CONSOLIDATED ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDING

31 DECEMBER 2016

Holding SA

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LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Dear Shareholders,

We had a good year. The EBITDA growth ring of Wirtualna Polska's tree is as thick as in the first two years of the currently expiring three-year term of this management board.

We are happy that our company, resilient to violent legislative winds, standing firm like a tree trunk, is in the place and in the condition which we aimed for.

The past 12 months proved the validity of our invariable mission to inform, deliver opinion-setting content and support Poles in their day-to-day decisions, especially their consumer decisions. This was a time when unconfirmed, and often simply untrue, propaganda news spread by social media were able to contribute to one of the oldest and the most mature democracies leaving the European Union, or the victory in the presidential elections in quite a big and highly developed country.

Never before has it been so easy as last year to see with the naked eye the social need for access to reliable sources of information. In the ocean of news flowing from anonymous sources, the reliable editorial staff of Wirtualna Polska has an ambition and duty to play the role of a media lighthouse. The editorial voice has never been so strong also in our organization. For the first time, the editor-in-chief has the rank of a vice-president.

In 2017, we will continue to pursue our "MoViBE" strategy – mobile, video, big data and e-commerce. Views on mobile devices, in line with our announcements from last year, exceeded 50% of total views. Our willingness to conclude transactions on smartphones has improved significantly and the revenue distance to stationary computers is shrinking. Acquisition and monetization of mobile device users remains a priority.

In the "video" area, in the past year, it became clear to us that following a period of quantitative growth, time has come for qualitative growth of this product that is so important for execution of television advertising budgets. Mobilization of the organization was ensured by the launch of our own terrestrial TV channel.

In 2017 we will still remain in the television kindergarten, but it is also bound to be the time when one is the quickest to acquire competencies, and we will use the gathered knowledge in the area that is the most important to us, i.e. in production of short video forms for the Internet.

Just like so far, our big data systems will play a crucial role in all publication, advertising and e-commerce areas, a significant competitive advantage held by Wirtualna Polska ensuing from the magnitude of its business and its e-mail account system. As of 2017, the area of big data file processing and development of advertising systems is developed by a dedicated vice-president.

The mission adopted 3 years ago also clearly points to advising in consumer decisions. Its consistent execution in the past authorizes us to expect that already in 2017 we will reach an important point on the way to transformation of our company's business model. We are planning that this year Wirtualna Polska's exposure to e-commerce will catch up with the advertising exposure.

At the same time, we are aware that this is just the beginning of bigger changes to be brought about by further popularization of purchase of goods and services via the Internet. The convenience, speed and efficiency of conclusion of transactions via the Internet means for many sectors of economy what the development of railways meant for stagecoaches in the 19th century. Wirtualna Polska wants to be the guide in the digitization of our consumer needs and a beneficiary of this change.

Respectfully,

Jacek Świderski

President of the Management Board of Wirtualna Polska Holding S.A.

MANAGEMENT TEAM OF WIRTUALNA POLSKA HOLDING S.A. CAPITAL GROUP

JACEK ŚWIDERSKI

PRESIDENT OF THE MANAGEMENT BOARD / CEO

KRZYSZTOF SIEROTA

MANAGEMENT BOARD MEMBER / VP ENGINEERING

MICHAŁ BRAŃSKI

MANAGEMENT BOARD MEMBER / VP STRATEGY

ELŻBIETA BUJNIEWICZ-BELKA

MANAGEMENT BOARD MEMBER / VP CHIEF FINANCIAL OFFICER

MARTA CZARTORYSKA-ŻAK

VP CHIEF MARKETING OFFICER

IWONA WENCEL

INTERIM VP HR

TOMASZ MACHAŁA

VP EDITOR-IN-CHIEF

GRZEGORZ CZAPSKI

VP CORPORATE DEVELOPMENT

ADAM PLONA

VP MEDIA PRODUCT

JOANNA PAWLAK

VP SALES

JERZY DĄBRÓWKA

VP COMMUNICATION PRODUCT

MANAGEMENT'S REPORT ON THE ACTIVITIES OF WIRTUALNA POLSKA HOLDING S.A. AND ITS CAPITAL GROUP

FOR PERIODS OF
3 AND 12 MONTHS ENDING 31 DECEMBER 2016

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1. SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set out selected consolidated financial data for the 3 and 12-month periods ending 31 December 2016 and 31 December 2015. 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 consolidated financial statements for the financial year ending 31 December 2016, as well as the information included in item 3 of this report.

	For the year ending 31 December 2016	For the year ending 31 December 2015	For the year ending 31 December 2016	For the year ending 31 December 2015
	in PLN'000		in EUR'000	
Sales	415 144	325 583	94 875	77 801
Cash sales	377 323	285 998	86 231	68 342
Operating profit	80 863	63 951	18 480	15 282
Profit before tax	15 400	15 400	3 519	3 680
Net profit	53 848	5 686	12 306	1 359
EBITDA	122 945	94 393	28 097	22 556
Adjusted EBITDA	132 155	107 825	30 202	25 766

	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
	in PLN'000		in EUR'000	
Total assets	852 196	749 879	192 630	175 966
Non-current assets	729 742	638 195	164 951	149 758
Current assets	122 454	111 684	27 679	26 208
Long-term liabilities	330 132	293 426	74 623	68 855
Short-term liabilities	113 339	98 874	25 619	23 202
Equity	408 725	357 579	92 388	83 909
Share capital	1 434	1 413	324	332
Non-controlling interests	16 467	15 676	3 722	3 679

	For the year ending 31 December 2016	For the year ending 31 December 2015	For the year ending 31 December 2016	For the year ending 31 December 2015
	in PLN'000		in EUR'000	
Net cash flows from operating activities	113 591	88 000	25 960	21 028
Net cash flows from investing activities	(92 613)	(160 755)	(21 165)	(38 414)
Net cash flows from financing activities	(24 789)	90 568	(5 665)	21 642
Total net cash flows	***(3 811)***	***17 813***	***(871)***	***4 257***

The financial data was converted into euro using the following rules:

- amounts presented in zloty as at 31 December 2016 were converted into euro at the exchange rate of 4.4240 (the NBP exchange rate as at 31 December 2016)
- amounts presented in zloty as at 31 December 2015 were converted into euro at the exchange rate of 4.2615 (the NBP exchange rate as at 31 December 2015)
- amounts presented in zloty for the period of the financial year ending 31 December 2016 were converted at the exchange rate of 4.3757 the arithmetic mean of the NBP exchange rates as at the last day of each month of 2016)
- amounts presented in zloty for the period of the financial year ending 31 December 2015 were converted at the exchange rate of 4.1848 (the arithmetic mean of the NBP exchange rates as at the last day of each month of 2015)

The acquisitions make it significantly more difficult to compare the periods and analyse the Group's results. Therefore, in order to improve the presentation of the changes that took place in 2016 and in the fourth quarter of 2016, in item 3 of this report we present the comparison of results to pro forma financial information for the year 2015.

2. OPERATIONS OF THE WIRTUALNA POLSKA HOLDING CAPITAL GROUP

2.1. GENERAL INFORMATION

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 Jutrzenki 137 A.

Until 21 March 2014, the Company operated as Grupa o2 SA.

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.

2.2. THE SCOPE OF THE GROUP'S OPERATIONS

The Group's mission is to be the partner of first choice for the Polish people, providing opinion-forming information, entertainment and services, and inspiration in daily decisions. The Group accomplishes its mission by providing attractive content and services to the portal users, tailored to their needs and profile.

The Group owns one of the two most popular horizontal internet portals in Poland – Wirtualna Polska. The Group also operates the o2 horizontal portal and numerous specialist vertical portals: including, in particular, leading business portal Money.pl, the most quoted sports portal (i.e. WP Sportowe Fakty), entertainment portals (e.g. Pudelek, WP Gwiazdy and Teleshow), as well as female-oriented portals (e.g. WP Kobieta, Kafeteria) along with health and parenting portals (abcZdrowie and Parenting.pl) and last but not least, Internet radio stations – OpenFM and PolskaStacja.

In December 2016, the Group started a new TV channel available also on the Internet, via cable as well as satellite.

Moreover, the Group conducts advertising activities comprising lead generation for internet shops, mainly within portals aggregating internet shop products and services (marketplace): Domodi and Allani for fashion; Homebook in the home and interior category, Wakacje.pl for turism and Money.pl and Finansowysupermarket.pl for financial services. The Group's lead generation activity on the e-commerce market enables the Group to take advantage of the fast growth of e-commerce in Poland. In addition, Money.pl Group acquired in December 2014, has developed services and tools for the purchase and sale of financial products and services on the network, as well as for money saving and private budget management.

The Group regularly reviews its b2c projects and develops a common technology platform for portals to improve its project portfolio management.

In accordance with the last available data from Gemius/PBI research as of January 2017, Wirtualna Polska Group was visited via desktop or mobile devices by 21.1 million users (Real Users) who made 3.3 billion hits and spent more than 118 million hours on the Group's portals. The Group's reach is 77.3% – these are the data for the combined results of desktop and mobile.

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

No	Name	Real Users (mln)	Page Views (mln)	Time Spent (mln h)
1	Grupa Google	26,32	9,21	345,50
2	facebook.com	22,74	5,66	196,59
3	Grupa Onet - RASP	21,38	3,25	97,83
4	***Grupa Wirtualna Polska***	***21,15***	***3,27***	***118,60***
5	youtube.com	20,34	1,30	56,06
6	Grupa Interia.pl	17,92	1,32	54,77
7	Grupa Gazeta.pl	17,09	0,79	16,82
8	Grupa Allegro	15,99	1,76	31,99
9	Grupa OLX	15,68	1,63	29,68
10	wikipedia.org	15,25	0,30	7,30

Source: Badanie Gemius/ PBI, January 2017

According to Gemius/PBI data, in the period from 1 to 31 January 2017, the number of users (Real Users) visiting the portals owned by the Group via desktop or mobile devices was a daily average of 5.99 million.

