	(10,1%)
Adjusted EBITDA (IFRS 16)	216 922	218 943	(2 021)	(0,9%)
EBITDA (IFRS 16)	202 550	209 227	(6 677)	(3,2%)
Amortization and depreciation	(80 839)	(79 282)	(1 557)	2,0%
Operating profit	121 711	129 945	(8 234)	(6,3%)
Result on financial activities	(30 312)	(31 092)	780	(2,5%)
Profit before tax	91 399	98 853	(7 454)	(7,5%)
Net profit	81 699	71 132	10 567	14,9%

The following table presents the main positions of the income statement for the fourth quarter of 2020 and 2019

PLN'000	Three months ending 31 December 2020	Three months ending 31 December 2019	Change	Change %
Online Segment				
Sales	209 591	183 557	26 034	14,2%
Cash sales	203 983	176 678	27 305	15,5%
Adjusted EBITDA (IFRS 16)	77 122	63 638	13 484	21,2%
EBITDA (IFRS 16)	71 494	68 072	3 422	5,0%
TV segment				
Sales	8 870	6 102	2 768	45,4%
Cash sales	8 870	6 102	2 768	45,4%
Adjusted EBITDA (IFRS 16)	2 649	451	2 198	487,4%
EBITDA (IFRS 16)	2 649	671	1 978	294,8%
Segments total				
Sales	218 461	189 659	28 802	15,2%
Cash sales	212 853	182 780	30 073	16,5%
Adjusted EBITDA (IFRS 16)	79 771	68 743	11 028	16,0%
EBITDA (IFRS 16)	74 143	64 089	10 054	15,7%
Amortization and depreciation	(19 385)	(20 723)	1 338	(6,5%)
Operating profit	54 758	43 366	11 392	26,3%
Result on financial activities	(16 105)	(6 499)	(9 606)	147,8%
Profit before tax	38 653	35 987	2 666	7,4%
Net profit	40 052	26 859	13 193	49,1%

The consolidated results of the Group for the year 2020 and 2019 included the results of the following subsidiaries

No.	Name of subsidiary	Date of taking control	% of shares held	Period covered by consolidation	
				31 December 2020	31 December 2019
1	Wirtualna Polska Media S.A.	22 December 2010	100%	full period	full period
2	Totalmoney.pl Sp. z o.o.	1 December 2014	100%	full period	full period
3	Businessclick.pl Sp. z o.o.	1 December 2014	100%	full period	full period
4	Domodi.pl Sp. z o.o.	12 September 2014	100%	full period	full period
5	Finansowysupermarket.pl Sp. z o.o. ⁽¹⁾	16 September 2015	100%	-	full period
6	Wakacje.pl S.A.	23 December 2015	100%	full period	full period
7	Nocowanie.pl Sp. z o.o.	7 June 2016	85%	full period	full period
8	Netwizor Sp. z o.o.	13 December 2016	100%	full period	full period
9	eHoliday.pl Sp. z o.o. ⁽⁴⁾	18 October 2017	85%	-	full period
10	WPZ Sp. z o.o.	29 December 2017	100%	full period	full period
11	Parklot Sp. z o.o.	4 October 2018	100%	full period	full period
12	Extradom.pl Sp. z o.o.	28 October 2018	100%	full period	full period
13	Superauto24.com Sp. z o.o.	20 December 2018	51%	full period	full period
14	Travel Network Solutions Sp. z o.o. ⁽³⁾	26 February 2019	100%	-	since 26 February 2019
15	Open FM Sp. z o.o.	1 July 2019	100%	full period	since 1 July 2019
16	Autocentrum.pl S.A. ⁽²⁾	30 October 2019	100%	-	since 30 October 2019

⁽¹⁾ On 2 January 2020 Totalmoney.pl Sp. z o.o. and Finansowysupermarket.pl Sp. z o.o. merged.

⁽²⁾ On 1 February 2020 Wirtualna Polska Media SA and Autocentrum.pl SA merged.

⁽³⁾ On 1 July 2020 Travel Network Solutions Sp. z o.o. and Wakacje.pl SA merged.

⁽⁴⁾ On 1 October 2020 eHoliday.pl Sp. z o.o. and Nocowanie.pl Sp. z o.o. merged.

ONLINE Segment

An outbreak of the SARS-COV-2 coronavirus pandemic was a significant factor affecting the Group's results in 2020, in particular of those companies operating in the tourism services sector. A detailed description of that factor is presented in section 5 of the report.

The sales of services in the online segment declined in 2020 by PLN 82,644 thousand i.e. by 12% compared to the sales in previous year, whereas the cash sales declined by PLN 75,682 thousand, i.e. by 14,7%.

The decline in sales was caused primarily by the situation in the international travel market. Due to the outbreak of coronavirus epidemic, subsequent lockdown and the closing of the borders, the Group was not only unable to sell travel packages in the period of nine months of 2020, but was also forced to recognise refunds for all services that were sold in previous periods, but could not be realised in expected dates. International tourist traffic was resumed in the third quarter, but the level of demand for trips abroad was significantly lower than in previous years.

Despite the decline in revenues on an annual basis, in the fourth quarter of 2020 alone, the Group recorded an increase in revenues by 27,305, i.e. 15.5%. This increase is mainly due to the very good results of companies operating in the media business, which compensated for losses generated by companies operating in the tourism business. In addition, in the fourth quarter of 2020, the Group changed the model for revenue recognition for Superauto24.com Sp. z o.o. During 2020, the sales model of Superauto24.com Sp. z o.o. has evolved from purely agency sales to a hybrid model in which cars are purchased by SA24, both with and without a specific customer order. In the case of agency sales, the International Financial Reporting Standards require revenue from sales to be recognized up to the amount of the sales margin realized, while in other cases, revenue is recognised in the full value. The modification of the approach resulted in the recognition of additional revenues from sales and the cost of goods sold in the amount of PLN 22.3 million in the fourth quarter (of which PLN 10.9 million relates to revenues and costs for the period of 9 months ended September 30, 2020)

In both periods, cash-settled transactions represented the majority of the Group's sales and amounted to 97,3% of the Group's sales in 2020 and 96,6% in 2019.

The main ratios analysed by the Management Board for the purpose of evaluation of the Group's financial results are EBITDA and adjusted EBITDA. The Group's EBITDA is calculated as operating profit plus amortization and depreciation while the Group's adjusted EBITDA is calculated as EBITDA adjusted for one-off events such as: costs of M&A transaction advisory, and restructuring, management option scheme costs, result of the disposal of other financial assets, net result of the settlement of barter transactions and the costs of revaluation and liquidation of non-current assets.

During 2020, the online segment generated PLN 215,042 thousand of adjusted EBITDA, which means a decrease by PLN 8,240 thousand (3.7%) in relation to the value of this ratio in the previous year.

In the analysed period, the net value of positions normalizing the Group's EBITDA of the online segment amounted to PLN 14.4 million and was higher than the amount noted in in 2019 by PLN 4.9 million. The Group's EBITDA of the online segment in 2020 was adjusted by, among other things, transaction and restructuring costs (PLN 4.8 million), as well as legal advisory fees related to the refinancing of debt and costs of acquisition activities (PLN 0.5 mln), restructuring resulting from COVID-19 and integration activities (PLN 1.8 million), non-cash costs of the employee option program (PLN 2.4 million), costs of updating and liquidating non-financial assets (PLN 2.5 million) and historical correction of the applicable VAT rate in Extradom (PLN 1.8 million).

Furthermore, EBITDA for the period was adjusted by temporary gain on barter transactions (PLN 0.2 million). Due to the equivalence of mutual benefits arising from barter transactions, such transactions are offset over a longer period, although temporarily a positive or a negative result might be recorded.

One-off costs in 2020 also include the accelerated depreciation of non-current assets, resulting from the signing of new lease agreements in Warsaw and Wrocław, assuming the discontinuation of the right to use previous company seats in these cities earlier than provided for in the original contract.

TV segment

In the analysed period, total sales of TV segment of PLN 26,551 thousand comprised of cash sales and were by PLN 6,230 thousand, i.e. 30.7% higher than in the previous year. The revenues of the fourth quarter amounted to PLN 8,870 thousand and were by PLN 2,768 thousand, ie 45.4% higher than in the corresponding period of the previous year.

The Adjusted EBITDA of the TV Segment for 2020 amounted to PLN 1.880 thousand, compared to PLN (4,399) thousand in 2019. At the same time, in the fourth quarter of 2020 alone, the TV segment generated positive EBITDA of PLN 2,649 thousand, PLN (345) thousand in the fourth quarter of 2019.

Joint performance of segments

In 2020, despite a decrease in the Group's total revenues by almost 11%, the value of both adjusted and ordinary EBITDA remained at a level similar to the previous year, recording a decrease by respectively PLN 2,021 thousand and PLN 6,677 thousand, i.e. 0.9% and 3.2%.

Decline in EBITDA as well as increase of depreciation resulted in decrease in operating profit by PLN 8,234 thousand compared to previous year. The operating profit for the year amounted to PLN 121.7 million. Additional amortization and depreciation was mainly due to the Group's investment expenditure including new lease agreements of office space in Wrocław, Warsaw, Gdańsk and Lublin, as well as additional depreciation of fixed and intangible assets (including trademarks and client relations) of companies acquired in 2019.

The result on financial activity of the Group amounted to PLN (30,312) thousand in 2020 and decreased by PLN 780 thousand compared to 2019.

The main change in financial activities related to the revaluation of the liability to purchase non-controlling interests and other liabilities resulting from the business combination. In 2020, the Group recognized a profit of PLN 4,125 thousand for the reduction of the liability to purchase the non-controlling interest in Nocowanie.pl Sp. z o.o. (gain of PLN 9,066 thousand) and increasing the liability for earn-out of Superauto.pl (loss of PLN 4,941 thousand). In the previous year, the option liability for the minority stake in Nocowanie.pl Sp. z o.o. was revalued upwards by PLN 14,692 thousand, which resulted in the recognition of an additional cost in this amount.

Despite lower by PLN 2,753 thousand costs of debt financing, total finance costs increased by PLN 1,289 thousand, due to recognized negative exchange differences in the amount of PLN 4,167 thousand, arising mainly from the revaluation of lease liabilities from office space lease contracts denominated in EUR. The Group also recognized financial costs resulting of PLN 11,826 thousand resulting from provision for receivable resulting from executed esky put option.

from the revaluation of long-term financial assets in the amount of PLN 11,828 thousand

Share in the losses of investments accounted for using the equity method amounted to PLN 2,923 thousand and was by PLN 846 higher than in 2019. At the same time finance income was by PLN 1,547 thousand lower than in 2019.

The financial statements for 2020 were prepared in accordance with IFRS 16. For information purpose only, the table below presents the theoretical result of the Group if it applied IAS 17, which was binding until the end of 2018

(PLN'000)	Twelve months ending 31 December 2020	MSSF16 Adjustment	Twelve months ending 31 December 2020 (in accordance with IAS17)
Sales	632 286		632 286
Cost of goods sold	(53 104)	-	(53 104)
Amortization and depreciation	(85 283)	12 365	(72 918)
Materials and energy used	(5 344)	-	(5 344)
Costs of the employee option scheme	(2 361)	-	(2 361)
Other external services	(156 946)	(14 835)	(171 781)
Other salary and employee benefit expenses	(198 259)	-	(198 259)
Other operating expenses	(16 825)	-	(16 825)
Other income/gains	7 547	(7)	7 540
Operating profit	121 711	(2 477)	119 234
Finance income	1 336	(238)	1 098
Finance costs	(32 850)	5 877	(26 973)
Revaluation of commitments to purchase non-controlling interests and other liabilities on business combinations	4 125	-	4 125
Share in profits of investments accounted for using the equity method	(2 923)	-	(2 923)
Profit before tax	91 399	3 162	94 561
Income tax	(9 700)	(601)	(10 301)
Net profit	81 699	2 561	84 260

EXPLANATIONS TO THE CONSOLIDATED REVENUES AND RESULTS OF THE ENTITIES ACQUIRED IN 2019

The table below presents the financial results of Travel Network Solutions sp.z o. o. and Autocentrum.pl SA - entities acquired in 2019, for the period from the beginning of 2019 to the date of taking over control (results not included in the consolidated statement of financial result for 2019).

PLN'000	Since 01.01.2019 to the acquisition date	
	Autocentrum.pl SA	Travel Network Solutions Sp. z o.o.
Sales	2 306	743
Cash sales	2 306	743
EBITDA	1 026	(91)
Adjusted EBITDA	1 026	(91)
Net profit	934	(95)

FINANCIAL POSITION OF THE GROUP

The following table presents the consolidated statement of the Group's financial position as of the end of December 2020 and 2019:

PLN'000	As of 31 December 2020	As of 31 December 2019	Change PLN'000	Change %
Non-current assets	887 333	909 137	(21 804)	(2,4%)
Current assets	356 500	235 932	120 568	51,1%
Long-term liabilities	435 538	426 587	8 951	2,1%
Short-term liabilities	210 601	205 355	5 246	2,6%
Equity attributable to equity holders of the Parent Company	586 658	500 881	85 777	17,1%
Share capital	1 457	1 451	6	0,4%
Non-controlling interests	11 036	12 246	(1 210)	(9,9%)

The analysis of changes in the Group's balance sheet has been prepared as of 31 December 2020 compared to 31 December 2019.

Changes in the individual balance sheet items are discussed below.

Non-current assets

The following table presents the structure and changes in non-current assets by balance sheet category:

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change PLN'000	Change %
Property, plant and equipment	106 898	12,0%	106 477	11,7%	421	0,4%
Goodwill	364 254	41,1%	364 254	40,1%	-	0,0%
Investments accounted for using the equity method	-	0,0%	2 923	0,3%	(2 923)	(100,0%)
Other intangible assets	394 900	44,5%	402 188	44,2%	(7 288)	(1,8%)
Non-current programming assets	8 512	1,0%	5 805	0,6%	2 707	46,6%
Long-term receivables	201	0,0%	208	0,0%	(7)	(3,4%)
Other financial assets	10 005	1,1%	26 727	2,9%	(16 722)	(62,6%)
Deferred tax assets	2 563	0,3%	555	0,1%	2 008	361,8%
Non-current assets	887 333	100,0%	909 137	100,0%	(21 804)	(2,4%)

In the analysed period, the net value of the property, plant and equipment remained at a similar level. The increase in net assets was related mainly to recognition of the asset from the office lease by Totalmoney.pl Sp. z o.o. in Wrocław, Nocowanie.pl Sp. z o.o. in Lublin and Wakacje.pl in Gdańsk, with a total value of PLN 20,425 thousand.

In addition, the Group incurred other capital expenditure on property, plant and equipment in the total value of PLN 12,658 thousand, which was mainly related to the adaptation of new office spaces and the purchase of equipment for the expansion of the mail infrastructure and portals. At the same time, the cost of depreciation of property, plant and equipment in the current period amounted to PLN 29,145 thousand and the value of write-offs amounted to PLN 733 thousand. The group also decided to sublet some of the office space it rented, which resulted in a reduction of PLN 2,839 thousand of value of the right-of-use assets.

The value of intangible assets decreased by PLN 7,288 thousand as the depreciation cost of PLN 51,679 thousand exceeded the expenditures (PLN 46,878 thousand). In the current period the Group incurred expenditures mainly on capitalized development projects (PLN 31,710 thousand) and the purchase of licenses (PLN 2,702 thousand).