The table below presents the Group's position in various Megapanel PBI/Gemius categories in January 2017.

Cathegory	Real Users (RU)	Place
Business, Finance, Law	7 350 954	*1*
New Technologies	6 909 731	*1*
Communication	9 976 023	*1*
Lifestyle	11 890 690	*1*
Parenting	2 872 953	2
Sports	5 164 016	2
Tourism	4 003 968	2
Healthcare	6 247 143	2
E-commerce	5 949 532	3
Information	8 490 535	4
Culture and Entairtainment	7 388 821	6

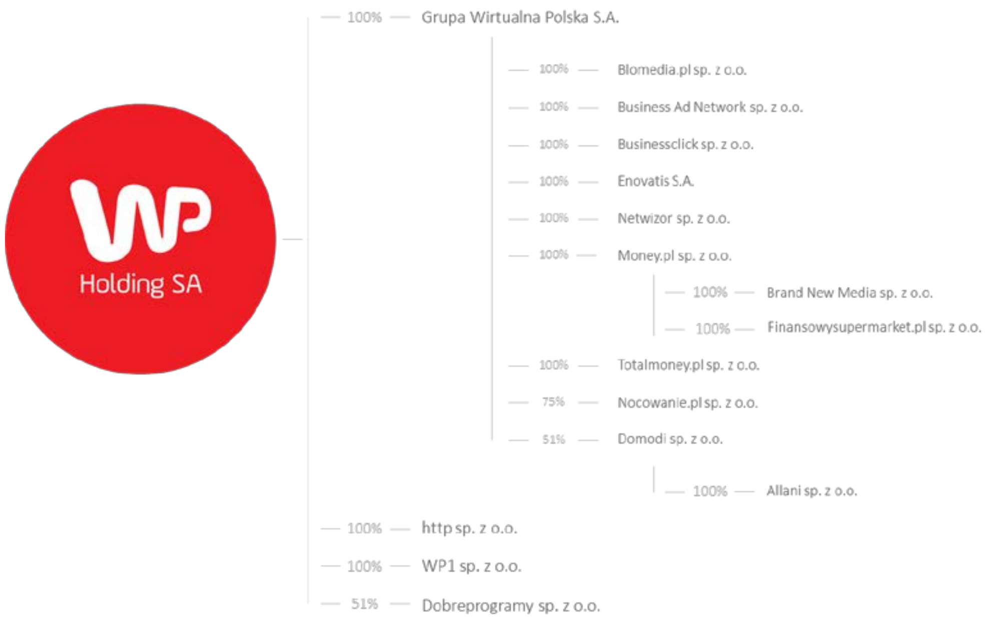
Source: Badanie Gemius/ PBI, January 2017

The Group offers free electronic mail to its users. The Group has the one of the largest bases of electronic mail users in Poland that, according to the last available Gemius/ PBI research as of January 2017, amounted to 10 million real users whereas Google had 8.5 million real users and the Onet-RASP Group had 5.4 million real users. However, it should be noted that the Gemius/PBI data relate only to access via the website. According to the Group's internal data as of January 2017, the Group had 11.4 million active e-mail accounts (including 7.9 million active WP e-mail accounts and 3.5 million active o2 e-mail accounts).

The Group conducts operations on the Polish market in terms of online advertising, offering a wide range of advertising products to its clients – modern display ads, including online video ads, ads sent by e-mail, ads for mobile devices and ads based on the effectiveness model (i.e. based on the number of people accessing a website, filling in a form, registering, purchasing goods or services) – lead generation, performance marketing. Thanks to the great popularity of their websites and services, the Group is able to reach a wide range of users with its advertising message.

2.3. STRUCTURE OF THE WIRTUALNA POLSKA HOLDING SA GROUP

Next diagram presents the structure of the Group as of 31 December 2016, including the percentage of voting rights at a General Shareholders' Meeting to which the shareholder is entitled.



Changes in the Group's structure that took place in 2016

On 16 March 2016, Grupa Wirtualna Polska SA signed a share purchase agreement for 200 shares in TotalMoney.pl Sp. z o.o with its registered office in Warsaw with a nominal value of PLN 1,600 each and the total nominal value of PLN 320,000, representing 100% of the share capital in TotalMoney.pl Sp. z o.o and 100% of votes at the general shareholders meeting.

On 7 June 2016, a sale agreement for 75% of shares in Nocowanie.pl Sp. z o.o was concluded. The purchase price amounted to 21,957 thousand PLN, out of which 12 million was financed by a Capex bank credit line and the rest from the Group's sources.

On 1 July 2016, Finansowysupermarket.pl Sp. z o.o. and Web Broker Sp. z o.o. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Web Broker Sp. z o.o. to Finansowysupermarket.pl Sp. z o.o.

On 30 September 2016, WP Shopping Sp. z o.o. and Favore Sp. z o.o. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Favore Sp. z o.o. to WP Shopping Sp. z o.o. As a result of the merger, the part of shares in WP Shopping Sp. z o.o. corresponding to 9.57% of the votes at the general meeting was transferred to Money.pl Sp. z o.o as the previous owner of Favore Sp. z o.o. Next, on 21 December 2016 Grupa Wirtualna Polska S.A. and Money.pl Sp. z o.o sold 100% of its shares in WP Shopping Sp. z o.o.

Moreover, on 21 July 2016, Money.pl Sp. z o.o. sold 100% of its stake in Legalsupport Sp. z o.o.

On 13 December 2016, Grupa Wirtualna Polska SA signed a share purchase agreement for 100% of the shares in Netwizor Sp. z o.o. with its registered office in Warsaw.

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

On 2 January 2017, Business Ad Network Sp. z o.o. and Grupa Wirtualna Polska S.A. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Business Ad Network Sp. z o.o. to Grupa Wirtualna Polska S.A.

On 2 January 2017, Totalmoney.pl Sp. z o.o. and Money.pl Sp. z o.o. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Totalmoney.pl Sp. z o.o. to Money.pl Sp. z o.o.

On 31 January 2017, Blomedia.pl Sp. z o.o. and Grupa Wirtualna Polska S.A. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Blomedia.pl Sp. z o.o. to Grupa Wirtualna Polska S.A.

2.4. DEVELOPMENT POLICY AND THE PROSPECTS OF WIRTUALNA POLSKA HOLDING AND ITS CAPITAL GROUP

In the Management Board's opinion, the following tendencies will continue to 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, and adverts on mobile devices. This will be caused mainly by the increased availability and a decrease in the 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 by such people on the Internet as well as development of modern mobile payment systems;
- 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;
- 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;
- The positive effect of the revenue and cost synergies expected by the Group as a result of its acquisitions;
- An increase in costs, especially wages and salaries, resulting from an improvement in the quality of content provided to users and the increased number of video adverts and their improving quality.

The Group's primary objective is to achieve the position of the leading, lifestyle and entertainment medium in Poland. This objective can be achieved through following strategic goals and development paths:

- ***Modern display*** – reinforcing the leading position in respect of providing content via the Internet in Poland in the main topic categories;
- ***E-mail services*** – maintaining and developing e-mail services as a communication tool and an important source of information for the personalisation of content, services and advertising;
- ***Mobile*** – achieving and maintaining a leading position in Poland in respect of advertising on mobile devices;
- ***Video online*** – achievement and maintenance of the leading position in Poland in terms of video online advertising by the use of internal investments and external purchases;
- ***E-commerce*** – Using the potential of the rapidly growing e-commerce market in key product categories;
- ***Big data*** – use of the Group's key competitive advantage i.e. different data on consumer behaviour of Poles;
- ***Acquisitions*** – Reinforcement of the Group's organic growth through the acquisition of other entities.

Since the Company's activity is limited to holding and management 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 GROUP

The financial data for the twelve months ending 31 December 2016 and 31 December 2015 was audited by an independent auditor, whereas the financial information for the fourth quarter of 2016 and 2015 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.

3.1. SELECTED FINANCIAL DATA FROM THE CONSOLIDATED INCOME STATEMENT

The following table presents the main positions of the income statement for the years 2016 and 2015:

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015	Change	Change %
Sales	415 144	325 583	89 561	27,5%
Cash sales	377 323	285 998	91 325	31,9%
Operating profit	80 863	63 951	16 912	26,4%
Profit before tax	15 400	15 400	0	0,0%
Net profit	53 848	5 686	48 162	847,0%
EBITDA	122 945	94 393	28 552	30,2%
Adjusted EBITDA	132 155	107 825	24 330	22,6%

The following table presents the main positions of the income statement for the fourth quarter of the years 2016 and 2015.

in PLN'000	3 months ending 31 December 2016	3 months ending 31 December 2015	Change	Change %
Sales	122 955	102 063	20 892	20,5%
Cash sales	110 865	89 381	21 484	24,0%
Operating profit	26 840	22 942	3 898	17,0%
Profit before tax	(24 854)	2 874	(27 728)	-
Net profit	23 123	(649)	23 772	-
EBITDA	38 132	31 374	6 758	21,5%
Adjusted EBITDA	36 889	33 391	3 498	10,5%

The consolidated results of the Group for the years 2016 and 2015 year include the results of the following subsidiaries:

No.	Name of subsidiary	Date of taking control	% of shares held	Period covered by consolidation 31 December 2016	31 December 2015
1	Grupa Wirtualna Polska S.A.	22 December 2010	100%	full period	full period
2	WP Shopping Sp. z o.o. (formerly Wirtualna Polska S.A.)	13 February 2014	100%	to 21 December 2016	full period
3	http Sp. z o.o.	23 March 2009	100%	full period	full period
4	Free4Fresh Sp. z o.o. (1)	27 April 2009	100%	-	January - September 2015
5	Money.pl Sp. z o.o.	1 December 2014	100%	full period	full period
6	Business Ad Network sp. z o.o.	1 December 2014	100%	full period	full period
7	Businessclick Sp. z o.o.	1 December 2014	100%	full period	full period
8	Favore Sp. z o.o. (2)	1 December 2014	100%	-	full period
9	Legalsupport Sp. z o.o.	1 December 2014	100%	to 21 July 2016	full period
10	Interaktywnie Sp. z o.o.	1 December 2014	100%	-	to 15 June 2015
11	Brand New Media Sp. z o.o.	1 December 2014	100%	full period	full period
12	dobreprogramy Sp. z o.o.	14 November 2013	51%	full period	full period
13	Domodi Sp. z o.o.	12 September 2014	51%	full period	full period
14	NextWeb Media Sp. z o.o. (3)	3 June 2015	100%	-	June-August 2015
15	Blomedia.pl Sp. z o.o.	3 June 2015	100%	full period	from 3 June 2015
16	WP1 Sp. z o.o.	21 August 2015	100%	full period	from 21 August 2015
17	Finansowysupermarket.pl Sp. z o.o.	16 September 2015	100%	full period	from 16 September 2015
18	Web Broker Sp. z o.o. (4)	16 September 2015	100%	-	from 16 September 2015
19	Allani Sp. z o.o.	6 October 2015	51%	full period	from 6 October 2015
20	Enovatis S.A.	23 December 2015	100%	full period	not consolidated
21	TotalMoney.pl Sp. z o.o.	16 March 2016	100%	from 16 March 2016	not consolidated
22	Nocowanie.pl Sp. z o.o.	7 June 2016	75%	from 7 June 2016	not consolidated

(1) On 30 October 2015 http Sp. z o.o. and Free4Fresh Sp. z o.o. merged.
(2) On 30 September 2016 Favore Sp. z o.o. and WP Shopping Sp. z o.o. merged.
(3) On 31 August 2015 NextWeb Media Sp. z o.o. merged with Grupa Wirtualna Polska SA.
(4) On 1 July 2016 Web Broker Sp. z o.o. merged with Finansowysupermarket Sp. z o.o.

The effect of the acquisitions makes it significantly more difficult to compare the periods and analyse the Group's results. In order to improve the presentation of the changes that took place over the twelve month period and in the fourth quarter of 2016, the Management Board decided to additionally present in this report the pro forma financial results for 2015.

The comparison of the operating results and financial position of the Capital Group in 2016 to the pro forma 2015 consolidated results.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015 Proforma*	Change	Change %
Sales	415 144	369 385	45 759	12,4%
Cash sales	377 323	329 617	47 706	14,5%
Cash sales without acquisitions in 2016 (for comparative purposes)**	368 766	329 617	39 149	11,9%
Operating profit	80 863	62 822	18 041	28,7%
Profit before tax	15 400	12 260	3 140	25,6%
Net profit	53 848	2 929	50 919	1738,4%
EBITDA	122 945	99 355	23 590	23,7%
Adjusted EBITDA	132 155	114 549	17 606	15,4%
Adjusted EBITDA pro forma*	133 760			

*Adjusted EBITDA pro forma for the year 2016 was calculated as the sum of adjusted EBITDA of the Capital Group and adjusted EBITDA of companies acquired in 2016 roku for the priod from 1 January 2016 to the day of taking over control, presented in item 3.3 of this report.

in PLN'000	3 months ending 31 December 2016	3 months ending 31 December 2015 Proforma*	Change	Change %
Sales	122 955	108 159	14 796	13,7%
Cash sales	110 865	95 294	15 571	16,3%
Cash sales without acquisitions in 2016 (for comparative purposes)**	107 830	95 294	12 536	13,2%
Operating profit	26 840	21 480	5 360	25,0%
Profit/(loss) before tax	(24 854)	927	(25 781)	-
Net profit	23 123	(1 873)	24 996	-
EBITDA	38 132	30 756	7 376	24,0%
Adjusted EBITDA	36 889	34 457	2 432	7,1%

*Details on the calculation of pro forma financial data are described in point 3.2. of this report Notes to the pro forma consolidated financial information for the year 2015.

** Sales of 2016 adjusted for the impact of acquisitions made in 2016 (TotalMoney.pl Sp. z o.o. and Nocowanie.pl Sp. z o.o.) not included in pro forma financial data for the year 2015.

The sales of services increased in the twelve months of 2016 by 12.4% compared to the pro forma sales for the same period of the previous year, whereas the cash sales increased by 14.5%. In the fourth quarter, the sales increased by 13.7% compared to the pro forma sales for the corresponding period of the previous year, whereas the cash sales increased by 16.3%.

Excluding from the sales of 2016 the impact of the acquisitions made, the results of which are not included in the comparative pro forma financial data, the increase in cash sales amounted to 11.9% for the period of twelve months and 13.2% in the fourth quarter. Detailed information on the results achieved by the entities included in the Group's consolidated financial statements in 2016 is presented in point 3.3. of this report.

In all the periods analysed, transactions settled in cash represented the majority of the Group's sales and amounted to 90.89% of the Group's sales in the twelve months of 2016 and 89.23% in the same period of 2015.

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 amortisation and depreciation while the adjusted Group's EBITDA is calculated as EBITDA adjusted for one-off events such as: costs of transaction advisory and initial public offering, restructuring costs, costs of the management option scheme, result of the disposal of other financial assets, net result of the settlement of barter transactions and the revaluation and liquidation of non-current assets.

The Group's business model is characterised by the high operating profitability of its business activities. In 2016, the adjusted EBITDA of the Group amounted to PLN 132,155 thousand which was by PLN 17,606 thousand higher when compared to the pro forma value of this ratio in the previous year.

In 2016, the total costs normalising the Group's EBITDA amounted to PLN 9.2 million and were by almost PLN 6 million lower than in the comparable period of the previous year.

During 2016, the costs normalising EBITDA resulted mainly from advisory services relating to acquisitions, restructuring and integration (total of PLN 2.2 million), paid and accrued conditional remuneration for the managers of Allani Sp. z o.o. (total of PLN 5.2 million), civil law tax paid on the purchase of shares in Totalmoney.pl and Nocowanie.pl Sp. z o.o. (PLN 0.4 million) and non-cash employee option scheme costs (PLN 1.8 million). The EBITDA was also normalised with the costs of revaluation, liquidation and sale non-financial assets (PLN 0.2 million). The profit on sales of other financial assets of PLN 0.3 million was also excluded from normilised EBITDA.

Moreover, EBITDA was adjusted by PLN 0.3 million of profit on barter transactions concluded in the analysed period. 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.The Group settles part of the sales of advertising services via barter. The Group recognises revenues from barter transactions consisting of the exchange of advertising services only if such services are different in nature – i.e. they are provided with the use of different carriers or broadcast in different media, and the amount of the revenue can be determined reliably. Revenues from barter transactions are recognised at a fair value of the service received or receivable in the month in which the advertisement is broadcast. If the fair value of the services received cannot be determined reliably, revenues are recognised at the fair value of the services provided, adjusted for cash flow (if any).

In addition to the above, in 2016 there were two significant events affecting the Group's financial results – revaluation of put option liability to purchase non-controlling interests in Domodi Sp. o.o., further described in Note 33 to the accompanying financial statements and the recognition of an additional deferred tax asset in respect of tax loss on the sale of shares in WP Shopping Sp. o.o., further described in Note 16 to the accompanying consolidated financial statements.

3.2. NOTES TO THE PRO FORMA CONSOLIDATED FINANCIAL INFORMATION FOR THE YEAR 2015

Pro forma financial information for the year 2015 includes:

- ***the financial results of the Capital Group as in the consolidated financial statements for the year 2015;***
- ***the financial results of Enovatis SA for the year 2015 (before audit);***
- ***the financial results of NextWeb Media sp. z o.o. and Blomedia Sp. z o.o. for the period between 1 January and 3 June 2015 (unaudited);***
- ***the financial results of Finansowysupermarket.pl Sp. z o.o. and Web Broker Sp. z o.o. for the period between 1 January and 16 September 2015 (unaudited);***
- ***the financial results of Allani Sp. z o.o. for the period between 1 January and 6 October 2015 (unaudited);***
- ***adjustments to amortisation, finance costs and income tax.***

The pro forma consolidated financial information for the year 2015 was prepared in order to facilitate the analysis of the Group's dynamics in the current and subsequent periods.

The following quarterly unaudited consolidated pro forma financial information for the year 2015, presents the Group's hypothetical financial results as if the purchase of the shares in Enovatis SA, NextWeb Media Sp. z o.o., Blomedia Sp. z o.o., Finansowysupermarket.pl Sp. z o.o., Web Broker Sp. z o.o., and Allani Sp. z o.o. had been finalised at the beginning of the period i.e. on 1 January 2015. The financial results of the companies for the period between 1 January 2015 and the acquisition date were presented in note 20 to the consolidated financial statements of the Group for 2015. The financial information presented in this note was not audited by independent auditor. The pro forma amounts for 2015 do not include the PLN 588 thousand of profit on the sale of other financial assets recognised by NextWeb Media Sp. z o.o.