In 2020, the value of other intangible assets decreased by PLN 6,289 thousand, as the depreciation cost of PLN 39,121 thousand exceeded the expenditures (PLN 32,832 thousand). In the current period, the Group incurred expenditure mainly on capitalized development projects (PLN 31,710 thousand), on the purchase of new systems used in the Group's operations (PLN 13,156 thousand) and on licenses and equipment for employees (PLN 1 million).

In the analyzed period, the Group incurred capital expenditure on programming assets in the amount of PLN 6,914 thousand, while charging the depreciation costs of these programming assets in the amount of PLN 4,444 thousand. Moreover, the value of programming assets decreased by a further PLN 493 thousand in connection with their partial write-off or allowances made. The value of investments accounted for using the equity method decreased by PLN 2,923 thousand as a result of recognizing part of the loss generated by the Group's associate Digitics SA.

On March, 26 2020, in line with the procedure outlined in the investment agreement dated 9 June 2017, the Group issued a statement about the execution of the put option on its shares in eSky.pl SA. As a result of exercising the put option, a sales contract was concluded between WPM and the sellers. However, Wirtualna Polska Media is obliged to transfer the title to all shares covered by the put option only after receiving the payment of the entire put option price.

Since the entities obliged failed to settle the due put option price, on December 1, 2020 Wirtualna Polska Media S.A. ("WPM") filed a claim in the injunction proceedings against them for the total amount of PLN 17.2 million. Taking into account the pending court proceedings and risk of a protracted litigation procedure (related i.a. to the pandemic) as well as following the principle of prudent valuation, the Management Board of the Company created a provision and decreased the value of receivable to the amount of PLN 7,382 thousand)

As of 31 December 2020 the shares and options of esky are presented as short-term investment receivable, while as of 31 December 2019 the valuation was presented as other long-term assets.

Moreover, as of 31 December 2020 the Management Board updated its valuation of the shares held in Teroplan Sp. z o.o. The valuation method used by the Group is based on multiples of comparable listed companies. Teroplan operates in the tourism and transport industries, which are significantly affected by COVID-19. As a result, the value of shares was reduced by PLN 617 thousand.

At the same time, a contract to sublet some of the office space was signed which resulted in the recognition of an asset under the leasing contract, which amounted to PLN 2,488 thousand as of 31 December 2020.

Current assets

The following table presents changes in current assets by balance sheet category:

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change PLN'000	Change %
Cash trade receivables	135 846	38,1%	129 862	55,0%	5 984	4,6%
Barter receivables	1 805	0,5%	2 489	1,1%	(684)	(27,5%)
Contract assets	1 170	0,3%	11 142	4,7%	(9 972)	(89,5%)
State receivables	3 314	0,9%	3 851	1,6%	(537)	(13,9%)
Income tax receivables	4 722	1,3%	3 584	1,5%	1 138	31,8%
Current programming assets	540	0,2%	1 270	0,5%	(730)	(57,5%)
Short-term receivables from financial activities	288	0,1%	-	0,0%	288	-
Investing activities receivables	7 383	2,1%	-	0,0%	7 383	-
Accrued expenses	2 206	0,6%	2 632	1,1%	(426)	(16,2%)
Inventory	6 601	1,9%	1 572	0,7%	5 029	319,9%
Other current assets	4 370	1,2%	5 601	2,4%	(1 231)	(22,0%)
Fixed assets held for sale	-	0,0%	-	0,0%	-	-
Cash and cash equivalents	188 255	52,8%	73 929	31,3%	114 326	154,6%
Current assets	356 500	100,0%	235 932	100,0%	120 568	51,1%

Compared to the end of 2019, the Group significantly increased the value of cash at its disposal. A detailed analysis of changes in cash value will be presented in the next part of the report regarding the analysis of the cash flow statement.

The increase in net trade receivables was mainly due to an increase in sales revenues in the last quarter of 2020 for the companies operating in advertising business, compared to the same period of the previous year. The Group's credit policy assumes 30-60 day payment periods for its key customers, and therefore the increase in net cash revenues in the fourth quarter translated into a significant increase in the balance of trade receivables.

Contract assets, representing mostly the commission fee for touristic services, decreased its value by PLN 9,972 thousand which was largely due to the coronavirus epidemic (details described in point 5 of this report).

The value of inventory increased by PLN 5,029 thousand, mainly due to the continued development of direct car sales at Superauto24.com Sp. z o.o. As a result of that activity PLN 5.0 million of additional inventory was recognised.

Short-term receivables from investing activities in the value of PLN 7,382 thousand correspond to the fair value of shares and share options held by the Group in eSky.pl SA. On March 26, 2020, in accordance with the procedure provided for in the investment agreement of June 9, 2017, the Group submitted a statement on the exercise of the put option on the shares held in eSky.pl SA.

Programming assets with a net value of PLN 540 thousand PLN were presented in the short-term part of the balance sheet since they are valid for less than 12 months.

Long-term liabilities

The following table presents changes in long-term liabilities by balance sheet category:

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change PLN'000	Change %
Bank loans and other loans	320 762	73,6%	311 208	73,0%	9 554	3,1%
Leasing liabilities due to the right of use the assets	58 705	13,5%	46 845	11,0%	11 860	25,3%
Liabilities related to business combinations	9 742	2,2%	15 902	3,7%	(6 160)	(38,7%)
Liabilities with respect to the put option for non-controlling interests	7 704	1,8%	20 505	4,8%	(12 801)	(62,4%)
Liabilities in respect of purchase of property, plant and equipment and intangible assets	6 576	1,5%	7 771	1,8%	(1 195)	(15,4%)
Deferred tax liabilities	31 469	7,2%	23 676	5,6%	7 793	32,9%
Other	580	0,1%	680	0,2%	(100)	(14,7%)
Long-term liabilities	435 538	100,0%	426 587	100,0%	8 951	2,1%

As at 31 December 2020, the value of the long-term part of loans increased by PLN 9,554 thousand as a result of the additional CAPEX tranche drawn to finance the execution of the option to purchase shares in Nocowanie.pl.

In the analysed period lease liabilities increased significantly. This results from the new lease contracts of the office space by Totalmoney.pl Sp. z o.o. in Wrocław, Nocowanie.pl Sp. z o.o. in Lublin and Wakacje.pl in Gdańsk with a total value of PLN 20,425 thousand. Additionally, as most of the office space lease agreements in the Group is settled in EUR, the liability was revalued by PLN 4,924 thousand due to the exchange rate increase in 2020. At the same time, the Group repaid the capital instalments in the total value of PLN 14,114 thousand.

Liabilities related to business combinations decreased by PLN 6,160 thousand as a result of the repayment in January 2020 of another part of the retained purchase price for shares in Extradom Sp. z o.o in the amount of PLN 2,558 thousand and reclassification of the Supreauto earn-out liability to the short-term part of the liabilities.

Long-term liabilities related to the put option on non-controlling interests decreased by PLN 12,801 thousand. On 28 May 2020 the Group signed an agreement with the minority shareholder in Nocowanie.pl changing the conditions of option agreement, i.a. extending the period in which it can be executed. At the same time the first tranche of the purchase was realised at the total price of PLN 13,467 thousand. On December 22, the Group signed another agreement with a minority shareholder changing the terms of the exercise of the purchase and sale options for the remaining minority shares. At the same time, due to the impact of the COVID epidemic on the company's results, the Group adjusted its forecasts of the company's results, which are the basis for the long-term valuation of some options. Details of the transaction and revaluation are described in Note 36 to the consolidated financial statements.

In March 2020 the Group repaid another instalment of the liability for the television broadcasting licence. In January 2016 the Group recognised liability related to the television broadcasting licence binding from 14 January 2016 to 13 January 2026. The total liability amounted to PLN 13,545 thousand and is paid in ten equal annual instalments, PLN 1,355 thousand each. As at 31 December 2020, with five instalments paid, the value of the liability calculated at the amortised cost equals PLN 8,028 thousand, PLN 6,426 thousand of which is recognised as long-term. In 2020, the Group also recognized a liability arising from a radio license received, the long-term portion of which amounted to PLN 173 thousand.

Short-term liabilities

The following table presents changes in short-term liabilities by balance sheet category:

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change PLN'000	Change %
Bank loans and other loans	34 604	16,4%	35 547	17,3%	(943)	(2,7%)
Leasing liabilities due to the right of use the assets	14 613	6,9%	14 710	7,2%	(97)	(0,7%)
Cash trade payables	46 006	21,8%	51 097	24,9%	(5 091)	(10,0%)
Barter trade payables	2 414	1,1%	2 986	1,5%	(572)	(19,2%)
Contract and refund liabilities	44 482	21,1%	39 749	19,4%	4 733	11,9%
State liabilities	12 248	5,8%	8 844	4,3%	3 404	38,5%
Wages and salaries payables	13 497	6,4%	10 021	4,9%	3 476	34,7%
Liabilities in respect of purchase of property, plant and equipment and intangible assets	6 839	3,2%	7 639	3,7%	(800)	(10,5%)
Other short-term payables	10 645	5,1%	7 901	3,8%	2 744	34,7%
Provisions of employee benefits	4 850	2,3%	3 874	1,9%	976	25,2%
Other provisions	1 065	0,5%	1 105	0,5%	(40)	(3,6%)
Contingent liabilities related to business combinations	7 100	3,4%	72	0,0%	7 028	9761,1%
Liabilities related to business combinations (other than earn-out)	2 318	1,1%	2 546	1,2%	(228)	(9,0%)
Liabilities with respect to the put option for non-controlling interests	9 039	4,3%	17 333	8,4%	(8 294)	(47,9%)
Current income tax liabilities	879	0,4%	1 931	0,9%	(1 052)	(54,5%)
Short-term liabilities	210 599	100,0%	205 355	100,0%	5 244	2,6%

Cash trade liabilities decreased by PLN 5,091 thousand, which is caused, among others, by reduction of the cost base due to the epidemic situation and its impact on the results achieved by the Group.

Contract and refund liabilities increased their value by PLN 4,733 thousand. This item consists mainly of accrued annual rebates due to clients. Along with the increase in the sales value of media business compared to the previous year, the amount of rebates to which customers are entitled also increased.

Public law liabilities increased by PLN 3,404 thousand compared to the previous year, which is mainly due to the increase in VAT liabilities in companies operating in the media industry, which recorded very high sales increases in the last month of 2020.

In the analyzed period, the balance of payables due to salaries increased by PLN 3,476 thousand, which was largely due to the change in 2020 in the method of settling bonuses. Due to the uncertainty resulting from the impact of COVID-19 on the Group's results, the Management Board decided to change the method of settling bonuses from semi-annual settlement to annual settlement.

Contingent liabilities related to business combination increased significantly, as the contingent liability related to Superauto24.com earn-out was transferred to the short-term part of the liabilities. The value of additional remuneration payable to minority shareholders as at 31 December 2020 is PLN 10.100 thousand. After the advance payment for this liability in the amount of PLN 3,000 thousand was made, the balance of this liability at the end of the reporting period amounted to PLN 7,100 thousand.

Liabilities with respect to the put option for non-controlling interests declined materially (PLN 8,294 thousand) due to the execution of the first option to purchase shares in Nocowanie.pl and entering into an agreement with the minority shareholder extending the deadline to execute the remaining options. The details of the transaction are described in note 36 of consolidated financial statements.

Equity

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change PLN'000	Change %
Equity attributable to equity holders of the Parent Company, including	586 658	98,2%	500 881	97,6%	85 777	17,1%
Share capital	1 457	0,2%	1 451	0,3%	6	0,4%
Supplementary capital	324 485	54,3%	321 969	62,7%	2 516	0,8%
Revaluation reserve	123	0,0%	147	0,0%	(24)	(16,3%)
Other reserves	5 467	0,9%	(1 144)	(0,2%)	6 611	(577,9%)
Retained earnings	255 126	42,7%	178 458	34,8%	76 668	43,0%
Non-controlling interests	11 036	1,8%	12 246	2,4%	(1 210)	(9,9%)
Equity	597 694	100,0%	513 127	100,0%	84 567	16,5%

In 2020, the equity attributable to the parent company's shareholders increased by PLN 84,567 thousand in total. The change in equity attributable to the parent company's shareholders resulted from the following events:

- increase by PLN 2,522 thousand due to registration, admission to trading and issuing shares under share option plans, out of which PLN 6 thousand increased share capital and the remaining part - PLN 2,516 thousand was booked as supplementary capital;
- decrease by PLN 24 thousand due to i.a. the downward valuation of interest rate swap liability, hedging the interest payments to the bank and actuarial losses;
- increase by PLN 2,361 thousand due to vesting of the rights to the consecutive tranche of share options under the existing incentive scheme. At the same time, share capital increase in the amount of PLN 254 thousand was fully paid in 2019 and as at 31 December 2019 was presented as other reserves, while as at 31 December 2020 (after registration) it was presented as supplementary capital;
- the net profit attributable to the parent company's shareholders for 2020 of PLN 78,520 thousand;
- increase by PLN 2,654 thousand as a result of a reclassification to equity attributable to shareholders of the Parent Company from non-controlling interests due to the purchase of 10% of shares in Nocowanie.pl Sp. z o.o.;
- as a result of the settlement of the first option on non-controlling shareholding in Nocowanie.pl the Group reclassified a portion of supplementary capital relating to the initial recognition of this option to retained earnings in the amount of PLN 4,506 thousand. This change did not impact the total value of equity attributable to shareholders of the Parent Company.

In 2020 the non-controlling interests decreased by PLN 1,210 thousand due to the allocation to the non-controlling shareholders of an appropriate part of the result for the period earned by Nocowanie.pl Sp. z o.o., Eholiday.pl Sp. z o.o. and Superauto24.com Sp. z o.o. (PLN 3,179 thousand). Moreover, as a result of the purchase of 10% interest in Nocowanie.pl Sp. z o.o., PLN 2,654 thousand was reclassified from non-controlling interests to equity attributable to shareholders of the Parent Company. Nocowanie.pl paid a dividend to its minority shareholder in the amount of PLN 1,735 thousand.

Description of the cash flows in 2020

PLN'000	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
Net cash flows from operating activities	211 024	188 986
Net cash flows from investing activities	(65 824)	(109 147)
Net cash flows from financing activities	(31 630)	(72 551)
Total net cash flows	113 570	7 288

EBITDA of the Group amounted to PLN 216,922 thousand drove positive cash flows from operating activities in the amount of PLN 211,024 thousand.

Cash flows from investing activities were negative and amounted to PLN (65,824) thousand in the analysed period which was mainly due to expenditure incurred (CAPEX) on the purchase of intangibles and fixed assets (PLN 61,214 thousand), the repayment of another part of the retained purchase price of shares in Extradom Sp. z o.o. (PLN 2,558 thousand) and the advance payment of Superauto24.com earn-out in the amount of PLN 3,000 thousand.

Cash flows from financing activities in the current period amounted to PLN (31,630) thousand mainly due to the repayment of finance lease (PLN 14,114 thousand) and the repayment of interest and bank commissions in the amount of PLN 17,910 thousand as well as execution of the option on non-controlling interests (PLN 13,467 thousand). Moreover, in 2020 the Group paid dividend to the minority shareholder of Nocowanie.pl in the amount of PLN 1,735 thousand.