The data below, except for the financial results for 2015 of the acquired subsidiaries recognised before the acquisition date, also include the adjustment on amortisation in respect to assets recognised in the process of purchase price allocation. Furthermore, the information below includes extra cost of external debt related to financing of Enovatis SA acquisition for the period between 1 January 2015 and 23 December 2015.

in PLN'000	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015
Sales	***78 536***	90 160	92 530	108 159	***369 385***
including barter transactions	*7 864*	*9 406*	*9 633*	*12 865*	39 768
Amortization and depreciation	(9 169)	(9 253)	(8 834)	(9 276)	(36 532)
Materials and energy used	(1 396)	(1 309)	(1 261)	(1 459)	(5 425)
Costs related to public offering, acquisitions of subsidiaries and restructuring	(1 723)	(5 714)	(1 217)	(5 328)	(13 982)
Costs of the employee option scheme	(348)	(348)	(349)	(348)	(1 393)
Other external services	(28 469)	(29 098)	(36 934)	(37 070)	(131 571)
Other salary and employee benefit expenses	(25 746)	(26 748)	(26 387)	(29 321)	(108 202)
Other operating expenses	(2 044)	(2 272)	(2 424)	(4 419)	(11 159)
Other operating income/gains	953	(32)	388	542	1 851
Gain/loss on disposal of other financial assets	-	(150)	-	-	(150)
Operating profit	***10 594***	***15 236***	***15 512***	***21 480***	***62 822***
Finance income	107	262	332	285	986
Finance costs	(11 262)	(3 756)	(4 146)	(4 273)	(23 437)
Revaluation of commitments to purchase non-controlling interests	-	-	(11 546)	(16 565)	(28 111)
Profit before tax	***(561)***	***11 742***	***152***	***927***	***12 260***
Income tax	(325)	(3 253)	(2 953)	(2 800)	(9 331)
Net profit	***(886)***	***8 489***	***(2 801)***	***(1 873)***	***2 929***
Equity holders of the Parent Company	(1 041)	8 422	(3 340)	(2 267)	1 774
Non-controlling interests	155	67	539	394	1 155

in PLN'000	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015
EBITDA	***19 763***	***24 489***	***24 347***	***30 756***	***99 355***
Costs related to public offering, acquisitions of subsidiaries and restructuring	1 723	5 714	1 217	5 328	13 982
Costs of the employee option scheme	348	348	349	348	1 393
Gain/loss on disposal of other financial assets	-	150	-	-	150
Net result on barter transactions settlement	1 637	(2 425)	2 127	(2 216)	(877)
Revaluation and liquidation of non-financial assets	56	212	37	241	546
Total adjustments	***3 764***	***3 999***	***3 730***	***3 701***	***15 194***
Normalized EBITDA	***23 527***	***28 488***	***28 077***	***34 457***	***114 549***

in PLN'000	Q1 2015	Q2 2015	Q3 2015	Q4 2015	2015
Profit before tax	***(561)***	***11 742***	***152***	***927***	***12 260***
Costs related to public offering, acquisitions of subsidiaries and restructuring	1 723	5 714	1 217	5 328	13 982
Costs of the employee option scheme	348	348	349	348	1 393
Gain/loss on disposal of other financial assets	-	150	-	-	150
Net result on barter transactions settlement	1 637	(2 425)	2 127	(2 216)	(877)
Revaluation and liquidation of non-financial assets	56	212	37	241	546
Revaluation of commitments to purchase non-controlling interests	-	-	11 546	16 565	28 111
Finance costs in connection with refinancing	6 201	-	-	-	6 201
Valuation of interest rate swap	341	-	-	-	341
Other	36	(36)	-	-	-
Total adjustments	***10 342***	***3 963***	***15 276***	***20 266***	***49 847***
Adjusted profit before tax	***9 781***	***15 705***	***15 428***	***21 193***	***62 107***

3.3. EXPLANATIONS REGARDING THE CONSOLIDATED SALES AND RESULTS OF THE ENTITIES ACQUIRED IN 2016

For the purposes of comparative analysis of the growth in sales we present below the information on the results of companies acquired in 2016 and not included in the pro forma financial results for the year 2015.

During the current financial year, the Capital Group's structure changed, the most significant changes relating to the acquisition of shares in TotalMoney.pl Sp. z o.o. in March 2016 and the acquisition of shares in Nocowanie.pl Sp. z o.o. in June 2016. The enclosed consolidated financial statements include the results of the above acquisitions from the date of obtaining control to 31 December 2016. The following table presents the impact of these acquisitions on the Capital Group's consolidated results.

in PLN'000	Totalmoney.pl Sp. z o.o.	Nocowanie.pl Sp. z o.o.	Netwizor Sp. z o.o.	Total
Sales	3 863	4 812	-	8 675
Cash sales	3 787	4 771	-	8 558
EBITDA	1 310	1 685	-	2 995
Adjusted EBITDA	1 374	1 685	-	3 059
Net profit	1 064	1 182	-	2 246

In the period from the beginning of 2016 to the day of obtaining control over these entities by the Capital Group, these entities have achieved the following financial results:

in PLN'000	TotalMoney.pl Sp. z o.o.	Nocowanie.pl Sp. z o.o.	Netwizor Sp. z o.o.	Total
Sales	1 350	3 507	708	5 565
Cash sales	1 350	3 494	708	5 552
EBITDA	115	1 167	(7)	1 275
Adjusted EBITDA	115	1 497	(7)	1 605
Net profit	149	1 235	(26)	1 358

3.4. FINANCIAL POSITION OF THE GROUP

The following table presents the consolidated statement of the Group's financial position as of the end of December 2016 and December 2015.

in PLN'000	As of 31 December 2016	As of 31 December 2015	Change PLN'000	Change %
Non-current assets	729 742	638 195	91 547	14,3%
Current assets	122 454	111 684	10 770	9,6%
Long-term liabilities	330 132	293 426	36 706	12,5%
Short-term liabilities	113 339	98 874	14 465	14,6%
Equity attributable to equity holders of the Parent Company	392 258	341 903	50 355	14,7%
Share capital	1 434	1 413	21	1,5%
Non-controlling interests	16 467	15 676	791	5,0%

The analysis of changes in the Group's balance sheet has been prepared as of the end of December of the current year compared to 31 December 2015. When compared to the end of 2015, the main event affecting the Group's balance sheet was the purchase of shares in Totalmoney.pl Sp. z o.o. on 16 March 2016 and the finalisation of the purchase of 75% of the shares in Nocowanie.pl Sp. z o.o. on 7 June 2016. The impact of this acquisition on the individual lines of the consolidated statement of financial position has been discussed in the analysis of these items.

Non-current assets

The following table presents changes in non-current assets by category.

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change PLN'000	Change %
Property, plant and equipment	57 899	7,9%	51 607	8,1%	6 292	12,2%
Goodwill	246 472	33,8%	217 257	34,0%	29 215	13,4%
Other intangible assets	388 268	53,2%	367 650	57,6%	20 618	5,6%
Non-current programming assets	5 358	0,7%	-	0,0%	5 358	-
Other long-term assets	2 470	0,3%	-	0,0%	2 470	-
Deferred tax assets	29 275	4,0%	1 681	0,3%	27 594	1641,5%
Non-current assets	***729 742***	***100,0%***	***638 195***	***100,0%***	***91 547***	***14,3%***

In the analysed period, the increase in the net value of property, plant and equipment was due to capital expenditure higher than depreciation and amortisation for the period. The main additions to the fixed assets resulted from the purchase of server equipment (PLN 10,539 thousand), expenditures incurred on adaptations and equipment of the new TV studio (PLN 4,593 thousand) as well as expenditures incurred on office space (PLN 2,164 thousand).

The change in the value of goodwill compared to the end of 2015 resulted from the provisional settlement of the purchase of shares and the recognition of new goodwill in the acquisitions of TotalMoney.pl Sp. z o.o. (PLN 8,820 thousand), Nocowanie.pl Sp. z o.o. (PLN 16,793 thousand) and Netwizor Sp. z o.o. (PLN 2,272 thousand) as well as from the final settlement of the acquisitions of Enovatis S.A. and Finansowysupermarket.pl Sp. z o.o., resulting in an increase in goodwill by PLN 1,284 thousand and PLN 46 thousand respectively.

In the analysed period, the Group recorded a significant increase in other intangible assets mainly due to recognition in the Group's consolidated balance sheet of the broadcasting license for the transmission of a television programme in Multiplex 8 with an initial value of PLN 13,545 thousand and the recognition of intangible assets with respect to the acquisitions. As a result of the acquisition of TotalMoney.pl Sp. z o.o. the Group recognised intangible assets with an initial value estimated at PLN 4,437 thousand (including mainly customer relations with a value of PLN 2,631 thousand and trademark with a value of PLN 1,588 thousand). The acquisition of Nocowanie.pl increased the Group's intangible assets by PLN 9,940 thousand (including customer relations with a value of PLN 6,108 thousand and trademark with a value of PLN 3,832 thousand). Intangibles acquired along with the purchase of Netwizor Sp. z o.o. amounted to PLN 307 thousand and included customer relations (PLN 204 thousand) and the trademark (PLN 103 thousand). During 2016 the Group also recognised significant development costs (PLN 14,848 thousand).

Thanks to the launch of WP Television, the Group acquired programming assets of a total net value of PLN 5,358 thousand as of the balance sheet date. The programming assets include acquired licenses to broadcast movies, series, TV programs and in-house productions with an expected broadcasting period of over one year.

On 21 December 2016, as part of the settlement of the sale of shares in WP Shopping Sp. z.o.o. Grupa Wirtualna Polska S.A. acquired 2,941,176 bearer shares in Fachowcy Ventures SA which is a public company, listed on the New Connect market exchange. On 31 December 2016, the stock market share price of the company amounted to 0.84 zloty per share. The market valuation of shares as of the balance sheet date amounted to PLN 2,470 thousand and was presented as other long-term assets.

Current assets

The following table presents the structure of current assets by category.

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change PLN'000	Change %
Trade receivables net	65 944	53,9%	53 782	48,2%	12 162	22,6%
Barter receivables	724	0,6%	835	0,7%	(111)	(13,3%)
State receivables	5 585	4,6%	4 799	4,3%	786	16,4%
Other current assets	5 051	4,1%	3 307	3,0%	1 744	52,7%
Cash and cash equivalents	45 150	36,9%	48 961	43,8%	(3 811)	(7,8%)
Current assets	***122 454***	***100,0%***	***111 684***	***100,0%***	***10 770***	***9,6%***

The increase in current assets was mainly caused by a higher level of cash trade receivables due to higher level of sales.The entities acquired in 2016 contributed all together PLN 1,169 thousand of trade and other receivables to the consolidated balance sheet.

Both barter and state receivables were at similar level compared to the previous year.