As part of financial activities, the Group also showed the inflow of PLN 2,268 thousand due to an increase in share capital related the issue of further shares under the existing incentive programs. In 2020, the Group also refinanced the existing loan and used a new tranche of the CAPEX loan (PLN 13,467 thousand) to finance the purchase of 10% shares in Nocowanie.pl.

Due to the weakening of the Polish currency against the Euro and USD in 2020, the Group revaluated cash held in foreign currencies and recognized foreign exchange gains of PLN 756 thousand.

Selected financial ratios of the online segment

Financial indicators Online Segment	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
Sales (PLN'000)	605 735	688 379
Sales (YoY increase)	(12,0%)	25,0%
Cash sales	589 468	665 150
Result on sales (non-barter)	536 36	633 100
Cash sales (YoY increase)	(11,4%)	26%
Adjusted EBITDA margin (IFRS 16) - on result on sales	40%	35%
Financial leverage ratio (Net debt/Adjusted EBITDA LTM - IFRS 16)	1,12	1,56

The main financial ratios analysed by the Group's Management Board, relate only to the ONLINE segment and comprise cash proceeds from sales and their growth and the adjusted EBITDA margin.

The cash sales for the 2020 were 12% lower than the sales calculated on the basis of the financial data for the previous year. However, this decrease mainly concerned entities operating in the tourism industry, which are characterized by significantly lower margins than the publishing and advertising industry, therefore the total EBITDA margin of the Group increased from 35% to 40%.

In addition to the above-mentioned ratios, the Group's Management Board monitors the financial ratios defined in the loan agreement on an ongoing basis. As of the date of the preparation of this report, these ratios were satisfactory and there were no indications of a risk of not complying with the requirements concerning their value as defined in the loan agreement.

The Group does not present and analyse the financial ratios of the TV segment.

4. DISCUSSION ON OPERATING RESULTS AND THE FINANCIAL SITUATION OF THE COMPANY

The financial data for the twelve months ending 31 December 2020 and 31 December 2019 was audited by an independent auditor, whereas the financial information for the fourth quarter of 2020 and 2019 was not subject to any audit or review. The information presented in the following table should be read in conjunction with the information included in the standalone financial statements.

SELECTED FINANCIAL DATA FROM STANDALONE INCOME STATEMENT

The following table presents the main positions of the standalone income statement for the twelve months of 2019 and 2020:

PLN'ooo	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Change	Change %
Sales	-	-	-	n/d
Dividends received	2 500	29 324	(26 824)	n/d
Operating loss	(36 725)	9 745	(46 470)	(476,9%)
Finance income	5 524	4 536	988	21,8%
Finance costs	(4 815)	(6 111)	1 296	(21,2%)
Gross profit	(40 957)	9 004	(49 961)	(554,9%)
Net profit/loss	(40 968)	8 879	(49 847)	(561,4%)

The company conducts holding activities and obtains revenues from dividends received and interest on loans granted. During 2020, the Company received dividends from its Extradom.pl Sp. z o.o. in the amount of PLN 2,500 thousand.

The main factor influencing the amount of the loss incurred in 2020 is the write-off for the value of shares in Domodi Sp. z o.o. In the opinion of the Management Board, the current rational financial forecasts allow the current value of the investment to be estimated at PLN 73,539 thousand, which is about PLN 46.792 thousand less than the value for which the shares were acquired. A loss in the amount of PLN 33,353 thousand was recognized in 2020, while PLN 13,439 thousand of the impairment loss was recognized in the results for 2019.

Additionally, the Company updated the value of the liability for earn-out of Superauto24.com, as a result of which it recognized an additional cost of PLN 4,941 thousand.

The table below presents the main items of the separate statement of the WPH financial result for the fourth quarter of 2020 and 2019 alone:

PLN'ooo	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Change	Change %
Sales	-	-	-	n/d
Dividends received	(3 288)	(14 933)	11 645	(78,0%)
Operating loss	1 541	1 467	74	5,0%
Finance income	(312)	(1 515)	1 203	(79,4%)
Finance costs	(2 059)	(14 981)	12 922	(86,3%)
Gross profit	(2 070)	(15 259)	13 189	(86,4%)

Financial position of the Company

The following table presents the standalone statement of the Company's financial position as of the end of December 2020 and 2019.

PLN'ooo	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change	Change %
Non-current assets	461 457	99,2%	497 792	99,7%	(36 335)	(7,3%)
Current assets	3 532	0,8%	1 473	0,3%	2 059	139,8%
Long-term liabilities	63 087	13,6%	70 399	14,1%	(7 312)	(10,4%)
Short-term liabilities	17 945	3,9%	8 569	1,7%	9 376	109,4%
Equity	383 957	82,6%	420 297	84,2%	(36 340)	(8,6%)

Compared to the end of 2019, the main events affecting the company's balance sheet were the revaluation of investments in shares and revaluation of investment liabilities. The impact of these events on the individual components of the balance sheet was discussed in the analysis of these items.

Standalone non-current assets

The following table presents the structure of standalone non-current assets of the Company by detailed balance sheet categories.

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change	Change %
Other intangible assets	4	0,0%	5	0,0%	(1)	(20,0%)
Shares	396 828	86,0%	429 073	86,2%	(32 245)	(7,5%)
Loans granted	64 625	14,0%	68 714	13,8%	(4 089)	(6,0%)
Deferred tax asset	-	0,0%	-	0,0%	-	-
Non-current assets	461 457	100%	497 792	100%	(36 335)	(7,3%)

In 2020, the value of shares held by the company decreased by PLN 32,245 thousand. It was mainly caused by the impairment recognised on the shares of Domodi Sp. z o.o. in the amount of PLN 33,353 thousand. Details on the valuation of financial assets are described in note 11 of the standalone financial statements. The allowance recognised is of non-monetary nature and does not affect the current financial situation of the Company and the Capital Group.

Minority shares in Teroplan Sp. z o.o. were measured at fair value as at 31 December 2020. The company operates in the broadly understood tourism and transport industry, which is significantly affected by the COVID-19 epidemic, as a result, the Group was forced to reduce the value of the investment by PLN 618 thousand. The fair value of the shares held as at 31 December 2020 was PLN 7,515 thousand (PLN 8,133 thousand as at 31 December 2019).

In addition, in the year ended December 31, 2020, the value of shares and interests was increased by a total of PLN 1,726 thousand in connection with the settlement of the share-based payment program.

The increase in non-current assets was offset by a decrease in the value of loans granted in connection with repayment of PLN 4,100 thousand of principal of loans granted to subsidiaries.

Standalone current assets

The following table presents the structure of standalone current assets of the Company by detailed balance sheet categories.

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change	Change %
Cash trade receivable	-	0,0%	24	1,6%	(24)	(100,0%)
Public receivables	155	4,4%	142	9,6%	13	9,2%
Other assets	25	0,7%	21	1,4%	4	19,0%
Cash and cash equivalents	3 352	94,9%	1 286	87,3%	2 066	160,7%
Current assets	3 532	100,0%	1 473	100%	2 059	139,8%

The value of receivables remained at a similar level to the previous year.

A detailed analysis of changes in the value of cash will be presented in the following part of the report, in the cash flow statement analysis.

Standalone long-term liabilities

The following table presents the structure of standalone long-term liabilities by detailed balance sheet categories:

PLN'000	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change	Change %
Loans	53 358	85%	54 497	77%	(1 139)	(2,1%)
Liabilities related to business combinations	9 729	15%	15 902	23%	(6 173)	(38,8%)
Long-term liabilities	63 087	100%	70 399	100%	(7 312)	(10,4%)

Liabilities related to business combination reduced their value by PLN 6,175 thousand, mainly due to the repayment in January 2020 another part of the retained purchase price for shares in Extradom Sp. z o.o. (PLN 2,558 thousand). At the same time, the earn-out liability related to Superauto24.com was transferred to the short-term part of the liabilities.

I Standalone short-term liabilities

The following table presents the structure of standalone short-term liabilities of the Company by detailed balance sheet categories:

PLN'ooo	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change	Change %
Loans	5 899	32,9%	4 307	50%	1 592	37,0%
Trade payables	419	2,3%	521	6%	(102)	(19,6%)
Investment liability	9 558	53,3%	2 546	30%	7 012	275,4%
State liability	12	0,1%	21	0%	(9)	(42,9%)
Wages and salaries payables	2 046	11,4%	1 060	12%	986	93,0%
Liabilities due to financial activities	-	0,0%	114	1%	(114)	(100,0%)
Current income tax liabilities	11	0,1%	-	0%	11	nd
Short-term liabilities	17 945	100,1%	8 569	100%	9 376	109,4%

Short-term liabilities increased by PLN 9,055 thousand.

The greatest impact on the increase in short-term liabilities as at 31 December 2020 was the recognition of the short-term liability for Superauto24.com earn-out (PLN 6,780 thousand). Apart from this, short-term investment liabilities include the equivalent of the next payment tranche for the retained purchase price for Extradom.pl Sp. z o.o. with the interest accrued (PLN 2,458 thousand)

Wages and salaries payables increased as well, as settling of bonuses was changed in 2020. Due to the uncertainty resulting from the impact of COVID-19 on the Group's results, the Management Board decided to change the method of settling for bonuses from semi-annual settlement to annual settlement.

I Standalone equity

The following table presents the structure of standalone equity of the Company:

PLN'ooo	As of 31 December 2020	Structure 2020	As of 31 December 2019	Structure 2019	Change	Change %
Share capital	1 457	0,4%	1 451	0,3%	6	0,4%
Supplementary capital	324 485	84,5%	321 969	76,6%	2 516	0,8%
Other reserves	12 539	3,3%	10 432	2,5%	2 107	20,2%
Retained earnings	45 476	11,8%	86 445	20,6%	(40 969)	(47,4%)
Equity	383 957	100,0%	420 297	100%	(36 340)	(8,6%)

In 2020, the company's equity decreased by PLN 36,340 thousand in total. The change in equity resulted from the following events:

- increase by PLN 2,522 thousand due to registration, admission to trading and issuing shares under share option plans, out of which PLN 6 thousand increased share capital and the remaining part - PLN 2,516 thousand was booked as supplementary capital;
- increase by PLN 2,107 thousand due to vesting of the rights to the consecutive tranche of share options under the existing incentive scheme.
- Decrease by PLN 40,647 due to net loss incurred in 2020.
-

Standalone cash flow analysis

PLN'000	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019	Change	Change %
Net cash flows from operating activities	(1 231)	23 454	(24 685)	(105,2%)
Net cash flows from investing activities	4 047	7 307	(3 260)	(44,6%)
Net cash flows from financing activities	(750)	(32 729)	31 979	(97,7%)
Total net cash flows	2 066	(1 968)	4 034	(205,0%)

Operating cash flow in 2020 was negative and amounted to PLN (1,231) thousand. They resulted mainly from the operating loss incurred in 2020.

The Company generated positive cash flow from investing activities, PLN 4,047 thousand, mainly due to repayment of capital (PLN 4,100 thousand) and interest (PLN 2,190 thousand) of loans granted to subsidiaries as well as payments received for loan guarantee granted to its subsidiary Wirtualna Polska Media SA (PLN 3,322 thousand). At the same time the Company repaid part of the retained purchase price for Extradom (PLN 2,558 thousand) and made advance payment for Superauto24.com earn-out (PLN 3,000 thousand).

Negative cash flow from financing activities, PLN (750) thousand, resulted mainly from payment of loan interest and bank provisions PLN (2,366) thousand and repayment of liabilities towards subsidiaries due to the service of guarantee of the loan taken by the Company PLN (652) thousand.

Cash inflows resulting from share capital increase under option plan amounted to PLN 2,268 thousand.

5. FACTORS AND EVENTS, ESPECIALLY THOSE OF AN EXCEPTIONAL NATURE, SIGNIFICANTLY AFFECTING FINANCIAL RESULTS ACHIEVED

In the period under analysis, the following significant factors had an impact on the Group's financial and operating results:

- Impact of Covid-19 on operations and financial results of the Group
- material acquisitions made by the Group in the previous periods;
- increased effectiveness resulting from the use of the Group's data resources and big data tools;
- costs of funding related to the acquisitions;

■ Impact of COVID-19 on operations and financial results of the Capital Group

Impact of Covid-19 on operations

In March of 2020, due to multiple infections of SARS-CoV-2 virus causing COVID-19 disease, the state of epidemic was introduced in Poland. Several restrictions were introduced to slow down the spread of coronavirus, in particular the obligation of social distancing, closing borders and limiting the functioning of shops and services. Once the state of epidemic was proclaimed, the Group established a crisis management team, composed of key managers, whose goal is to respond to the changing situation on an ongoing basis as well as coordinate the implementation of all necessary changes in operational processes in response to emerging information.

The Group immediately took a number of actions to limit the impact of the pandemic on the activities of Group companies. The priority was set at ensuring the sense of security for employees and maintaining current high quality of services provided to clients.

Since mid-March, most of the Group's employees switched to home-office. Representatives of IT, administration and accounting departments are working in shifts to ensure proper workflow of documents and technical support. For security reasons, the TV studio team was split in two teams and worked on a biweekly schedule. All offices have been equipped with the necessary hygiene and disinfection products.

Along with the reduction of restrictions imposed by the state, in the following months there has been a gradual voluntary return to the offices. In case of part of companies, stationary work has been fully restored. Employees who returned to the offices had access to the necessary hygiene and disinfection measures, masks and protective gloves. The necessary distance between work stations has also been ensured. However, team meetings with more people were still held remotely. With the second and third wave of the pandemic, the recommendation to work remotely and to limit the number of people simultaneously in the office was reintroduced. If the epidemiological situation in Poland improves, further limitation of remote work and an increase in the number of employees staying in the office at the same time will be considered.

Based on the current knowledge, the Group estimates that the pandemic and related restrictions have had a significant impact on the results generated by some of the companies in the Group. The large diversification of activities of individual holding companies allows to minimize the negative impact of the pandemic on the entire Group's results.

The impact of COVID-19 on each CGU of Wirtualna Polska Holding Capital Group is presented below:

Publishing and advertising activities

The impact of COVID-19 pandemic on the results of the publishing and advertising activities became most noticeable in the second quarter of 2020. The situation on the advertising market temporarily worsened due to the visible limitations on the side of clients from selected sectors (e.g. automotive, finance), mainly with regards to image campaigns.

Advertising activities are strongly correlated with the general state of the economy. In cases of an economic slowdown below 2% of GDP growth, we've historically observed a decline in the total advertising market of up to about 10% YoY. However, the specificity of the current situation (lockdown, in particular the closure of shopping centers) resulted in a strong trend of users moving to the online world, which in turn meant that both the third and fourth quarter of 2020 were characterized by strong positive dynamics of revenues in the publishing and advertising. Good results in the second half of the year made it possible to make up for the losses from the second quarter and significantly improve the results of this part of the WPH Group for the whole year 2020. As a result, despite the recorded decline in Poland's GDP in 2020, sales revenues in publishing and media activities increased compared to the previous year.

During 2020, the Management Board systematically analyzed variants of the possible development of the situation, especially in the context of the next wave of the epidemic, at the same time carrying out a number of initiatives to reduce the cost base, which, combined with positive revenue dynamics, translated into achieving a satisfactory level of EBITDA for publishing and advertising in the financial year 2020.