The increase in other current assets was mainly due to the agreement for MUX8 access signed by WP1 Sp. z o.o. in December 2016. The agreement provides different levels of discounts in time, and is therefore accounted for by using the effective rate.

In the analysed period, the cash balance of the Group decreased by PLN 3,811 thousand. The detailed analysis of the changes in this position is presented in the following part of the report describing the cash flow statement.

Long-term liabilities

The following table presents changes and structures of long-term liabilities by category.

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change PLN'000	Change %
Loans and leases	174 572	52,9%	192 682	65,7%	(18 110)	(9,4%)
Contingent liabilities related to business combinations	6 075	1,8%	11 582	3,9%	(5 507)	(47,5%)
Interest rate swaps - cash flow hedges	522	0,2%	1 322	0,5%	(800)	(60,5%)
Liabilities with respect to the put option for non-controlling interests	125 890	38,1%	62 762	21,4%	63 128	100,6%
Liabilities in respect of purchase of property, plant and equipment and intangible assets	11 201	3,4%	-	0,0%	11 201	-
Deferred tax liability	10 993	3,3%	23 884	8,1%	(12 891)	(54,0%)
Deferred income	879	0,3%	1 194	0,4%	(315)	-
Long-term liabilities	***330 132***	***100,0%***	***293 426***	***100,0%***	***36 706***	***12,5%***

The growing value of non-current liabilities resulted mainly from the increase in valuation of liability with respect to the put option for Domodi Sp. z o.o. non-controlling interests and recognition of the put option for Nocowanie.pl Sp. z o.o. non-controlling interests.

On 7 June 2016 Grupa Wirtualna Polska SA signed a purchase agreement for 75% of the shares in Nocowanie.pl Sp. z o.o. Additionally, after the end of 2018 and 2019, the Group will be entitled to purchase and the minority shareholder entitled to sell half of the minority interests at any time. The discounted value of options exercise price as of 31 December amounted to PLN 11,906 thousand.

The Group owns 51% of the Domodi shares. After the end of 2017, the Group will be entitled to purchase, and the former shareholder to sell, a further 24.5% of the shares in Domodi Sp. z o.o. at a price determined based on the Company's results for the year 2017. After the end of 2019, the Group will be entitled to purchase, and the former shareholder to sell, the remaining 24.5% of the shares in Domodi Sp. z o.o. at a price determined based on DOMODI's results for the year 2019 or the market value of the Company's shares.

Starting from the date of the purchase of the controlling package 51% in Domodi Sp. z o.o., its operating and financial results, especially revenue and EBITDA, have grown dynamically. The financial results of Domodi sp. z o.o. exceeded significantly both the originally expected values as well as the updated financial forecasts from the end of 2015. Therefore, the value of the enterprise has grown significantly as well and, consequently, the value of shares owned by the minority shareholders and the put option liability of the Group has also increased. Compliant to IAS 39 the Group recognises the changes in the valuation of the option liability as a financial cost. The expense is of a non-cash type and so is excluded from the cash flow statement.

The liability increased in total by PLN 51.2 million in 2016. Except for the standard unwinding of the discount (PLN 3.1 million), there were two reasons for the revaluations of the liability in 2016:

- In the fourth quarter of 2016, due to the fact that the operating results of Domodi sp. z o.o. significantly exceeded the estimates of the forecast updated as at the end of 2015, the Management considered it necessary to revise the long-term forecast for this company and consequently updated the valuation of the liability in the Group's consolidated balance sheet by PLN 46.9 million.
- The liability with respect to the put option for the non-controlling interests in Domodi Sp. z o.o was increased by PLN 1,261 thousand which resulted from its revaluation due to the early partial settlement of purchase of shares in Allani Sp. z o.o. The character of the transaction assumes that the purchase of the subsidiary was financed both by the Group and by the minority shareholders of Domodi in proportion to their shareholding – i.e. 51% and 49% accordingly. Therefore, the decrease in the value of earn-outs distributed to previous Allani shareholders led to an increase in the Group's put option liabilities to minority shareholders of Domodi.

Another important transaction in 2016 was the recognition of the liability on the television broadcasting license. The licence is effective from 14 January 2016 to 13 January 2026. The fee for the license amounted to PLN 13,545 thousand and is paid in 10 annual instalments of PLN 1,355 thousand each. As of 31 December 2016, after the repayment of the first instalment, the Group's liability valued at the amortised cost amounted to PLN 12,610 thousand, out of which PLN 11,201 thousand is presented as long-term.

The decrease in contingent liabilities relating to business combinations was mainly due to the early settlement of NextWeb Media earn-out liability in the fourth quarter of 2016. On the other hand, the contingent liability relating to the purchase of Allani Sp. z o.o. increased PLN 2,168 thousand and the acquisition of shares in Netwizor Sp. z o.o. caused the recognition of an additional PLN 1,699 thousand of earn-out liability.

The deferred tax liability decreased in 2016 mainly due to the recognition of an additional tax loss on the sale of shares in WP Shopping. In December 2016 Grupa Wirtualna Polska S.A. sold all of its shares in WP Shopping Sp. z o.o. to Nextfield Investments Limited and settled the transaction in accordance with the individual tax interpretation. The tax loss on this transaction per individual books of GWP amounted to PLN 377,652 thousand. The Company prepared detailed tax forecasts for the following years. Based on this forecast, the Management Board decided to recognise PLN 54,996 thousand of deferred tax assets. The details of this transaction are further described in note 16 to the consolidated financial statement of the Group.

Short-term liabilities

The following table presents changes in short-term liabilities by category.

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change PLN'000	Change %
Loans and leases	39 202	34,6%	38 399	38,8%	803	2,09%
Interest rate swaps - cash flow hedges	694	0,6%	954	1,0%	(260)	(27,25%)
Trade and other payables	40 380	35,6%	34 016	34,4%	6 364	18,71%
State liabilities	4 821	4,3%	5 346	5,4%	(525)	(9,82%)
Wages and salaries payables	5 947	5,2%	3 565	3,6%	2 382	66,82%
Deferred income	4 567	4,0%	2 943	3,0%	1 624	55,18%
Liabilities in respect of purchase of property, plant and equipment and intangible assets	12 436	11,0%	1 593	1,6%	10 843	680,67%
Provision for employee benefits	3 276	2,9%	2 891	2,9%	385	13,32%
Other provisions	1 511	1,3%	1 661	1,7%	(150)	(9,03%)
Contingent liabilities related to business combinations	-	0,0%	4 008	4,1%	(4 008)	(100,00%)
Liabilities related to business combinations (other than earn-out)	-	0,0%	2 243	0,0%	(2 243)	-
Current income tax liabilities	505	0,4%	1 255	1,3%	(750)	(59,76%)
Short-term liabilities	***113 339***	***100,0%***	***98 874***	***100,0%***	***14 465***	***14,63%***

The increase in short-term liabilities was among others due to the growth of trade payables by PLN 6,364 thousand out of which more than PLN 1 million was contributed by the entities acquired in 2016.

In the analysed period the Group's liabilities in respect of purchase of property, plant and equipment and intangible assets increased significantly, mainly due to investments made on programming assets and on adaptation and equipment for TV studio in connection with the launch of WP TV as well as on standard purchases of IT equipment. This balance sheet position also includes the short-term part of TV licence liability (PLN 1,409 thousand) described in details in long-term liabilities.

The increase in deferred income is mainly due to the purchase of shares in Nocowanie.pl Sp. z o.o., which as of the balance sheet date had PLN 2,030 thousand of deferred income on prepaid subscriptions to be used in subsequent periods.

The overall increase in short-term liabilities was reduced by: the repayment in January 2016 of PLN 2,243 thousand of the purchase price to one of the sellers of shares in Allani Sp. z o.o, the repayment of the earn-out liability on the purchase of NextWeb Media shares, the increase in short-term loans and leases (by PLN 803 thousand),the decrease in state liabilities (by PLN 525 thousand) as well as the decrease in current income tax liabilities (by PLN 750 thousand).

Equity

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change PLN'000	Change %
Equity attributable to equity holders of the Parent Company, including:	392 258	96,0%	341 903	95,6%	50 355	14,73%
Share capital	1 434	0,4%	1 413	0,4%	21	1,49%
Supplementary capital	315 830	77,3%	310 453	86,8%	5 377	1,73%
Revaluation reserve	(839)	-0,2%	(1 844)	-0,5%	1 005	-
Other reserves	(38 310)	-9,4%	(28 506)	-8,0%	(9 804)	34,39%
Retained earnings	114 143	27,9%	60 387	16,9%	53 756	89,02%
Non-controlling interests	16 467	4,0%	15 676	4,4%	791	5,05%
Equity	***408 725***	***100,0%***	***357 579***	***100,0%***	***51 146***	***14,30%***

In the twelve months of 2016, the equity attributable to the parent company's shareholders increased by PLN 50,355 thousand in total. The change in equity attributable to the parent company's shareholders resulted from the following events:

- PLN 5,398 thousand in relation to admission to the deposit of the securities, introduction to trading and entering into the accounts of the entitled D and Fseries ordinary bearer shares within the existing stock option plan, out of which PLN 21 thousand increased share capital and the remaining part was booked as supplementary capital;
- PLN 1,005 thousand of revaluation reserve, mainly due to the valuation of interest rate swap, hedging the interest payments due to the bank loan (PLN 859 thousand). Actuarial gains from the pension benefit system and the valuation of financial assets available for sale amounted to PLN 146 thousand in total;
- the increase in other reserves of PLN 1,767 thousand due to the acquisition of the rights to the consecutive tranche of share options under the existing incentive scheme;
- the decrease in other reserves of PLN 11,571 thousand due to the recognition of the put option liability for non-controlling interests in Nocowanie.pl Sp. z o.o.;
- the net profit attributable to the parent company's shareholders for the year ending 31 December 2016 of PLN 53,756 thousand.