During the lock-down period (mainly in March and April), the Group observed a significant increase in users' interest in our portals and services, which seems natural due to the increased need for access to the latest information (mainly with regards to the epidemiological situation) and a greater amount of time that can be allocated to the use of our services. Being aware of our special responsibility, detailed guidelines have been prepared for the editors to ensure the information provided to the society is highly reliable and does not fuel the sense of fear and uncertainty (e.g. social campaign "Take care, don't panic").

International travel (Wakacje.pl SA)

The foreign tourism industry is part of the WPH Group most affected by COVID-10 epidemic. Activity in international tourism halted completely during the period between March and June of 2020. Numerous restrictions imposed in Poland and abroad, in particular relating to border closures and travel bans, resulted in both a lack of ongoing revenue generation as well as the necessity to recognise refunds on all services sold, but which could not take place in the dates planned.

The international touristic activity was partially resumed in July 2020, however, as expected, the revenues generated were by several dozen percent lower than those in a comparable period of the previous year, which was in line with trends observed across the market. The significant increase in the number of COVID cases in the fourth quarter of 2020 re-froze the tourist market again, resulting in drop in sales by several dozen percent. In the opinion of the Management Board, assuming that there will be no extraordinary increase in the number of cases, which could lead

to further travel restrictions, and the vaccination program will proceed at a satisfactory pace, the interest of Poles to travel abroad should increase significantly. This should be expected not earlier than at the turn of the second and third quarter of 2021.

The Group implemented several measures aiming at the limitation of short-term losses, including in particular the optimization of the cost base. Wakacje.pl S.A. also expanded its offer to customers through offering holidays in Poland and holidays abroad with own transport.

The company received a guarantee of financial support (in the form of an increased loan limit) from its only shareholder, i.e. Wirtualna Polska Media S.A.

On 17 March 2021, Wakacje.pl S.A. signed a preferential loan agreement with the Polski Fundusz Rozwoju S.A. ("PFR") under the PFR Financial Shield program for Large Companies. The loan amounts to PLN 18.8 million. PFR may, at the borrower's request, write off the obligation in an amount corresponding to a maximum of 75% of the value of the loan granted. The decision to write off will be made no later than by the end of October 2021.

The loan granted is secured by Wirtualna Polska Holding S.A. The loan was granted for the period until June 30, 2022, and may be repaid at any time without additional costs.

Domestic travel (Nocowanie.pl Sp. z o.o.)

In the period from 2 April till 3 May 2020 all accommodation facilities were closed (except for quarantine rental), which resulted in a significant decrease in the level of revenue of Nocowanie.pl. Since this legal restrictions were lifted, the situation seemed to be getting back to normal as we observed increased interest of users in the offers presented at Nocowanie.pl. The re-closure of accommodation facilities from 7 November 2020 for tourist traffic and from 28 December 2020 also for business trips, as well as the decision to condense the winter break in 2021, translated into lower than planned revenues of the Company.

From 12 February 2021 restrictions on the accommodation industry were temporarily partially lifted (while maintaining the sanitary regime and closed restaurants), however, there is still a lot of uncertainty among customers as to the further situation, in particular the possibility of closing the accommodation base again.

The management board of the entity closely monitors the situation and looks for ways to minimize the negative impact of the restrictions on the entity.

The available research on the tourism market in Poland in 2020 indicate that the interest in domestic tourism in Poland exceeds its previous levels. The Group decided to use this trend and execute an advertising campaign increasing the Nocowanie.pl brand awareness among potential clients, which include owners of guesthouses and other lodging facilities in the country which should strengthen the company's strategic position in the long term.

Moreover, in order to meet the expectations of tourists, Nocowanie.pl has applied innovative solutions thanks to which accommodation facilities accepting payment with a Polish Travel Voucher have been clearly distinguished in the portal.

During the period of total tourism lock-down, Nocowanie.pl conducted a social campaign among the cooperating accommodation owners, encouraging them to make rooms available to healthcare professionals. An assistance package for lodging houses and boarding houses (including legal information and disinfection products) has also been introduced.

Lead Generation fashion/interior (Domodi Sp. z o.o.)

In the initial phase, the general level of uncertainty in society resulted in a decrease in purchasing intentions and number of transactions compared to the period before the pandemic. Over time, there was a noticeable improvement in consumer sentiment and a growing interest in online shopping. This trend was particularly visible during the closure of large-format stores, but it weakened when the restrictions were lifted, especially in the fashion industry. In the third quarter of 2020, the share of online sales in the fashion industry was again at the pre-pandemic level. In the fourth quarter, with the second wave of the epidemic, the consumers returned to online clothing

purchases. However, this effect is mitigated by the reduction in demand from users (due to the continuing uncertainty of the situation and volatility of moods), which ultimately results in a decline in market transactionality.

At the same time, the restrictions placed by the government changed the activities of offline stores, enforcing transition to online sales, resulting in increased competition on the market and increased the cost of acquiring a user for Domodi.

With regard to the home furnishing industry, which is a less mature online industry, we observe a slower pace of return of customers to offline, as sentiment towards online sales remains high.

In order to take advantage of the identified change in Poles' shopping habits, the Group decided to accelerate the implementation of some new functionalities in Domodi websites. The group is responding to the current consumer demand by expanding the home clothing offer and introducing the aggregation of the mask assortment from the beginning of the pandemic. During the pandemic, the Group also developed a new development strategy for the fashion area, resulting, however, from the need to transform the business model and not directly from the fact of the pandemic.

These activities, combined with the introduced cost base limitations, were not, however, sufficient to achieve results in 2020, i.e. revenues and EBITDA at the level analogous to the previous year.

Financial lead generation (Totalmoney.pl Sp. z o.o.)

From the second half of March 2020, the operation of stationary branches of banks and financial institutions has been limited, significantly influencing the efficiency of transactions. The banks also substantially tightened their credit risk assessment, while some stopped lending entirely. Interest rates are at the historically lowest level causing additional product problems and forcing banks to change their offers. In addition, legal regulations enabling clients to suspend repayment of loan instalments created problems in the non-bank loans sector. The situation in the banking sector stabilized somewhere in June and cooperation with the banks returned to pre-pandemic state. However, lower lead conversion rates related to tighter credit policies and changes in banks' offerings is still being observed.

At present, the demand for financial products remains stable, and the number of leads generated on own websites remains at a satisfactory level. The sales conversion of financial institutions has been noticeably increasing in the recent months. However, despite the improvement in the third and fourth quarter, the supply of the product by financial institutions is still insufficient in relation to the demand.

Due to all these factors, revenue and EBITDA generated in 2020 by this part of business is significantly lower than in 2019.

Extradom

In the first stage, immediately after the pandemic occurred, we noted a temporary strong decline in interest in the offer of architectural house designs, which, however, returned to a satisfactory level in the last days of March. In the following months, an increase in consumer interest is noticeable, which in our opinion should positively affect the results of Extradom. The COVID-19 pandemic with the experience of limited travelling possibilities and spread of remote work may result in increased interest in building a house as an alternative to buying an apartment.

Superauto.pl

The outbreak of the pandemic initially resulted in a significant decrease in demand for the purchase of new cars, as well as with tightening of the credit risk assessment criteria in banks and lease institutions. The disruption of global supply chain was also a significant problem, leading to production shutdown and reduction of supply by many car factories. The most negative impact of the coronavirus pandemic on the results of Superauto.pl was observed in March and April. In the following months, both the demand and production capacity in factories were restored. Social distancing caused by the COVID-19 pandemic fueled changes in consumer habits and redirected their interest to searching for and purchasing a car online. Superauto.pl, due to many years of experience in online car sales and financing, has become a beneficiary of these changes, exceeding (despite the pandemic) the assumed goals for growth rate in 2020.

The results of Superauto.pl in each quarter of 2020 are higher than in the corresponding quarter of 2019.

Impact of COVID-19 on the financial results of the Group

The negative impact of COVID-19 on the revenue generated by the Group companies, forced the management to introduce a number of initiatives aimed at reducing the cost base accordingly. Cost optimization in the companies most affected by the crisis included, along with obvious non-employee cuts costs in the first place, also a reduction in employment as well as reduction of working time or salaries. Some companies also decided to use the available forms of public support from the government (anti-crisis shield). In twelve months of 2020 the Group received a government support of ca. PLN 4,5 million as part of the anti-crisis shield.

On 17 March 2021, Wakacje.pl S.A. signed a preferential loan agreement with the Polski Fundusz Rozwoju S.A. ("PFR") under the PFR Financial Shield program for Large Companies. The loan amounts to PLN 18.8 million. PFR may, at the borrower's request, write off the obligation in an amount corresponding to a maximum of 75% of the value of the loan granted. The decision to write off will be made no later than by the end of October 2021.

Ultimately, revenues in 2020 decreased by 10.1% compared to 2019.

Group normalised EBITDA for 2020 was by 1% lower than in comparable period 2019, despite its 16% increase in the fourth quarter alone.

The significant weakening of the Polish currency against the euro and the US dollar in 2020 resulted in recognition of exchange rate losses (mainly due to long-term lease liabilities on office space), presented in the Group's financial costs. The weakening of the Polish currency had a limited negative impact on operating costs, as most of the Group's transactions are settled in local currency.

Furthermore, due to the reduction of interest rates by the National Bank of Poland, the Group achieved significant savings in financial costs, which should also materialise in the following quarters. The entire debt of the Group is denominated in Polish zlotys and is based on the variable WIBOR interest rate.

Impact of COVID-19 on the Group's liquidity

As at the date of these financial statements, the Group maintains a high level of liquidity and generates satisfactory cash flows. As at 31 December 2020, the Group had approximately PLN 188 million of cash at banks. In the opinion of the Management Board, the cash held and the cash flows generated in current periods provide the Group with adequate financial liquidity and ability to pay its liabilities. In the opinion of the Management Board, the permitted levels of financial covenants stated in the Group's loan agreement are not at risk.

The pandemic had a temporary impact on the stock indexes. In the second quarter, the share price of the parent company of the Capital Group slightly decreased, however as at the end of the fourth quarter it reached a level by 33% higher than as at 31 December 2019.

The Management Board notes that the above factors were described based on the best knowledge of the Board as at the date of publication of this report. The final impact of the COVID-19 coronavirus epidemic on the operational and financial activities of the Group is not currently measurable and depends on many factors beyond the Group's control, in particular on the duration of the pandemic and its further development as well as further potential steps that can be taken by the Polish government.

Material acquisitions made by the Group in the previous periods

Since 2014, the Group has been intensively involved in acquisitions of other entities operating on the internet advertising and e-commerce market, including generating leads on the e-commerce market. In 2015 the Group acquired shares in the following companies: NextWeb Media sp. z o.o., Blomedia.pl Sp. z o.o., Finansowysupermarket.pl Sp. z o.o., Web Broker Sp. z o.o., Allani Sp. z o.o. and Wakacje.pl SA In 2016, the Group's purchased Totalmoney.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Netwizor Sp. z o.o., in 2017 the Group was joined by Eholiday.pl Sp. z o.o., in 2018 by My Travel Sp. z o.o., Extradom.pl Sp. z o.o., Superauto24.com Sp. z o.o. and Parklot Sp. z o.o. and in 2019 by Travel Network Solutions Sp. z o.o. and Autocentrum.pl SA The acquisitions mentioned above had a significant impact on the level of revenues and EBITDA. They also had a significant impact on the amount of depreciation in the consolidated financial statements of the Group, as in the process of purchase price allocation of these entities a number of trademarks and customer relations have been identified which are currently depreciated and the costs are included in the consolidated financial results of the Group.

I Increase in effectiveness as a result of using the Group's data resources and big data tools

The Group has one of the largest databases of users of internet portals and the largest database of email users in Poland. Achieving the highest rank was possible, among other things, thanks to acquisitions made by the Group.

Having a large number of service and content users gives the Group access to information on user behaviour, within the limits set by the provisions of the law. Thanks to access to a large amount of data on user behaviours (in particular on the content and services used by users) and the progress in the ability to analyse extensive data resources over recent years (tools for analysis of large and diverse data sets, generated with high frequency, so called big data), the Group has a significant potential for increasing its operating effectiveness, among other things, through the personalization of content, and personalization of advertisements which are more effective, by eliminating the advertisements of products in which a given user is not interested.

I Borrowings related to the acquisitions

The Group's acquisition activities are supported by external financing.

The Group's debt results, among others, from the loan financing of part of the purchase price (PLN 175 million) of shares in Wirtualna Polska SA, purchase price of the shares in Money.pl Sp. z o.o. (PLN 47 million), part of the purchase price of the shares in Wakacje.pl SA (PLN 50 million), part of the purchase price of the shares in Nocowanie.pl Sp. z o.o. (PLN 12 million), Domodi Sp. z o.o. (PLN 85 million) and Extradom Sp. z o.o. (PLN 60 million) as well as refinancing part of the investment expenditure to purchase fixed and intangible assets.

The loan bears an interest rate of 3M WIBOR plus the margin specified in the agreement.

As of 31 December 2020 the balance of the Group's liability resulting from loan agreement amounted to PLN 355 million.

During twelve months of 2020, the Group's interest and commissions expenses, the bulk of which resulted from interest on the bank loan, amounted to PLN 11,101 thousand. The level of these costs in consecutive periods will depend on WIBOR 3M which equalled 0.21% as of 31 December 2020.

Apart from the factors described above, in the period of twelve months ended 31 December 2020, no unusual factors or events occurred that would significantly affect the financial results achieved.

6. FACTORS THAT, IN MANAGEMENT BOARD'S OPINION, WILL HAVE AN IMPACT ON THE FINANCIAL RESULTS OF THE CAPITAL GROUP IN SUBSEQUENT PERIODS

The following factors, as in previous periods, will have significant impact on Group's operations:

I COVID-19

In March of 2020 the state of epidemic was proclaimed in Poland due to infections of SARS-CoV-2 virus, causing COVID-19 disease. Several restrictions were introduced to slow down the spread of coronavirus, in particular the obligation of social distancing, closing borders and limiting the functioning of shops and services.

The pandemic and restrictions introduced had impact on the results of the Group mainly in relation to revenues and EBITDA generated by the Group companies operating in the foreign and domestic tourism industry. However, the diversification of activities of individual holding companies allows to limit the negative effects of a pandemic on the results of the entire Group. A detailed description of the impact is provided in section 5 of the report.

The Management Board will continue to affect Group's operations and financial results, at least in 2021. The final impact of the COVID-19 coronavirus epidemic on the operational and financial activities of the Group is not currently measurable and depends on many factors beyond the Group's control, in particular on the duration of the pandemic and its further development as well as further potential steps that can be taken by the Polish government.

I Economic situation in Poland

The Group conducts operations in Poland in the advertising sector, the dynamics of which are in principle strongly positively correlated with the economic growth and macroeconomic situation in Poland. As a consequence, the Group's business activities are affected by macroeconomic factors which shape the situation on the Polish market, which in turn is significantly affected by the EU and global economic situation.

Changes in the economic situation, which are reflected by the GDP growth, affect the purchasing power of the Group's clients and the consumers of its products and services, as well as the inclination to spend or save, thus shaping the level of advertising budgets of the Group's customers and at the same time the demand for the Group's advertising products.

Competition on the Polish market

Both globally and in Poland, the internet advertising market is characterized by fierce competition. The Group's direct competition includes entities which own domestic portals and websites, in particular onet.pl, interia.pl or gazeta.pl. Moreover, the Group competes with entities which own international portals and websites, especially in the area of electronic mail (e.g. Yahoo!, Gmail, Hotmail, AOL) and website services (e.g. Google, Facebook, Twitter). Moreover, although not directly, the Group's competition also includes other entities operating on the widely defined advertising market, including in particular television stations, newspapers and radio. These entities compete with one another in terms of product and service prices, especially advertising rates, the ability to reach potential customers with a profile sought by the advertisers, attractiveness and quality of published materials, shaping of trends on the market or ability to quickly adapt to such trends, and in terms of brand strength.

As of the date of publication of the report the Group is one of the two leading entities among domestic portals and websites. In line with its strategy, the Group will strive to strengthen its leading position among the portals and website services present on the Polish market. Holding the leading position is important due to the so-called leadership premium, i.e. the advertisers' tendency to prefer placing advertisements on portals and website services holding the leading position on the market in terms of the offered reach, which has a significant effect on the income generated. The Group's ability to maintain its competitive position is influenced by many factors – brand recognition and Group reputation, attractiveness and quality of the published content, user base and the ability to analyse and process user data. It cannot be ruled out that due to various reasons remaining outside of the Group's control, the Group will not be able to strengthen its current position as one of two leading entities among Polish internet sites. Moreover, an increase in competition in the markets in which the Group operates can put downward price pressure on offered products and services, in particular on various forms of online advertising, as well as necessitate increased spending on marketing activities or research and development related to the introduction of new products and services, their updates or innovative solutions.

The Group realises its e-commerce activities via several entities, operating in various markets (i.a. tourism, finance, fashion, internal design, house design, car sales). Each of these markets is characterised by different competitiveness, moreover, in some of these markets the Group's suppliers are also direct competitors. What is more, the e-commerce market is characterised by a large number of new entrants, which further increases competition. Group entities are mostly leaders in their categories, in particular as measured by number of users. However, it cannot be ruled out that part or all of Group entities operating in the e-commerce market will not be able to strengthen or maintain their competitive positions due to several factors, most of which remain outside of the Group's control.

Growth of expenditure on online advertising and the development of e-commerce in Poland

The Group's success depends on the development of services and technology, as well as on the number of internet users, which in turn determines the development of the online advertisement and e-commerce markets. The development of internet depends primarily on the expansion of internet infrastructure, as well as on technological changes. In 2019 86.7% of households (2.5 p.p. increase compared to 2018) and 96.3% of enterprises had access to internet (source: Information Society 2019 – Central Statistical Office; The use of information and communications technology in public administration entities, enterprises and households in 2019 – Central Statistical Office). In addition, each year a larger percentage of households connects to the internet via broadband infrastructure. However, the current state of broadband infrastructure, as well as the utilisation rate, is relatively low compared to most European Union states. Moreover, in recent years a change in the manner of accessing the internet has been observed which may also have a material impact on the growth of the markets on which the Group operates. In the era of rapid development of the technical capabilities of equipment, each year the number of households and enterprises using mobile internet connections has grown. Therefore, both changes in the trends for internet use and the increase in connection speed may have an impact on the growth of particular segments of the internet advertising market.

Despite the projections that the internet will continue to develop in Poland, its current growth dynamics can diminish materially in the following years. As of the date of this report, the penetration rate for the internet in Poland is relatively high and growing each year, which successively limits the further growth potential of the market. Therefore, it can be forecasted that further growth will relate primarily to broadband and mobile internet technology, among others. Slowing down of the growth dynamics of the internet in the future can have a negative impact on the Group's prospective development and the realisation of its strategy.

In the past years, the e-commerce market in Poland has grown steadily, both in terms of nominal numbers as well as measured as a percentage of the total retail market. However, it cannot be ruled out that due to factors remaining outside

of the Group's control, such as a change in consumer habits, the trend of migration to online retail stops, which could negatively impact the Group's development possibilities in the e-commerce segment.

Active acquisition activities

In accordance with the strategy adopted by the Group, the Management Board analyses on a current basis the investing options in companies which provide services similar or complementary to the Group's services and may supplement the portfolio of the Group's products and services. Potential acquisitions may have a material impact on the results achieved by the Group in consecutive periods.

The Group monitors Poles' activity in new segments of the e-commerce market, for example the so-called big ticket purchases (high purchase price, one-off or rare nature), which demonstrate growing trust in the internet as a purchase channel. According to our forecasts, the segment of internet tools helping manage buying processes and household budgets (software, SaaS) will grow materially. Both of these areas naturally fit into the Group's operations.

7. SIGNIFICANT CONTRACTS AND EVENTS WHICH TOOK PLACE IN 2020

Receiving tax and customs control results

On 24 February 2020, Wirtualna Polska Media S.A. received customs and fiscal control findings carried out by the Head of the Małopolski Customs and Tax Office in Krakow ("Head of Tax Office"). The Tax Office examined WPM's compliance with the CIT regulations for the fiscal year 2016. The Head of Tax Office concluded that WPM had incorrectly recognized the tax costs related to the sale of WP Shopping shares (previously WP SA) and questioned the tax loss recognised on the transaction. It should be emphasized that the Head of Tax Office did not question the legitimacy of recognizing the tax costs, but the amount recognized.

The Head of Tax Office presented a different interpretation of tax regulations than WPM. Consequently, according to the Head of Tax Office, WPM was not entitled to recognize the full amount of tax costs related to the transaction on shares.

On 25 February Wirtualna Polska Media received a decision of the Head of the Małopolska Customs and Tax Office in Kraków regarding the amount of corporate income tax liability in connection with the above-described control. The head confirmed that the company was fully entitled to the protection resulting from the binding interpretation of the tax law received. Consequently, the Group intends to continue its current approach in tax settlements.

As at 31 December 2020, Wirtualna Polska Media recognized a deferred tax asset in the full amount of loss from the sale of shares in WP Shopping.

Conclusion of a new loan agreement

On 25 February 2020, a loan agreement was concluded between Wirtualna Polska Holding and Wirtualna Polska Media SA - as borrowers, Domodi sp. z o.o., Totalmoney.pl Sp. z o.o, Wakacje.pl SA - as guarantors and a consortium of banks composing of mBank Spółka Akcyjna, (Loan Agent), Powszechna Kasa Oszczędności Bank Polski SA, ING Bank Śląski SA, Bank Polska Kasa Opieki SA and BNP Paribas Bank Polska SA, as the lenders, on the basis of which the lenders granted loans in the total amount of up to PLN 978 million. Details of the new agreement are described in Note 26 to the condensed consolidated financial statements.

Agreement changing the settlement of the option to purchase non-controlling interests in Nocowanie.pl

On 28 May 2020 the subsidiary Wirtualna Polska Media SA entered into an agreement with the minority shareholder in Nocowanie.pl Sp. z o.o. regarding the rules governing the settlement of the option to sell and purchase non-controlling interest in the company. At the same time, the Group announced the execution of the first tranche, as a result of which it purchased 4,012 shares in Nocowanie.pl Sp. z o.o. which constitute 10% of the share capital of the company and carry the right to 10% of votes at shareholders' meeting.

The price for all shares purchased equalled to PLN 13,467 thousand. The purchase was financed with the Capex tranche of the loan agreement dated 25 February 2020.

As a result of the signed Annex the value of the liability related to the modified option on the remaining 15% of shares was estimated at PLN 21 million. The difference in the discounted value of liabilities of PLN 4,154 thousand was reflected in Group's financial result as additional financial income in the second quarter of 2020.

Following the transaction, the Group owns 85% shares in Nocowanie.pl.

Following the executed transaction the Group recognised as retained earnings PLN 2,289 thousand which were recognised as non-controlling interests in previous periods. As a result of the settlement of the first option on non-controlling interest in Nocowanie.pl the Group reclassified a portion of supplementary capital relating to the initial recognition of this option to retained earnings in the amount of PLN 4,506 thousand. This change did not impact the total value of equity attributable to shareholders of the Parent Company.

In the third quarter of 2020, due to COVID -19 impact on the Nocowanie.pl business, the Management of the Group revised its financial results forecasts for 2020 -21, which are the basis for the valuation of the options to purchase the remaining non-controlling interest and, consequently, decreased the value of the liability by PLN 5,074 thousand.

On 22 December 2020 the subsidiary Wirtualna Polska Media SA entered into an agreement with the minority shareholder in Nocowanie.pl Sp. z o.o. regarding the rules governing the settlement of the option to sell and purchase non-controlling interest in the company. The amended agreement includes the right to sell non-controlling interests in two tranches:

- 8,75% of shares after fiscal year 2020;
- 6,25% of shares in one of the ten 14-day call option windows occurring every six months from 1 August 2021 to 14 February 2026. At the same time, the agreement provides for the right to sell the shares by the minority shareholder in one of the ten 14-day put option windows occurring every six months from 15 August 2021 to 28 February 2026.

The value of the liability related to the modified option on the remaining 15% of shares was estimated at PLN 16,613 thousand. The difference in the discounted value of liabilities of PLN 162 thousand was reflected in Group's financial result as additional financial income in the fourth quarter of 2020.

As a result of the signed annexes and changes to the projected results, recognized in 2020 the revenue of PLN 9,066 thousand from the revaluation of the liability to buy out non-controlling interests.

Announcement of COVID-19 pandemic

In March of 2020 the state of epidemic was proclaimed in Poland due to infections of SARS-CoV-2 virus, causing COVID-19 disease. Several restrictions were introduced to slow down the spread of coronavirus, in particular the obligation of social distancing, closing borders and limiting the functioning of shops and services.

The pandemic and restrictions introduced in connection with it had an impact on the results of the first half mainly in relation to revenues and EBITDA generated by the Group companies operating in the foreign and domestic tourism industry. However, the diversification of activities of individual holding companies allows to limit the negative effects of a pandemic on the results of the entire Group. A detailed description of the impact is provided in section 5 of the report.

8. RISK FACTORS SIGNIFICANT FOR THE DEVELOPMENT OF THE COMPANY AND CAPITAL GROUP

The Company, as the parent company of the Capital Group, whose principal operations are holding activities, is exposed to the same risks as other companies in its Capital Group.

RISKS RELATED TO MARKET ENVIRONMENT

COVID-19 pandemic (due to SARS-CoV-2) and other epidemic and pandemic risk

The Covid-19 pandemic has a significant and complex impact on the overall economy and the activities of market participants. At present, it is impossible to fully predict the dynamics of the pandemic's development and its ending. It is also not possible to predict all regulatory restrictions and prohibitions related to a pandemic, as well as the timing for their introduction, modification and removal. The development of a pandemic may be associated with a number of changes in the behavior of users of the Group's services as well as their purchasing power. The situation of the Group's employees, associates and contractors may also be subject to significant changes. Consequently, the effects of the pandemic - both current and long-term - are not fully quantifiable yet. It should be noted that the impact of the pandemic varies among Group companies and may be subject to modification.

The above risks may also occur in connection with epidemics and pandemics other than COVID-19, the spread of which cannot be excluded in the future.

I The growth rates of the Internet, the online advertising market and e-commerce in the future

The Group's success depends on the development of services and technology, and on the number of Internet users, which in turn drives the development of the online advertising market and e-commerce. The development of the Internet depends primarily on the development of online infrastructure and technological changes. In 2020, 90.4% of households and 96.3% of enterprises in Poland (an increase of 3.7 p.p. compared with 2019) in Poland had access to the Internet (source: Społeczeństwo Informacyjne 2020 – GUS, The use of information and communication technologies in public administration units, enterprises and households in 2019 - GUS). In addition, the percentage of households using broadband access has been growing from year to year. Nevertheless, the current level of development of the broadband infrastructure and the level of its utilisation are relatively low compared with the majority of European Union countries. Moreover, changes in the manner of accessing the Internet have been noted in recent years. This may materially affect the growth rate of the markets in which the Group operates. In an era of rapid technological progress, the number of households and enterprises using mobile access to the Internet is increasing every year. Thus, both changes in trends relating to how the Internet is used and increases in connection speed may affect the growth rate of particular segments of the online advertising.

Regardless of the predicted continued development of the Internet in Poland, its current growth rate could significantly decrease in subsequent years. This is because the Internet penetration rate in Poland is relatively high as of the reporting date and is growing from year to year, which gradually reduces the development potential of the Internet market. It can be assumed that the development shall be more related to broadband, mobile as well as other advanced internet access technologies. The weakening of the Internet growth rate in the future may negatively impact the outlook for the Group's development and the execution of its strategy.

In recent years, a steady growth in the e-commerce market has been observed in Poland, both in terms of its nominal size and its share in retail sales. However, it cannot be ruled out that due to reasons beyond the Group's control, such as e.g. a change in consumer habits, the trend of sales migration from the traditional channel to the online channel will be stopped, which may negatively affect the Group's development in the field of e-commerce.

I The macroeconomic situation

The Group conducts its operations in Poland in an economic sector correlated with economic growth and macroeconomic situation, and long-term fluctuations experienced in the entire economy, especially in commerce, could significantly affect the Group. Consequently, the Group is exposed to the risk associated with the impact of the economic cycle on the financial position of the Group's clients (both the both entrepreneurs cooperating with the Group and the users of the Group's services). Therefore, the Group's operations are affected by macroeconomic factors which determine the economic situation on the Polish market, which in turn is significantly affected by the economic situation in the region, the European Union and the global economy. Changes in macroeconomic factors such as, e.g. the GDP growth rate, the unemployment rate, salary levels, consumption or interest rate levels – which are beyond the Group's control – affect the purchasing power of the Group's clients and the consumers of the Group's products and services, as well as their propensity to spend or save. These are important factors shaping both the amount of advertising budgets of the Group's clients, and thus the demand for the Group's products and services, especially online advertising, as well as the propensity of clients to spend, including making purchases online. Unexpected changes in the economic situation or a protracted period of economic slowdown may also weaken the ability of the Group's clients, subcontractors and suppliers to settle their liabilities with the Group, result in their insolvency or bankruptcy, and restrict sales of some of the Group's products and service.

I Competition on the Polish advertising and e-commerce market

Both globally and in Poland, the online advertising and e-commerce markets are highly competitive. The Group's direct competitors include national web portals and websites, including, in particular, Onet.pl Group, Interia.pl Group and Gazeta.pl Group. In addition, the Group competes with entities offering various web-based services (e.g. Google, Facebook, Twitter), including in particular electronic mail services (e.g. Yahoo!, Gmail, Hotmail, AOL) and also with entities operating on the television advertising market, in particular other television broadcasters. In addition, other entities operating on the advertising market compete with the Group for advertising budgets of the Group, in particular newspapers and radio. These entities compete with one another in terms of product and service prices, especially advertising rates, the ability to reach potential customers with a profile sought by the advertisers, attractiveness and quality of published materials (e.g. in terms of meeting the standards of online advertising viewability set by the Association of Internet Industry Employers - IAB Polska), shaping of trends on the market or ability to quickly adapt to such trends, and in terms of brand strength.

As of the report date, the Group is one of two leaders among national web portal and websites in terms of real users and range. A leading position is important because of the so-called leader's bonus, i.e. the propensity of advertisers to place their advertisements with the portals and websites which enjoy leading market positions in terms of access to Internet users, which has a material impact on the revenues generated. Many factors affect the Group's ability to strengthen its current competitive position, including mainly the Group's brand recognition and reputation, the attractiveness and quality of the content published on its portals and websites, its user base and the ability to analyse and process user data. It cannot be precluded that as a result of many factors, the majority of which are beyond the Group's control, the Group will be unable to strengthen its current position as one of the two leading national web portals and providers of websites or that it will lose its current position. Increased competition on the markets on which the Group operates could result in higher pressure on the Group to lower the prices of the products and services it offers, especially various forms of online advertising, and could result in a need to increase expenditures on marketing activities or research and development activities and the development and implementation of new products and services and the improvement thereof, and other innovative solutions.