In the period from 1 January to 31 December 2016, the non-controlling interests increased by PLN 791 thousand. This change resulted from the recognition of non-controlling interests in Nocowanie.pl Sp. z o.o. (PLN 1,721 thousand), the allocation of an appropriate part of the result earned in the period by Domodi Sp. z o.o., Allani Sp. z o.o., Dobreprogramy Sp. z o.o. and Nocowanie.pl Sp. z o.o. (total profit of PLN 92 thousand) less the dividend passed to minority shareholders for 2015 (PLN 1,022 thousand).

3.5. CASH FLOWS OF THE GROUP IN 2016

in PLN'000	Twelve months ending 31 December 2016	Twelve months ending 31 December 2015
Net cash flows from operating activities	113 591	88 000
Net cash flows from investing activities	(92 613)	(160 755)
Net cash flows from financing activities	(24 789)	90 568
Total net cash flows	***(3 811)***	***17 813***

The Group's business model is characterised by the generation of a stable cash flow from operating activities due to the high profitability of its operations. In twelve months of 2016, the EBITDA generated by the Group of PLN 122,945 thousand contributed to generating a positive cash flow of PLN 113,591 thousand from operating activities.

Cash flows from investing activities were negative and amounted to PLN (92,613) thousand in the analysed period, out of which PLN (36,385) thousand was related to the Group's acquisition activities and resulted from the price paid for shares in Totalmoney.pl Sp. z o.o which (net of cash acquired) amounted to PLN (12,433) thousand, price paid for shares in Nocowanie.pl Sp. z o.o. which (net of cash acquired) amounted to PLN (21,214) thousand, price paid for shares in Netwizor Sp. z o.o. which (net of cash acquired) amounted to PLN (495) thousand and the repayment of liability of PLN (2,243) thousand to one of the sellers of shares in Allani Sp. z o.o.

In the period under consideration, the Group repaid all of its contingent liability due to the purchase of shares in NextWeb Media (PLN 15,500 thousand), as well as part of the contingent liability due to the purchase of shares in Allani Sp. z o.o. of PLN (3,277) thousand and the last part of the contingent liability due to the purchase of the Sportowefakty enterprise for PLN (336) thousand. In the analysed period, the Group also settled significant CAPEX payments of PLN (37,221) thousand in total mainly on the purchase of intangible and fixed assets.

Cash flows from financing activities in the twelve months of 2016 amounted to PLN (24,789) thousand and resulted mainly from the repayment of loan principal (total of PLN 29,700 thousand) as well as interest and bank commissions of PLN (11,035) thousand. On the other hand, the Group made an additional CAPEX drawing of PLN 12,000 thousand for the purchase of shares in the subsidiary Nocowanie.pl Sp. z.o.o. Negative cash flows from financing activities were additionally increased by the financial lease repayment (PLN 430 thousand) and the payment of dividends to minority shareholders of PLN (1,022) thousand. Moreover, cash flows from financing activities include PLN 5,398 thousand of cash paid for the increase in the Group's capital by the people participating in the employee option scheme.

3.6. SELECTED FINANCIAL RATIOS

Financial ratios	Twelve months ending 31 December 2016	Twelve months ending 31 December 2015 [proforma]
Cash sales (PLN'000)	377 323	329 617
Cash sales (YoY increase)	14,5%	-
Cash sales without acquisitions in 2016 (for comparative purposes)	368 766	329 617
Cash sales without acquisitions in 2016 (YoY increase)	11,9%	-
Adjusted EBITDA margin (on cash sales)	35%	35%
Adjusted gross margin (on cash sales)	19%	19%
Cash conversion ratio ((EBITDA - CAPEX)/EBITDA)*	70%	67%
Financial leverage ratio (Net debt/Adjusted EBITDA LTM)	1,26	1,68

* expenses incurred on the purchase of intangible assets and property, plant and equipment, not including funds used for acquisitions activities

The main financial ratios analysed by the Group's Management Board comprise cash proceeds from sales (with or without acquisitions in current year) and their growth, the adjusted EBITDA margin and adjusted gross margin. The cash sales for the twelve months of 2016 were 14.5% higher than the sales calculated on the basis of the pro forma financial data for the corresponding period of the previous year. However, excluding the impact of acquisitions in 2016 on this ratio, the comparable growth in sales amounted to 11.9%.

Both the adjusted EBITDA margin and adjusted gross margin in 2016 were at comparable levels to the previous year. The cash conversion ratio in 2016 was at a high level of 70% and increased by 3 pp. compared to previous year.

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 satisfying the requirements concerning their value as defined in the loan agreement.

4. DISCUSSION ON OPERATING RESULTS AND THE FINANCIAL SITUATION OF WIRTUALNA POLSKA HOLDING S.A.

The financial data for the twelve months ending 31 December 2016 and 31 December 2015 was audited by an independent auditor, whereas the financial information for the fourth quarter of 2016 and 2015 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.

4.1. SELECTED FINANCIAL DATA FROM STANDALONE INCOME STATEMENT

The following table presents the main positions of the standalone income statement for the twelve months of 2016 and 2015.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015	Change	Change %
Sales	7 163	5 257	1 906	36%
Dividends received	360	633	(273)	(43%)
Operating loss	(2 937)	(5 306)	2 369	(45%)
Finance income	12 177	11 720	457	4%
Finance costs	(2 399)	(1 032)	(1 367)	132%
Profit/(loss) before tax	6 841	5 382	1 459	27%
Net profit/(loss)	4 609	4 376	233	5%

The following table presents the main positions of the standalone income statement for the fourth quarter of 2016 and 2015.

in PLN'000	3 months ending 31 December 2016	3 months ending 31 December 2015	Change	Change %
Sales	428	1 371	(943)	(69%)
Operating loss	(2 687)	(907)	(1 780)	196%
Finance income	3 094	2 761	333	12%
Finance costs	(1 085)	(489)	(596)	122%
Profit/(loss) before tax	(678)	1 365	(2 043)	(150%)
Net profit/(loss)	(1 279)	1 053	(2 332)	(221%)

Sales proceeds increased in 2016 by 36% compared to 2015, while in the last quarter of 2016 they fell by 69% compared to the corresponding period of the previous year. This was due to the adjustment of the management fee proceeds. At the beginning of the year the Company pre-determined fees for management services which were invoiced to other Group entities. The rate was calculated based on budgeted and estimated management costs, increased by an adequate margin. The Company adjusted the rates based on the actual costs incurred, while leaving the margin at the same level. In 2016, the adjustment of these revenues, recognised on an ongoing basis in the fourth quarter results amounted to PLN 1,827 thousand.

In 2016 the operating loss was about PLN 2,369 thousand lower than in the corresponding period of the previous year. The improvement of the operating result, apart from the increase in revenue, was also due to a decrease in external services by PLN 3,701 thousand. In the reporting period, the Company recorded an increase in the cost of salaries and benefits of PLN 2,103 thousand as well as an increase in the cost of the share-based payment program of PLN 705 thousand. The main event influencing the amount of operating loss generated last year was the initial public offering carried out in May 2015 with the associated costs exceeding PLN 3 million.

In 2016 the financial expenses of the Company increased, which was due to the reversal of the discount of contingent liabilities on the acquisition of NextWeb Media Sp. z.o.o.

4.2. FINANCIAL POSITION OF THE COMPANY

The following table presents the standalone statement of the Company's financial position as of the end of December 2016 and 2015.

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change	Change %
Non-current assets	484 211	100%	466 306	96%	17 905	4%
Current assets	2 084	0%	19 668	4%	(17 584)	(89%)
Long-term liabilities	3 449	1%	11 998	2%	(8 549)	(71%)
Short-term liabilities	1 901	0%	4 803	1%	(2 902)	(60%)
Equity	480 945	99%	469 173	97%	11 772	3%

When compared to the end of 2015, the main events affecting the Company's balance sheet were: loans granted to the Capital Group's companies, the early repayment of earn-out related to the agreement for the purchase of shares in NextWeb Media Sp. z o.o. and the share capital increase. The impact of these events on the individual lines of the statement of financial position has been discussed in the analysis of these lines.

Standalone non-current assets

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

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change	Change %
Other intangible assets	46	0%	59	0%	(13)	(22%)
Investments in subsidiaries	203 230	42%	203 123	44%	107	0%
Loans granted	280 935	58%	263 124	56%	17 811	7%
Non-current assets	***484 211***	***100%***	***466 306***	***100%***	***17 905***	***4%***

The value of non-current assets of the Company was mainly increased due to loans granted to subsidiaries in 2016 and interest accrued in this respect. The WP1 Sp. z o.o.and Grupa Wirtualna Polska S.A. subsidiaries used subsequent tranches of the financing amounting to a total of PLN 18,109 thousand. At the same time, the Company received funds from the repayment of loan principal (PLN 4,500 thousand) and interest (PLN 6,591 thousand).

Moreover, in the year ending 31 December 2016 the value of shares held in Grupa Wirtualna Polska S.A. and http Sp. z o.o. increased by PLN 107 thousand in connection with the settlement of the share-based payments scheme.

Standalone current assets

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

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change	Change %
Trade receivables net	800	38%	716	4%	84	12%
State receivables	-	0%	798	4%	(798)	(100%)
Other current assets	11	1%	10	0%	1	10%
Cash and cash equivalents	1 273	61%	18 144	92%	(16 871)	(93%)
Current assets	***2 084***	***100%***	***19 668***	***100%***	***(17 584)***	***(89%)***

The decrease in current assets was mainly caused by lower cash balances due to the early repayment of conditional liability related to the agreement for the purchase of shares in NextWeb Media Sp. z o.o. 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.

In the analysed period, the level of trade receivables and other current assets remained unchanged. A significant decrease in state receivables arising from VAT was recorded as in 2016 the Company settled its previous overpayment.