The Group carries out advertising activities in the field of e-commerce by a number of entities that operate on very different target markets (e.g. tourism, finance, fashion, interior design, house designs, car sales). Each of these markets has a different level of competitiveness, but it should be noted that on some of them, significant suppliers are also in direct competition with the Group entities. In addition, the online advertising market is characterized by a large number of start-ups, which further increases competitiveness. Group entities in most cases have a leadership position in their category, in particular in terms of the number of users. However, it cannot be excluded that some or all of the entities operating on the e-commerce market due to a number of factors, a significant part of which is beyond the Group's control, will not be able to hold this position.

Sustainable development and climate risks

The Group may be subject to risks related to climate change as well as to issues related to sustainable development, including, in particular, the following groups of threats:

- 1) Sudden or long-term physical risks;
- 2) Legal and regulatory risks related to issues arising from climate change;
- 3) Management, technological, market and reputation risks related to climate change;
- 4) Employee risks;
- 5) Social risks;
- 6) Corporate governance and management risks.

It should be emphasized that the above risks are typical risks for the industry in which the Group operates.

In addition, the phenomena described above may also be regarded an opportunity for the Group. In particular, the Group may develop its services taking into account both climate change with its related as well as the assumptions of sustainable development, thus gaining an additional competitive advantage - both as a service provider and an employer.

RISKS ASSOCIATED WITH THE GROUP'S OPERATIONS

Key clients

A significant part of the Group's revenue is generated by a relatively stable number of key clients. The group concludes with its clients, i.a. agency agreements, cooperation agreements for running advertising campaigns or based on other legal titles (e.g. orders or agreements).

There is a risk that the Group's clients may, at any time, decide to discontinue cooperating with the Group and start cooperating with the Group's competitors. Thus, a loss of the Group's key, direct clients or a deterioration in the relations with such clients could contribute to a significant reduction in the realized. Moreover, the Group is exposed to a risk associated with the failure of the Group's key clients to settle their contractual liabilities towards the Group as they become due, especially with respect to delays in the payments, and to a risk associated with the financial position of such clients, including the risk of their bankruptcy.

I The risk of a decrease in the number of users of the Group's electronic mail service

The Group offers free electronic mail to its users. The Group has one of the largest base of electronic mail users in Poland. E-mail advertising and other forms of advertising distributed to e-mail users represent a stable and significant source of income for the Group. Moreover, the Group's broad base of e-mail users is an important database, which the proactive utilisation is one of the key elements of the Group's strategy. A decrease in the number of users of the Group's e-mail service could negatively affect the level of the Group's revenue as well as the Group's ability to obtain information on Internet users.

I The risk related to external debt financing

The Group takes advantage of debt financing granted by banks in the form of bank loans. Consequently, the Group is exposed to the risks typically associated with such financing. An infringement of the terms and conditions of loan agreements, including loan repayment dates, specific parameters or any other covenants contained in the documentation of the financing granted to the Group, could result in an unfavourable change in the terms and conditions of the financing granted, and in the case of a failure to obtain a relevant exemption from the applicable terms and conditions from the financing parties, could result in their refusal to provide any further financing and a demand for immediate repayment of the debt. Moreover, the Group may be unable to roll over, repay or refinance its debt when it becomes due. It cannot be also ensured that the terms of a rollover or refinancing will be similar to those of the original debt which could lead to an increase in the cost of servicing the related liabilities.

I The risk of losing the position in the rankings based on Megapanel PBI/Gemius surveys or other surveys

The Group's current operations are subject to various surveys, including the Megapanel PBI/Gemius survey of the Internet intended to collect information on the Polish Internet community, to determine a profile of the Internet users and the intensity of the network utilisation, and to create a ranking of the most popular websites, programmes and mobile applications. The results of the survey make it possible to compare the popularity of websites and online applications and to estimate their advertising potential based on clearly defined metrics. Thus, the survey is both a tool used by the Group in order to undertake current and long-term activities aimed at increasing the effectiveness of its advertising, and a source of information for potential advertisers on the effectiveness of the Group's advertising activities. There is a risk that a change in the Group's position, and particularly a loss of its current position in the ranking based on the Megapanel PBI/Gemius survey (or other surveys) could significantly affect the Group's operations. The loss of the position in a ranking or rankings may be due to both the Group's acts and omissions, activities undertaken by the Group's competitors on the online advertising market and to any changes in the survey methodology, including those resulting from a replacement of the entity conducting the survey.

Similar risk factors apply to TV audience viewing research conducted by AGB Nielsen Media Research.

I The risk associated with the development of the RTB model for purchasing advertising space

In recent years, the development of a real-time bidding (RTB) model for purchasing advertising space has been noted around the world. Under this model, a publisher offering advertising space offers a page view/advertising space for sale, and his offer is sent to advertisers via specialised platforms. The rate for the sale of an advertising space is calculated based on feedback from advertisers interested in purchasing the given advertising space. Such advertising space is then sold to the highest bidder.

Given the fact that the RTB model involves an auction element, the spread of this model may contribute to price pressure on the online advertising market. It cannot be ensured that the price which the Group will be able to obtain for selling advertising space under an RTB model will be as high as the price which the Group could obtain from selling the same space under the traditional model.

I The risk of spreading of software which blocks online advertising and interferes with the operation of the Group's portals and websites

As the Internet network grows, so does the popularity of software used to block ads distributed online. The spread of such applications on a larger scale or their increasing effectiveness may negatively affect the position of online advertising as a marketing tool, and therefore could result in a reduction in the advertising budgets for online advertising by the Group's current or potential clients. Various other applications which affect the ability to use online services and portals owned by the Group may additionally affect the Group's operations. Such applications may distort search results relating to specific subjects, products, or information, or otherwise distort the functioning of the Group's websites and portals on the webpages where advertisements are displayed. Attention should also be paid to initiatives (also with the participation of

relevant market participants, including Internet browser manufacturers), which aim to set new standards for online advertising, including restricting access by third parties to information on user behavior on the internet. As a result of the indicated changes, one should take into account the possibility of limiting the available content and advertising forms, which in turn may translate into revenues from advertising activities.

I The risk related to proper functioning the Group's IT systems and servers

The Group's operations depend on the proper functioning of the IT systems, servers and telecommunication infrastructure used by the Group. Moreover, the Group's development depends on its ability to improve the IT systems and solutions it currently uses and on developing and implementing new ones.

A failure of, a defect in or another disruption in the operation of the IT systems, servers or telecommunication infrastructure could result in a temporary disruption of the operation of the Group's portals and websites and in the provision of the services offered by the Group to Internet users. It is therefore of key importance to ensure the correct maintenance and modernisation of the Group's telecommunication infrastructure and servers, the implementation and maintenance of IT systems, and the introduction of optimum solutions which will enable stable and uninterrupted functioning of servers and systems, also in the case of system overloads or temporary disruptions and defects. In addition, the Group in order to maintain or strengthen its competitive position needs to constantly maintain, expand and modernize existing IT systems.

I The risk of losing qualified personnel and other entities providing services to the Group

The success of the Group's operations and the implementation of its strategy depend on the efforts and experience of its management and the support of key personnel. The Group's strategy has been developed and is implemented by top management, including the current Management Board, and the future success of the Group depends, to a certain extent, on the Group's ability to continue cooperation with the key managers who contributed in the past to its development, as well as on the Group's ability to retain and motivate other key members of the management. Members of the Group's key personnel may, subject to the provisions of their contracts with the Group Companies, resign from their positions. Such resignations may materially affect the possibility of the Group's further development and the implementation of its strategy. Moreover, members of the Group's management leaving the Group may attempt to take business or clients developed while they were working for the Group to their new employers. It cannot be ensured that the Group will be able to retain all or some of such people in the future or that the retention or attraction of key personnel will not require increases in their remuneration and a need to offer them additional benefits.

I The risk related to insufficient attractiveness and form of presentation of the content made available on the Group's portals and websites

The level of revenue on the sale of online advertising depends indirectly on the number of users accessing the Group's portals and websites, on the services offered by the Group and on the amount of time spent by users browsing portals and websites and using the solutions or taking advantage of the services offered by the Group. Both the number of users and the time spent by them browsing the Group's portals and websites depend largely on the quality and attractiveness of the content made available on these portals and websites and on how it is delivered by the Group. There is a similar relationship in the case of the services offered by the Group, especially electronic mail, the popularity of which depends in particular on its utility and innovativeness. In spite of the Group striving to make attractive content available on its portals and websites, it cannot be precluded that the content will ensure the maintenance of or increase in the interest of Internet users and the time spent by them browsing the Group's portals and websites.

I The risk of insufficient adaptation of portals and websites to service by mobile

Due to the fact that in recent years there has been an increase in the number of people who use the Internet via devices other than personal computers, including: mobile phones, smartphones, portable computers, tablets, the importance of mobile and mobile advertising increases every year Internet commerce. In order to remain competitive, the Group will have to follow changes and improvements resulting from ongoing technological changes. If the portals and websites of the Group do not sufficiently meet the expectations of users using mobile devices or their effectiveness in terms of advertising and e-commerce will be too low, the Group may lose its competitive position in this segment, which may have a negative impact on future financial results of the Group.

I The risk of losing popularity and reducing the strength of brands of individual portals and websites of the Group

The Group's market position, growth and ability to attract new users and, consequently, the Group's clients, depend, to a significant extent, on the Group's reputation and the popularity and strength of the brands of the Group's portals and websites, mainly the "WP" brand, but others as well (e.g. o2, Pudelek, Money.pl, domodi.pl, wakacje.pl, nocowanie.pl, Extradom.pl, totalmoney.pl). There is a risk that the strength of the brands owned by the Group, may weaken, and that the Group's reputation may deteriorate. It may happen especially as a result of a generally negative opinion of the Group's portals and websites due to a negative response of Internet users to the content published on these portals and websites and a negative perception of the services offered by the Group. Any negative perception of an event relating to or associated with the Group's image, or a loss of sympathy of the existing users of the Group's portals and websites, could negatively affect users' interest in the Group's portals and websites, and thus the Group's revenue from the sale of online advertising and other products and services offered by the Group.

I The risk of losing the Internet traffic generated via search engines and social networking services

A significant part of the Internet traffic on the Group's web portals is generated via search engines or social networking services, especially Google and Facebook. Search engines and social media services operate based on complex algorithms which determine the relative position of a webpage on other webpages according to the best fit between the data searched and the content available on the Internet, as well as the popularity of the content. It cannot be guaranteed that search engines will not change the algorithms applied to position the Group's portals and websites. Such changes could result in the poorer positioning of the Group's portals and websites in the search results performed by Internet users. This, in turn, could lead to a decline on the Internet traffic on the Group's portals and websites.

In addition, Group entities purchase Internet traffic through, among others search engine systems and social networking sites. It cannot be guaranteed that these entities will not change the rules of acquiring traffic, including appropriate algorithms or billing systems, which may result in a decrease in the effectiveness of this type of advertising, a decrease in the return on investment in advertising, an increase in their prices or a deterioration of the convergence of the acquired traffic, and this in consequence may have a negative impact on the competitive position and financial results of the Group companies.

I Risk of seasonality

The operations of Group's entities take place on markets characterized by significant seasonality during the calendar year. Seasonality may result, among others consumer habits (e.g. tourist industry), weather conditions (e.g. fashion industry) or periodic increase in demand (a significant increase in spending in online commerce in the fourth quarter of the year due to, among others, the holiday season). Significant changes in seasonal trends in subsequent periods may significantly affect the financial results and cash flows of some entities of the Group.

I Risk of changing consumer behaviour

A number of factors independent of the Group may have a negative impact on the demand for and supply of products and services in some industries in which the Group operates. These include terrorist attacks, unnatural or extreme weather phenomena, health concerns, in particular pandemics or epidemics, political or social instability, wars, disasters, imposing additional taxes or other administrative or regulatory burdens. These phenomena may lead to unfavorable changes in consumer moods or behavior for the Group, and thus reduce the Group's development potential and potentially deteriorate its financial results.

I Risk related to payment processing

Some entities of the Group act as intermediaries in processing payments from the end customer to the service provider. This raises the risk of irregularities in settlements, including fraud or scams. The Group undertakes actions to prevent such events, however, it cannot be excluded that negative image, legal or financial consequences may occur for the Group.

I The risk of development through acquisitions

The Group's strategy assumes analysing potential investment targets and acquiring companies which provide services similar or complementary to those offered by the Group which could supplement the Group's offer addressed to Internet users or the Group's clients should an appropriate opportunity present itself.

The execution of such a strategy involves certain risks, mainly relating to the identification of appropriate targets, the correct evaluation of their legal and financial position (including the results of operations generated), an appropriate valuation of such targets, the conclusion and finalisation of acquisitions on terms satisfactory for the Group, the correct identification of the potential synergies and the level of costs relating to integrating an acquired entity within the Group's structure and the costs of any potential reorganisations. Moreover, depending on the valuation of the acquired entities and other capital investments executed simultaneously, it may be necessary for the Group to obtain a significant amount of external financing or to issue new shares. This, in the case of the exclusion of the pre-emptive rights of the Company's existing shareholders, could result in the dilution of such shareholders' share in the share capital of the Company and their voting rights at the General Meeting. It cannot be guaranteed that such financing will be available on the terms and conditions assumed by the Group or that it will be available at all.

I The risk related to the integration of acquired entities

The execution of the Group's acquisition strategy of companies which provide services similar or complementary to those offered by the Group, exposes the Group to potential difficulties in integrating the acquired entities into its structure, in restructuring their operations by adjusting them to the Group's operations and managing their operations, as well as to the risk of losing some of the clients of the acquired entities. It cannot be precluded that the assumed integration into and restructuring of the operations of acquired entities with the operations of the Group will not be completed, will take longer than anticipated, will require the incurrence of higher than anticipated costs or that the expected synergies will not be realised, will differ from those anticipated or will be achieved later or to a lesser extent than anticipated. There can also be no certainty that, due to factors beyond the Group's control, including activities undertaken by its competitors, decisions of authorities or the strategies of shareholders on the Internet sector, the Group's plans will fail to be realised.

The Group acquires new e-commerce projects that may be at various stages of development and organization. This means that further development of these ventures may require undertaking additional actions, including modification of plans and strategies whose implementation and effects require appropriate time. In addition, there is no guarantee that every acquisition carried out by the Group will meet its expectations, which raises the risk of impairment of investment assets, including the possibility of a total write-down of the investment value.

I The risk related to court, administrative or other proceedings

In connection with the operations it conducts, the Group is exposed to a risk of court, administrative and other proceedings being instituted against the Group. Above all, the Group's main operating activity, consisting of running websites, portals and vortals, creates a risk of claims being brought with regard to the truthfulness, accuracy or legality of the information published there. Given the wide scope of its operations and the number of websites, portals and vortals operated, as well as the diversity of the content published, the Group may be unable, in spite of having adequate internal procedures, to fully control the content, including multimedia content, published on its webpages.

I The risk associated with too low attractiveness of content made available on WP Television

WP Television may not be able to select and acquire programming content that will be attractive to its target audience. Achieving the assumed audience share and market share depends to a large extent on the possibility of selecting, producing or acquiring programming content that will meet with a positive perception of the audience and ensure the audience which will attract potential advertisers at the assumed advertising rates. WP Television may not be able to reach the intended audience, among others in the event that expectations of viewers' preferences turn out to be incorrect or less accurate than those of competitors. The costs of purchasing content that is attractive to viewers of WP TV may increase as a result of increased competition, and increases in expenses may have a significant adverse effect on the day-to-day operations, financial standing, operating results and cash flow of WP Television.

REGULATORY RISKS

I The risk of a breach of the law

In connection with the Group's operating business including the publication of content, as well as multimedia content, the Group is subject to any risks involving charges, if any, regarding untruthfulness, negligence or the illegal nature of the information disclosed on the Group's Internet services and portals. Additionally, because the Group's business involves the collection, storage and use, within the limits of the law, of legally protected data of the users of its services, portals and email as well as the Group's clients, there is a risk of a breach of the regulations governing the protection of personal data.

I The risk of the dissemination of advertising which may be found to be prohibited or unlawful

In connection with the dissemination of advertising via the Internet portals and services owned by the Group, the Group is exposed to the risk of a breach of the statutory prohibition on conducting advertising business or the laws introducing restrictions within the scope of disseminating advertising regarding, inter alia, the form of advertisements and the addressees of the advertisements. Additionally, in view of the fact that there are certain interpretational doubts regarding particular laws which introduce prohibitions and restrictions within the scope of the dissemination of advertisements, there is a risk that the interpretations of laws applied by state authorities may change and thus the Group will need to adjust its policies to such changes.

I The risk related to interpretation of regulations and changes in Polish law

The Group's business in Poland is subject to numerous regulations which are materially impacted by EU regulations. A significant number of prevailing laws and regulations applicable to the Group's business has been and may in the future be subject to change, including those resulting from the implementation of relevant EU regulations. In view of any ambiguity or inaccuracy as well as the mutual cross referencing of the scope of their application, such regulations could also be subject to various interpretations, court judgements and may be applied inconsistently.

Any change in law, specifically, changes to laws having a direct impact on the operation of the market of new technologies; advertising or e-marketing services as well as possible changes in the labour law may have a material adverse effect on the business conducted by the Group. The volatility of the legal system and regulatory environment increases the risk of incurring material, additional and unexpected expenses as well as the costs of the adjustment of business to the changing legal environment.

I Risk of the broadcasting license being revoked

We have obtained a terrestrial and satellite broadcasting license. The license has been issued for a fixed term and will expire in 2026. The Broadcasting Law regulates the procedures and requirements for the renewal of expired licenses but is unclear whether license holders will be automatically reissued following the expiry of such licenses. Consequently, we cannot assure you that our broadcasting license will be reissued to us when its term expires. Additionally, the license may be revoked if we are in material breach of the Broadcasting Law or the terms and conditions of our license. Any revocation of the licence may negatively affect our business, financial situation, results of operations and cash flows.

I Risk of breaching the Broadcasting Law

The WP television broadcasting is subject to the Broadcasting Law among other laws and regulations which governs the content of television programs and the content and timing of advertising aired on our channels. There can be no assurance that more restrictive laws, rules and regulations will not be adopted in the future, including further changes in order to comply with European Union requirements. Changes to laws, rules, regulations and policies could make compliance more difficult and may force us to incur additional capital expenditures or implement changes that may adversely affect our business, financial condition, results of operations and cash flows.

I The risk related to changes in tax law

Polish tax law regulations are complex, unclear and subject to frequent changes. The tax law practice of the tax authorities is not homogenous and there are significant discrepancies between the judicial decisions issued by administrative courts in tax law matters. No assurance may be given by the Company that the tax authorities will not issue a different interpretation of the tax laws applied by the Group which will be unfavourable to the Group Companies. One may not exclude the risk that specific tax interpretations already obtained and applied by the Group will not be changed or questioned. There is also a risk that once new regulations are introduced, the Group Companies will need to take actions to adjust thereto, which may result in the incurrence of greater costs as a result of the circumstances related to complying with the new regulations. In view of the above, no assurance may be given that the tax authorities will not question the accuracy of the tax settlements of the entities that comprise the Group to the extent of any tax liabilities not subject to the statute of limitations or the determination of the outstanding tax liabilities of such entities, which could adversely impact the Group's business, financial condition, development prospects or results.

I Risk of breaching the personal data protection rules

Starting from 25 May 2018, the EU Regulation no. 2016/679 of the European Parliament and the Council dated 27 April 2017 on the protection of individuals with regard to the processing and free movement of personal data) is applied directly in the

national legislation and at the same time the Directive 95/46 / WE (general data protection regulation, RODO) shall be repealed. In connection with the RODO, supplementary national provisions were issued.

Due to the fact that the provisions of the RODO have been applied for short, no generally accepted interpretation of these regulations has not been established and the jurisprudence available is limited, it is currently impossible to clearly predict all the aspects in which new regulations may impact the future activities of the companies processing of personal data, including market segments in which personal data is used, such as, for example, targeted ads or e-mails.

The Group continue to take appropriate measures to comply with the new regulations, however - due to the reasons set out above - the risk of negative impact of the new regulations on the Group's operations cannot be completely ruled out.

Risk involved in executing agreements with related parties

The Group Companies conduct transactions with certain Group entities, including with related parties within the meaning of the tax regulations. Whenever they enter into and execute related-party transactions, the Group's Companies exercise every effort to ensure that, specifically, such transactions comply with all prevailing transfer price regulations. Nevertheless, in view of the special nature of related-party transactions, the complex and unclear nature of the laws regulating the methods of auditing applied prices, and the difficulty in identifying comparable transactions for reference purposes, no assurance may be given that specific Group Companies will not be subject to inspections and other investigations by the tax and fiscal control authorities. If the methods of determining the market conditions for the purposes of the above-mentioned transactions are questioned, it may have a material adverse effect on the Group's business, financial condition, growth prospects and results.

The risk related to possible inspections of UOKiK, UKE and KRRiTV

The President of the UOKiK may apply supervisory measures with respect to the Group in connection with complying with, the laws prohibiting the application of certain practices which are in breach of common consumer interests, such as providing consumers with unreliable information, unfair market practices or practices restricting competition. The Group's business is also supervised by the National Broadcasting Council since the Group is Tv broadcaster and video on demand services (VoD) provider through its Internet services and portals. Additionally, in connection with the collection of data regarding Internet users through Internet services and portals (thanks to the use of cookies) and, to a certain extent, in connection with the rendering of telecommunication services (providing access to text gates and providing the Group Companies with access to telecommunication and data lines), the Group is also subject to the supervision of the UKE. Any cash penalty imposed on the Group Companies by national antimonopoly authorities or by the European Commission, as well as the refusal of consent for the Company or the Subsidiaries to effect a concentration could adversely affect the Group's business, its financial position and results of operations, as well as the price of the shares.

The risk related to the principle of internet neutrality

The principle of network neutrality is expressed in the equal treatment of data transmitted over the Internet by an Internet operator or supplier. Based on such rule, operators of the Internet exchange points and backbone networks, and Internet providers may not treat selected services in any preferred manner by assigning any priority to packages of such services and, additionally, each Internet user has legally assured equal and identical access to all services on the Internet. No assurance may be given that operators or Internet access suppliers will introduction of the principle of Internet neutrality will not be sufficient to ensure the neutrality of the Internet network.

9. SHARES AND SHAREHOLDERS

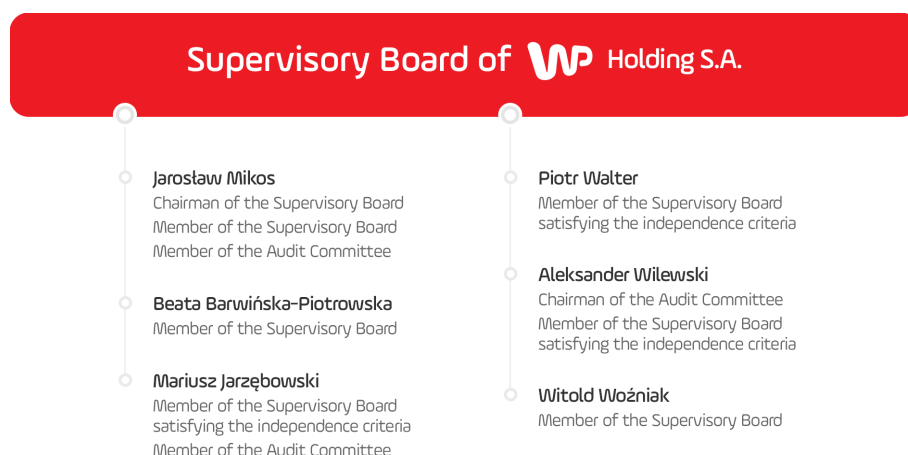
COMPOSITION AND CHANGES TO THE BODIES OF WIRTUALNA POLSKA HOLDING S.A.

As of 31 December 2020 and as of the date of preparing this report the composition of the Management Board was as follows



In the period covered by this report, there were no changes in the composition of the Company's Management Board.

As of 31 December 2020 the composition of Supervisory Board was as follows :



DIVIDEND POLICY

As of 31 December 2020 the share capital of the Company consisted of 29.130.498 shares with a par value of PLN 0.05 each, entitling 40.420.207 votes at the General Meeting, including:

- 11,289,709 A series registered preference shares; preference of 11,289,709 A series shares relates to voting rights at the General Meeting in such way that one share gives two votes;
- 1,100,000 A series ordinary bearer shares;
- 12,221,811 B series ordinary bearer shares;
- 301,518 C series ordinary bearer shares;
- 706,574 D series ordinary bearer shares;
- 3,339,744 E series ordinary bearer shares;
- 171,142 F series ordinary bearer shares.

B, C, D, E and F series shares as well as A series without any preference in terms of voting bearer shares are admitted to trade.

DIVIDEND POLICY

On 20 December 2016, the Management Board of Wirtualna Polska Holding S.A adopted a dividend policy.

According to the adopted policy, the Management Board will propose the payment of a dividend to the General Meeting at a level above PLN 1 per share, but not more than 70% of the consolidated net profit of the Capital Group reported in the financial statement for a given fiscal year.

When recommending the payment of a dividend, the Management Board will consider all the relevant factors, including in particular:

- a) the current financial situation of the Capital Group,
- b) the investment plans of the Group,
- c) the potential acquisition targets of companies belonging to the Group,
- d) the expected level of free cash in the WPH in the financial year in which the payment of dividends are due.

The dividend policy applies starting from the distribution of the consolidated net profit of the Capital Group for the year ending 31 December 2016. The decision on dividend payment by WPH SA shall be taken by the General Meeting.

On 25 May 2020 the Management Board of WPH SA recommended to the Supervisory Board and the Group General Meeting that the net income of the Company for fiscal year 2019 in the amount of PLN 8,879 thousand is fully transferred to supplementary capital, i.e. that the dividend is not paid for the fiscal year 2019. In line with the Dividend Policy of the Group, the Management Board issued the aforementioned recommendation accounting for the current situation of the Capital Group, its investment plans, as well as the specific market situation related to the COVID-19 pandemic. The recommendation was approved by the Group General Meeting on 14 July 2020.

SHAREHOLDERS WITH AT LEAST 5% OF THE TOTAL VOTING RIGHTS

In accordance with notifications received by the Company Wirtualna Polska Holding SA and to the best of its knowledge, as of 31 December 2020 the structure of shareholders who hold, directly or indirectly by their subsidiaries, at least 5% of the total voting rights at the General Shareholders' Meetings of the Company is as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świdorski through subsidiaries, including:	3 777 164	12,97%	7 540 401	18,66%
Orfe S.A.	3 763 237	12,92%	7 526 474	18,62%
Michał Brański through subsidiaries, including:	3 777 164	12,97%	7 540 400	18,66%
10X S.A.	3 763 236	12,92%	7 526 472	18,62%
Krzysztof Sierota through subsidiaries, including:	3 777 164	12,97%	7 540 400	18,66%
Albemuth Inwestycje S.A.	3 763 236	12,92%	7 526 472	18,62%
Founders together:	11 331 492	38,90%	22 621 201	55,97%
AVIVA OFE	2 731 000	9,38%	2 731 000	6,76%
Others	15 068 006	51,73%	15 068 006	37,28%
Total	29 130 498	100,00%	40 420 207	100,00%

* Founders (i.e. Jacek Świdorski, Michał Brański and Krzysztof Sierota) in connection with the shareholders agreement concluded on 19 March 2015 by the Founders and their subsidiaries (Orfe SA, 10X SA and Albemuth Inwestycje SA) concerning joint voting at the general meeting of the Company and conducting a long-term policy towards the Company exercise voting rights jointly.

Changes in the share capital after the balance sheet date

Changes in the share capital after balance sheet date

On 11 March 2021 KDPW registered and WSE admitted to trading 15,750 series D ordinary bearer shares and 42,711 ordinary bearer series F shares. After registration, admission to trading and issuing of the above mentioned shares, the share capital of the Company amounts to PLN 1,459,447.95 and is divided into 29,188,959 shares with a nominal value of PLN 0.05, entitling to 40,420,207 votes and the shareholders structure is presented in next table.

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świdorski through subsidiaries including among others:	3 777 164	12,94%	7 540 401	18,63%
Orfe S.A.	3 763 237	12,89%	7 526 474	18,59%
Michał Brański through subsidiaries including among others:	3 777 164	12,94%	7 540 400	18,63%
10X S.A.	3 763 236	12,89%	7 526 472	18,59%
Krzysztof Sierota through subsidiaries including among others:	3 777 164	12,94%	7 540 400	18,63%
Albemuth Inwestycje S.A.	3 763 236	12,89%	7 526 472	18,59%
Founders together	11 331 492	38,82%	22 621 201	55,88%
Aviva OFE	2 731 000	9,36%	2 731 000	6,75%
Other	15 126 467	51,82%	15 126 467	37,37%
Total	29 188 959	100,00%	40 478 668	100,00%

Number of shares held by members of the management and supervisory bodies

As of the date of this report, the number of shares of Wirtualna Polska Holding SA held by members of the managing and supervisory bodies is as follows:

- Jacek Świdorski is indirectly entitled to exercise voting rights attached to 3,763,237 series A registered shares in the Company, held by Orfe S.A., having preferential rights as to voting, so that one share entitles two votes at the general meeting and 13,927 ordinary bearer shares held by Bridge20 Enterprises Limited, which constitute a 12,97% interest in the Company's share capital, representing 7,540,401 votes at the general shareholders meeting of the Company and constituting 18.66% of the overall number of votes;
- Krzysztof Sierota is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company, held by Albemuth Inwestycje S.A., having preferential rights as to voting, so that one share entitles two votes at the general meeting and 13,928 ordinary bearer shares held by Highcastle Sp. z o.o., which constitute a 12,97% interest in the Company's share capital, representing 7,540,000 votes at the general shareholders meeting of the Company and constituting 18,66% of the overall number of votes;
- Michał Brański is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company, held by 10X S.A., having preferential rights as to voting, so that one share entitles two votes at the general meeting and 13,928 ordinary bearer shares held by Now2 Sp. z o.o., which constitute a 12,97% interest in the Company's share capital, representing 7,540,000 votes at the general shareholders meeting of the Company and constituting 18,66% of the overall number of votes.
- Under the first phase of the implementation of the incentive plan, Elżbieta Bujniewicz-Belka (Member of the Management Board) acquired 18,664 (nominal value of PLN 933) ordinary bearer shares of the new C series issued based on the resolution approving the issue of C series shares. In the next phases of the implementation of the incentive plan Elżbieta Bujniewicz-Belka acquired 93,318 D series ordinary bearer shares issued based on the resolution approving the issue of D series shares. Elżbieta Bujniewicz-Belka owns additional 564 shares purchased in September 2017. Elżbieta Bujniewicz-Belka is entitled to acquire for a maximum of 120,000 series F ordinary bearer shares issued under the second managerial option program on the basis of the resolution on the issue of series F shares, where the subscription may take place in tranches of 40,000 shares, if the conditions set out in the agreement are fulfilled management options concluded with the Company.