Standalone long-term liabilities

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

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change	Change %
Liabilities due to contingent consideration	-	0%	9 373	78%	(9 373)	(100%)
Deferred tax liability	3 449	100%	2 625	22%	824	31%
Long-term liabilities	***3 449***	***100%***	***11 998***	***100%***	***(8 549)***	***(71%)***

The decrease in long-term liabilities was mainly due to the early repayment of conditional liability related to the purchase of shares in NextWeb Media Sp. z o.o. The total repayment amounted to PLN 15,500 thousand.

The decrease in long-term liabilities was partially reduced by the increasing deferred tax liability. The deferred tax assets and liabilities are recognised in the Company's balance sheet on a net basis. The increase in deferred tax liability was primarily due to the increase in interests on loans accrued but unpaid as well as the settlement in 2016 of a deferred tax assets recorded on a tax loss of PLN 1,332 thousand.

Standalone short-term liabilities

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

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change	Change %
Trade payables	284	15%	256	5%	28	11%
Liabilities due to contingent consideration	-	0%	3 728	78%	(3 728)	(100%)
State liabilities	277	15%	131	3%	146	111%
Wages and salaries payables	932	48%	550	11%	382	69%
Provision for employment benefits	17	1%	17	0%	-	0%
Income tax liability	391	21%	121	3%	270	223%
Short-term liabilities	***1 901***	***100%***	***4 803***	***100%***	***(2 902)***	***(60%)***

The decrease in short-term liabilities was mainly due to the early repayment of conditional liability related to the purchase of shares in NextWeb Media Sp. z o.o. A slight increase was recorded in wages and salaries payables and state liabilities.

Standalone equity

in PLN'000	As of 31 December 2016	Structure 2016	As of 31 December 2015	Structure 2015	Change	Change %
Share capital	1 434	0%	1 413	0%	21	1%
Supplementary capital	315 830	66%	310 454	66%	5 376	2%
Other reserves	5 113	1%	3 347	1%	1 766	53%
Retained earnings	158 568	33%	153 959	33%	4 609	3%
Equity	***480 945***	***100%***	***469 173***	***100%***	***11 772***	***3%***

During the twelve months of 2016, the Company's equity increased by PLN 11,722 thousand in total and this increase consisted of:

- an increase in the Company's equity of PLN 5,398 thousand due to the issue of D and F series shares, out of which PLN 21 thousand increased the share capital and the remaining part was transferred to supplementary capital,
- an increase in other reserves of PLN 1,766 thousand due to the acquisition of the rights to the consecutive tranche of share options under the existing incentive scheme,
- a net profit for twelve months of 2016 of PLN 4,609 thousand.

4.3. STANDALONE CASH FLOW STATEMENT ANALYSIS OF THE COMPANY IN 2016

in PLN'000	For the year ended 31 December 2016	For the year ended 31 December 2015	Change	Change %
Net cash flows from operating activities	(1 493)	(9 365)	7 872	(84%)
Net cash flows from investing activities	(20 870)	(82 443)	61 573	(75%)
Net cash flows from financing activities	5 492	109 438	(103 946)	(95%)
Total net cash flows	***(16 871)***	***17 630***	***(34 501)***	***(196%)***

Cash flows from operating activities in 2016 were negative and amounted to PLN (1,493) thousand.

Cash flows from investing activities were negative and amounted to PLN (20,870) thousand in the analysed period, out of which PLN (13,609) thousand related to the loans granted to subsidiaries and the repayment of the principal on these loans. Moreover, the Company recognised in the cash flows from investing activities PLN (15,500) thousand of the early repayment of conditional liability related to the purchase of shares in NextWeb Media Sp. z o.o. Cash flows from investing activities were positively affected by interest payments received on loans of PLN 6,591 thousand, payment of PLN 1,289 thousand received on guarantee provided to subsidiary Grupa Wirtualna Polska S.A. as well as PLN 360 thousand of dividends received.

Cash flows from financing activities in 2016 amounted to PLN 5,492 thousand and related primarily to funds received by Wirtualna Polska Holding S.A due to an increase in equity of PLN 5,398 thousand as a result of the option scheme.

5. FACTORS AND EVENTS, ESPECIALLY THOSE OF AN EXCEPTIONAL NATURE, SIGNIFICANTLY AFFECTING THE OPERATIONS AND FINANCIAL RESULTS OF THE COMPANY AND THE CAPITAL GROUP

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

- 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.

5.1. MATERIAL ACQUISITIONS MADE BY THE GROUP IN THE PREVIOUS PERIODS

In 2014-2016 the Group acquired other entities operating on the internet advertising and e-commerce markets, 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 Sp. z o.o., Finansowysupermarket.pl Sp. z o.o., Web Broker Sp. z o.o., Allani Sp. z o.o. and Enovatis 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. The acquisitions mentioned above had a significant impact on the increase in revenues and EBITDA compared with the same period of the previous year.

5.2. 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 personalisation of content, and personalisation of advertisements which are more effective, by eliminating the advertisements of products in which a given user is not interested.

5.3. 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 (currently WP Shopping Sp. z o.o.), purchase price of the shares in Money.pl Sp. z o.o. (PLN 47 million), part of the purchase price of the shares in Enovatis SA (PLN 50 million) and part of the purchase price of the shares in Nocowanie.pl Sp. z o.o. (PLN 12 million).

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

Additionally, on 28 April 2015 Grupa Wirtualna Polska SA concluded an interest swap agreement with mBank and ING Bank Śląski swapping the variable interest rate on the new loan to a fixed interest rate. As of the balance sheet date, jointly, these contracts hedge interest rates for the equivalent of PLN 32.8 million of the A tranche of the loan and PLN 77.2 million of the B tranche of the loan. These financial instruments are treated as hedge accounting and were recognised in the financial statements of the Group as a cash flow hedge under IAS 39. Details concerning the valuation and recognition of these instruments are presented in note 28 to the consolidated financial statements.

As of 31 December 2016 the balance of the Group's liability resulting from loan agreement amounted to PLN 212.9 million.

During the twelve months of 2016, the Group's interest and commissions expenses, the bulk of which resulted from interest on the bank loan, amounted to PLN 10,963 thousand. The amount of these costs in consecutive periods, to the extent not hedged with interest rate swaps, will depend on WIBOR 3M which was 1.71% as of 31 December 2016.

5.4.EVENTS SIGNIFICANTLY AFFECTING THE OPERATIONS AND FINANCIAL RESULTS OF THE PARENT COMPANY

In the analysed period there were two events that significantly affected the standalone financial and operating results of the Company.

The first of these events was the adoption of the Second Incentive Scheme (share-based payments) and the modification of the conditions of the First Incentive Scheme effective from 2014 which was further described in note 14 to the standalone financial statements of Wirtualna Polska Holding S.A for the year ending 31 December 2016.

The second factor having a significant impact on the operations and standalone financial results of the company was the increased scale of financing the Group's companies by the Company. During 2016 Grupa Wirtualna Polska S.A. used the subsequent tranche of the loan of PLN 9,959 thousand for acquisitions (purchase of shares in Totalmoney Sp. z o.o.) and paid the loan principle of PLN 4,500 thousand and interest of PLN 6,000 thousand. Moreover, in 2016 the Company signed amendments to the loan agreement concluded with the subsidiary WP1 Sp. z o.o., which increased the available loan limit to PLN 20 million, out of which WP1 Sp. z o.o. used the subsequent tranches of the loan of PLN 8,150 thousand during 2016.

Apart from the factors referred to above during the 12 months ending 31 December 2016 there were no extraordinary factors or events which would have a significant impact on the financial results achieved.

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

The Company, as the parent company of the Capital Group, whose principal operating activities are holding activities, determines its performance based on the results of its subsidiaries.

As in the past, the Group's operations will be affected mainly by the following factors:

- the economic situation in Poland;
- competition on the Polish advertising market;
- the growth rate of expenses on online advertising and the development of electronic commerce in Poland;
- active acquisition activities;
- entry into the TV advertising market.

6.1. 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.

6.2. COMPETITION ON POLISH ADVERTISING MARKET

Both globally and in Poland, the internet advertising market is characterised 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.

6.3. GROWTH OF EXPENDITURE ON ONLINE ADVERTISING AND THE DEVELOPMENT OF E-COMMERCE IN POLAND

The Group's results depend on the growth of expenditure on online advertising and the development of e-commerce. The development of the online advertising market and e-commerce depends largely on the continued popularisation of the internet. The propagation of access to the internet accompanies growth in the online advertising market in Poland; further dynamic growth is expected.

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.

The share of the Polish e-commerce market in the whole retail market is increasing systematically in line with the proliferation of the internet and the increase in consumer confidence in e-commerce. According to estimations the Polish market will be the fastest growing B2C e-commerce market in the European Union. Despite the fact that the market is growing very quickly, Poles are spending less on the Internet than is the average for the European Union; nevertheless, internet spending is increasing year on year. The development of e-commerce also has an impact on the Group's results.

The Group is exposed to the advertising e-commerce market via activities of Enovatis SA, Nocowanie.pl Sp. z o.o., Domodi Sp. z o.o., Allani Sp. z o.o., Totalmoney.pl Sp. z o. o. and Money.pl Sp. z o.o. companies, and also partially via e-commerce advertising activities of the Wirtualna Polska website. Therefore, the development of the electronic market in Poland will have a positive impact on the Group's operations.

6.4. 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.

6.5. ENTRY INTO THE TV ADVERTISING MARKET

Having obtained a broadcasting licence for the transmission of a television programme in Multiplex 8, in December 2016 the Group started operating on the television advertising market. This activity will have a significant impact on the cash revenue generated by the Group as well as on the costs incurred in the subsequent periods, including the costs of the programming assets and fees incurred in connection with the streaming of the programme (including costs of the agreement concluded with EmiTel Sp. z o.o. further described in point 7.4 of this report). Advertising revenue is obtained through an advertising broker – i.e. TVN Media. In 2016 the Group allocated PLN 5.4 million for the development of the programming library.