Additional information on the structure and changes in equity and voting rights are described in note 30 to the consolidated financial statements.

Information on agreements concerning changes in the shareholding structure

Incentive scheme – share-based payments and its control system

First incentive scheme

On 23 October 2014, the Parent Company's shareholders signed an agreement which stipulates the establishment of an incentive scheme granting the Company's share options to key people working for the Group. The total number of shares earmarked for the scheme is 1,230,576 and it shall not exceed 5% of the Company's share capital. The rights were awarded on 12 August 2014, and they are vested in the beneficiaries gradually (so called vesting), on a quarterly basis, as a rule over a period no longer than 6 years. The scheme includes a requirement of being currently employed as a condition for the rights to the options vesting.

Detailed information on the first incentive scheme is described in note 31 to the consolidated financial statements of the Group for the period of twelve months ending 31 December 2020.

Second incentive scheme

On 15 February 2016, the Supervisory Board of the Parent Company passed a resolution adopting the rules of a new incentive scheme granting the Company's F series ordinary share options to key people working for the Group. The total number of shares earmarked for the scheme is 593,511 and it shall not exceed 5% of the Company's share capital.

Detailed information on the second incentive scheme is described in note 31 to the consolidated financial statements of the Group for the period of twelve months ending 31 December 2020.

Purchase of own shares

As of 31 December 2020, neither Wirtualna Polska Holding nor any other any other company belonging to the Group does not hold any its own shares.

Analysts

Below we present a list of analysts who prepare reports and make recommendations for the Capital Group:

Konrad Księżopolski, Haitong Bank, SA, <http://www.haitongib.com/en>

Marcin Nowak, IPOPEMA Securities SA, <http://ipopemasecurities.pl/>

Paweł Szpigiel, Dom Maklerski mBanku SA, <http://www.mdm.pl/>

Małgorzata Żelazko, PKO BP SA, <http://www.pkobp.pl/>

Emil Popławski, Erste Securities Polska SA, <https://www.erstegroup.com/en/home>

Adrian Górniak, Dom Maklerski BDM SA, <https://www.bdm.pl/>

Dominik Niszczyński, Trigon Dom Maklerski S.A. <http://www.trigon.pl/>

Łukasz Kosiński, Pekao Investment Banking S.A., <https://www.pekaoib.pl/>

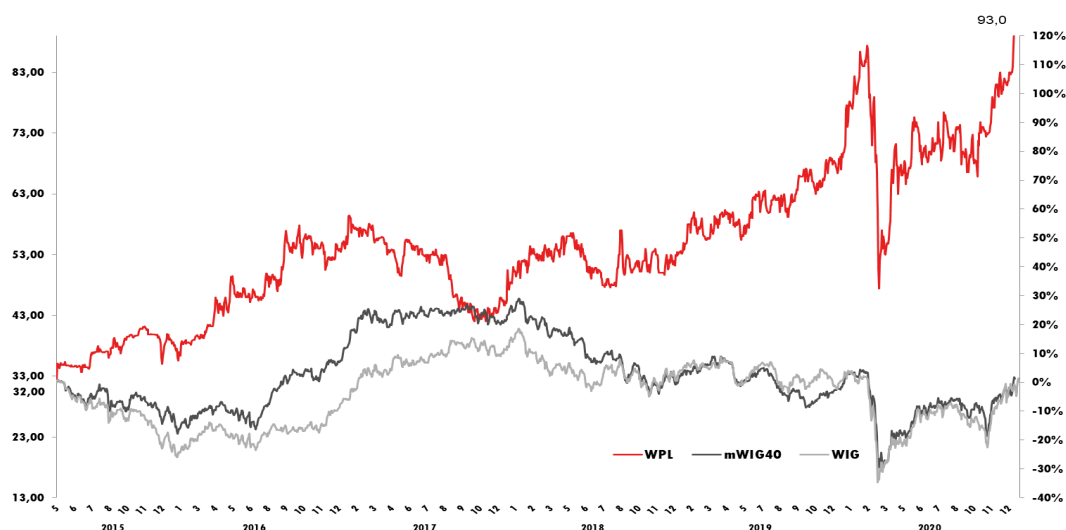
Tomasz Krukowski, Santander Brokerage Poland, <https://www.santander.pl/inwestor>

Listing of shares

The shares of Wirtualna Polska Holding SA have been listed on the Stock Exchange in Warsaw since 7 May 2015.

The shares of Wirtualna Polska Holding SA are part of the following indexes: WIG, WIG-Poland, InvestorMS, WIG-MEDIA mWIG40.

The chart shows the development of the share price of the Wirtualna Polska Holding SA from the day of its IPO to 31 December 2020 against the WIG20, mWIG40 and WIG indexes.



10. ADDITIONAL INFORMATION

Remuneration of key management and supervisory personnel

Remuneration of the Members of the Management Board

The remuneration of the Management Board is paid only by Wirtualna Polska Holding SA. The table below presents the remuneration payable or paid to the Members of the Management Board in 2020.

Twelve months ending 31 December 2019 (PLN'000)	Salaries	Incentive scheme - share-based payments
Jacek Świderski	3 255	-
Krzysztof Sierota	1 098	-
Michał Brański	1 205	-
Elżbieta Bujniewicz - Belka	1 235	636
Total	6 792	-

Remuneration of the Members of the Supervisory Board

The table below presents the remuneration payable or paid to the Supervisory Board members in 2020.

Twelve months ending 31 December 2019 (PLN'000)	Salaries	Incentive scheme - share-based payments
Jarosław Mikos	109	-
Krzysztof Krawczyk	32	-
Beata Barwińska-Piotrowska	32	-
Aleksander Wilewski	32	-
Piotr Walter	32	-
Witold Woźniak	326	-
Mariusz Jarzębowski	32	-
Total	595	-

Information on liabilities arising from pensions and similar benefits for former management and supervisory personnel

The Group had no payments and has no liabilities regarding pension and similar benefits for former management and supervisory personnel.

Events after the balance sheet date

Detailed information of post- balance sheet events is provided in note 45 to the consolidated financial statements for the period of 12 months ending 31 December 2020.

Management comments on the feasibility of previously published forecasts for the year

The Group did not publish any forecasts of results for the year 2020.

Products provided by the Wirtualna Polska Holding Capital Group

The Group's products are divided into two categories – sales of Online advertising and sales of Television advertising.

The table below presents the Group's sales according to these types:

PLN'000	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
Sales in Online segment, including:	605 735	688 379
Sales of services settled in cash	526 211	622 231
Sales of goods settled in cash	63 257	42 919
Sales of services settled in barter	16 267	23 229
Sales in TV segment, including:	26 551	20 321
Sales of services settled in cash	26 551	20 321
Sales of services settled in barter	-	-
Total	632 286	708 700

Online advertising

The group operates on the Polish online advertising market and offers its clients a wide range of advertising products – modern ad displays, including online videos, mailing, mobile device advertising and efficiency-based model advertising (i.e. based on transfer to another web page, filling in forms, registration, purchase of products and services) – lead generation performance marketing. Due to the popularity of these services, the Group is able to reach a wide range of users with its advertising.

TV advertising

Via the television, the Group gains revenue from advertising, electoral, political and social spots, sponsorship and contribution to the funding's of the programs distributed on the TV program.

Year to year changes in revenue level are described in paragraph 3 of this report.

In 2019 Wirtualna Polska Holding SA did not generate any revenues from operating activities.

Sales markets and sources of supply

About 73% of the Group's revenue comes from the domestic market. Foreign sales occur mainly in the countries of the European Union:

PLN'000	Twelve months ending 31 December 2020	Twelve months ending 31 December 2019
Domestic sales	466 447	562 683
Export sales	165 839	146 017
European Union	146 673	131 244
Outside European Union	19 165	14 773
Total	632 286	708 700

The Group manages a well-diversified portfolio of customers and suppliers. In both 2019 and 2018 there was one customer whose turnover exceeded 10% of the Group's consolidated revenue and amounted to 16% (in 2020) and 12% (in 2019). This

customer is in a stable financial situation and there were no payment delays during the long-term cooperation. Therefore, the Management Board sees no risk of excessive concentration of income.

In 2020 Wirtualna Polska Holding SA did not generate any revenues from operating activities.

Litigation pending before the court, the appropriate arbitration body or the public administration body

If the Group is a defendant in a litigation case, a provision is booked for the case based on its actual status and the cost estimation prepared by the Legal Department. The provisions were recorded in the amount of the claims and court fees, whose ad-judgment is probable in the Group's opinion. Currently, there are no pending court proceedings, arbitration or proceedings before the administrative authority in respect of liabilities or receivables of Wirtualna Polska Holding SA and its subsidiaries in the total amount of at least 10% of the Wirtualna Polska Holding SA's equity.

During 2020 the provision for court proceedings increased by PLN 41 thousand.

Information on transactions with related entities

All transactions with related entities are concluded on an arm's length basis. Detailed information on transactions with related entities are presented in note 42 of the consolidated financial statements for the 12 months ending 31 December 2020 and in note 21 of the standalone financial statement for the 12 months ending 31 December 2020

Information on financial instruments

Information regarding financial instruments related to:

- price change risk, credit risk, risk of significant disruptions to cash flow and risk of financial insolvency, to which the entity is exposed;
- objectives and methods established in order to manage financial risk, including methods of securing significant types of planned transactions to which hedging accounting is applicable;

are described in note 41 of the consolidated financial statements for the 12 months ending 31 December 2020 as well as in note 19 of the standalone financial statements of Wirtualna Polska Holding SA for the 12 months ending 31 December 2020

INFORMATION ON GUARANTEES AND WARRANTIES GRANTED IN RESPECT OF LOANS, BORROWINGS AND LOANS GRANTED

Guarantees granted to third-party entities

In the period under consideration none of the Group companies granted any warranties in respect of loans or borrowings or guarantees – in aggregate to one company or an entity related to that company – the total value of which would constitute at least 10% of the equity of Wirtualna Polska Holding SA

Intragroup guarantees

As of the date of this report, the companies: Totalmoney.pl Sp. z o.o., Domodi Sp. z o.o. and Wakacje.pl SA were guarantors of the bank loan agreement concluded by and between Wirtualna Polska Media SA, Wirtualna Polska Holding SA, mBank SA, Powszechna Kasa Oszczędności Bank Polski SA, ING Bank Śląski SA, Bank Polska Kasa Opieki SA oraz BNP Paribas Bank Polska SA.

The total guarantee amount corresponds to the current balance of the debt of Wirtualna Polska Media SA and Wirtualna Polska Holding SA of the credit agreement.

Loans granted

As of 31 December 2020 Wirtualna Polska Holding SA and Wirtualna Polska Media SA granted loans to other Group members and associates in order to finance their acquisitions and current operations. The Parent Company does not have any loans granted by related companies.



Evaluation of the financial resources management

The Capital Group has implemented centralised financial management through a central model of finance and the Group's liquidity management policy. The development policy of companies and limits of risk exposure are set at the highest level of the Group. Measures implemented enabled the effective management of financial resources.

According to the adopted central model of financing, the Company is responsible for obtaining financial resources for the companies of the Capital Group. Current operations of companies reporting the need for resources is financed from financial surpluses generated by other companies through intra-group loans. Such form of obtaining funding sources mainly allows to decrease the costs of capital, increase the possibility to obtain financing, reduce the number and forms of collaterals established on Capital Group's assets and ratios required by financial institutions, as well as reduce the administrative costs.

The acquisition activity in 2020 and in 2019 was mainly financed with the own resources and partially with the loan granted.

In 2020, the Wirtualna Polska Holding Capital Group had the full ability to repay its liabilities as due.



Assessment of the possibilities to carry out investment plans

The financing of strategic investments is managed centrally within the Company. The Management Board believes that the Group is able to finance the current and future investment plans with own funds generated from operating activities and with external financing.



Changes in the basic principles of management of the company and the capital group



In April 2018, the management strategy of the Capital Group has changed. In order to enable the management team of the parent company to focus its activities on the implementation of holding objectives and evenly support all companies belonging to the Group in their operational goals, it was decided that members of the Management Board of Wirtualna Polska Holding SA will be appointed to the Supervisory Boards of all significant subsidiaries.

In 2020, there were no significant changes in the basic principles of Company and Capital Group management.

Agreements with the Management which determine compensation in case of resignation or termination of employment without a significant reason or when termination occurs because of a merger of the company

Members of the Company's Management Board perform functions in the Management Board on the basis of appointment agreements. The remuneration of Management Board Members is determined by the resolutions of the Company's Supervisory Board.

In the case of dismissal of a Member of the Management Board by the Company or resignation of a Member of the Management Board from performing the function at the initiative of the Company, a Member of the Management Board shall be entitled to severance pay, unless the sole reason justifying the dismissal or resignation from the function of a Member of the Company's Management Board is:

-  severe breach of basic duties by a member of the Management Board;
-  inability of a Member of the Management Board to perform the function of a member of the Company's Management Board due to illness lasting longer than the total period of receiving remuneration and allowance in this respect and receiving a rehabilitation benefit for the first three months.

Each member of the Management Board is bound by a non-competition clause for the entire period of performing the function of a member of the Company's Management Board and for a period of twelve months after the date of termination of this function. Due to discharging their obligations under the non-competition clause within 12 months after the date of termination of the function of a Member of the Management Board, each of them has the right to compensation in the amount constituting the amount specified in the resolution of the Supervisory Board. In the case of a breach by a Member of the Management Board of the provisions of the agreement regarding non-competition, the Member of the Management Board will lose the right to compensation and will be obliged to return the compensation already received to the Company.

Research and development

Due to the profile of the activities conducted, the Group has not adopted any research and development strategy and does not finance any research activities.

Information about entity authorised to perform an audit of the financial statements

Detailed information about the entity authorised to perform the audit of the financial statements and information about its remuneration are presented in note 45 of these consolidated financial statements for the period of 12 months ending 31 December 2019. As for the audit of standalone financial statements, the information on the entity authorised to perform the audit and its remuneration is presented in note 21 of the standalone financial statement for the year ending 31 December 2019.

Other information which in Group's opinion is material to the assessment of the human resources, assets and financial position, its result and changes and information which is material to the assessment of the Group's ability to discharge its liabilities

Apart from the events described in this document and in the consolidated financial statements, until the date of publication of this report no other events occurred which would be material to the assessment of the Group's ability to discharge its liabilities.

In the opinion of the Management Board of Wirtualna Polska Holding SA the presented information exhaustively describes the human resources, asset and financial position of the Group. No other events took place which have not been disclosed by the Company, and which could be considered material to the assessment of its respective position.