7. SIGNIFICANT CONTRACTS AND EVENTS IN 2016

7.1. THE PURCHASE OF SHARES IN TOTALMONEY.PL SP. Z O.O.

On 16 March 2016, Grupa Wirtualna Polska SA signed a share purchase agreement for 200 shares in TotalMoney.pl Sp. z o.o with its registered office in Warsaw with a nominal value of PLN 1,600 each and the total nominal value of PLN 320,000, representing 100% of the share capital in TotalMoney.pl Sp. z o.o and 100% of votes at the general shareholders meeting.

TotalMoney.pl Sp. z o.o. is the leading comparison service of banking and insurance products, including loans, deposits, credit cards, accounts, insurance. The revenues of TotalMoney.pl Sp. z o.o. disclosed in the financial statements for 2015 amounted to PLN 5,489 thousand.

The final purchase price for 100% of the shares amounted to PLN 14,500 thousand. The price was calculated as PLN 12,500 thousand plus the PLN 2,000 thousand of cash in the bank accounts of TotalMoney.pl Sp. z o.o. as of the last day of the month proceeding the month in which the agreement was concluded. The payment was made via bank transfer, of which PLN 9,959 thousand was financed from cash obtained from an initial public offering and the remaining part from cash generated by the acquiring company.

The detailed information about the consideration paid and the fair value of the acquired assets and liabilities as of the date of the acquisition is presented in note 20 to the financial statement.

7.2. THE PURCHASE OF SHARES IN NOCOWANIE.PL SP. Z O.O.

On 7 March 2016, Grupa Wirtualna Polska SA signed a preliminary conditional purchase agreement for 75% of the shares in Nocowanie.pl Sp. z o.o with its registered office in Lublin. On 7 June 2016 the sale agreement for 75% of the shares in Nocowanie.pl Sp. z o.o was concluded as the conditions specified in the preliminary agreement had been fulfilled.

Nocowanie.pl Sp. z o.o. is the owner of the nocowanie.pl portal, the domestic leader of the accommodation booking market and one of the most frequently visited tourist websites.

The final purchase price of 75% of the shares amounted to PLN 21,957 thousand.

Additionally, after the end of 2018, the Group will be entitled to purchase, and the minority shareholder entitled to sell, half of the minority interests in the share capital of Nocowanie.pl. The option exercise price will be calculated as the product of the normalised EBITDA for the year 2018 and the multiplier specified in the agreement dependent on the average EBITDA growth ratio in the years 2016-2018 in relation to the EBITDA for the year 2015.

After the end of 2019, the Group will be entitled to purchase and the minority shareholder entitled to sell the remaining minority interests in the share capital of Nocowanie.pl. The option exercise price will be calculated as the product of the normalised EBITDA for the year 2019 and the multiplier specified in the agreement dependent on the average EBITDA growth ratio in the years 2016-2019 in relation to the EBITDA for the year 2015.

The detailed information about the consideration paid and the fair value of the acquired assets and liabilities as of the date of the acquisition is presented in note 20 to the financial statement.

7.3. THE PURCHASE OF SHARES IN NETWIZOR SP. Z O.O.

On 13 December 2016 Grupa Wirtualna Polska S.A. signed share purchase agreement for 1,000 of the shares in Netwizor Sp. z o.o. with its registered office in Warsaw with a nominal value of PLN 100 each and the total nominal value of PLN 10,000 which represents 100% of the share capital in Netwizor Sp. z o.o. and represents 100% of the votes at the general meeting of shareholders of the acquired company.

Netwizor Sp. z o.o. conducts activities related to the issuance, operation and administration of web sites related to the dissemination and distribution, including re-emission as an IPTV operator, Internet TV channels and VOD to end customers, among others, under the brand name Videostar. Netwizor was registered under number 729 in the Book of the recording of programs distributed conducted by the National Broadcasting Council.

The purchase price for 100 percent of the shares in Netwizor Sp. z.o.o. amounted to PLN 549 thousand. In addition, the structure of the transaction provides for three contingent payments.

The detailed information about the consideration paid and the fair value of the acquired assets and liabilities as of the date of the acquisition is presented in note 20 to the financial statement.

7.4. THE LAUNCH OF WP TELEVISION ACTIVITIES

On 2 December 2016, on multiplex eight of the digital terrestrial television (MUX-8), the television channel WP Television was first launched. The investment aims to create a new interactive medium - a channel connecting the internet and television. The Group consistently invests in its own video content, including the construction of their own TV studio. The content due to launch on the television channel is expanding in range and is accessible to a larger audience.

The new channel's programming format includes in-house productions, among others daily news programs and morning current affairs and lifestyle blocks as well as foreign series, soap operas and movies. Additionally, the channel is broadcast on the WP homepage. The free VOD collection was also launched on the WP homepage containing some items of the programming format of WP Television. In 2016 the Group allocated PLN 5.4 million for the development of the programming library.

The Group intends to achieve a market share of 0.5-0.6% in 2016, in the next two years this share is expected to rise to 1-1.1% and 1.2-1.4% respectively, which will result in increased advertising revenues.

The WP Television channel is broadcast on digital terrestrial television (MUX-8) and selected cable networks, under the broadcasting license granted by the National Broadcasting Council for the transmission of a television programme with universal appeal dated 15 January 2016. The broadcasting license was granted for a period of 10 years – i.e. until 13 January 2026 year.

In order to launch the television operation, on 27 October 2016 the WP1 sp. z o.o subsidiary and EmiTel sp. z o.o. concluded an agreement to provide access to multiplex MUX8. The agreement covers, among others: placement by EmiTel, dissemination or distribution of a television program in multiplex MUX8, providing access to MUX8 under equal and non-discriminatory conditions and providing uninterrupted digital signal transmission. The agreement came into force on 1 December 2016 and was concluded for the period of the broadcasting license received from the National Broadcasting Council. The total estimated cost under the agreement within the expected time of its validity will amount to PLN 62.7 million, including PLN 4 million of the reimbursement of fees for the use of public frequencies. The average annual value of the contract is approx. PLN 7 million.

The Group decided that the responsibility for the acquisition of commercial communications shall be entrusted to TVN Media Sp. z o.o. On 24 November 2016, the agreement was concluded under which the Group entrusts on an exclusive basis negotiations, the conclusion of contracts for advertising, electoral, political and social advertisements as well as contracts for sponsorship and the contribution to the funding of the programs broadcast on the WP television programme. The Group's revenues represents receivables achieved in connection with the realisation of the agreement reduced by the commission fee payable to TVN Media. The value of the agreement is dependent on among others, the achievement by the Group of specified results of the programme and the overall condition of the advertising market in Poland. The agreement was concluded for a fixed period until 31 December 2019.

7.5. THE SALE OF SHARES IN WP SHOPPING SP. Z O.O.

In December 2016 Grupa Wirtualna Polska S.A. and Money.pl Sp. z.o.o. sold all of its shares in WP Shopping Sp. z.o.o. to external entity Nextfield Investments Limited. Tax revenue from the sale of shares amounted to PLN 2,950 thousand, out of which PLN 2,666 thousand was attributed to GWP.

The sale agreement is significant for the Group because the Group incurred a substantial tax loss on this transaction, in relation to which in 2016 the additional deferred tax asset of PLN 54,996 was recognised. Details concerning this transaction are presented in note 16 to the consolidated financial statements for the year ending 31 December 2016.

7.6. EARLY REPAYMENT OF CONDITIONAL LIABILITY RELATED TO THE PURCHASE OF SHARES IN NEXTWEB MEDIA SP. Z O.O

On 25 November 2016, Wirtualna Polska Holding S.A concluded a settlement agreement with NextWeb Holdings S.a.r.l concerning the early settlement of conditional liability related to the agreement dated 3 June 2015 for the purchase of shares in NextWeb Media Sp. z o.o.

Thereby, as of the conclusion of the settlement agreement, the Parties made the final settlement of the sale of shares and mutually waived any claims regarding the realisation of the shares purchase agreement and agreed that at the moment of settlement of the amount mentioned in the settlement agreement, the provisions of this agreement regarding the settlement shall be rendered null and void.

7.7. THE CONCLUSION OF ANNEX TO THE LOAN AGREEMENT

On 16 February 2016, an annex to the bank loan agreement dated 24 March 2015 between Grupa Wirtualna Polska S.A, mBank SA and ING was concluded. The annex increases the amount of loan under the CAPEX tranche from the original amount of PLN 50,000 thousand to PLN 100,000 thousand (i.e. by PLN 50,000 thousand).

The financial terms for the new CAPEX tranche are not significantly different from the financial terms in the current loan agreement.

The extension of the loan amount under the CAPEX tranche, allocated to the acquisition of companies and non-current assets is to ensure the Capital Group's flexibility in the implementation of the adopted acquisition strategy.

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.

8.1. RISKS RELATED TO MARKET ENVIRONMENT

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 2016, 80.4% of households (an increase of 2.5 p.p. compared with 2015) and 93.7% of enterprises in Poland had access to the Internet (source: Społeczeństwo Informacyjne 2016 – 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 and e-commerce markets.

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. 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.

The development of the online advertising market and the e-commerce market is also driven by factors other than the growth of the Internet, namely the increasing popularity of online shopping and the effectiveness of online advertising, which translates into interest in and demand for this form of advertising.

The macroeconomic situation

The Group conducts its operations in Poland in an economic sector correlated with the country's 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. 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, thus driving the advertising budgets of the Group's clients and the demand for the Group's products and services, especially online advertising. 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 services, in particular, various forms of online advertising.

Competition on the Polish advertising 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). Moreover, although not directly, the Group's competition also includes other entities operating on what is widely understood as the advertising market, including in particular TV channels, newspapers and radio station. 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 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.

8.2. 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, among whom media agencies play a significant role. The Group enters into cooperation agreements with its clients for conducting advertising campaigns or, as in the case of media agencies, cooperation based on orders made under cooperation agreements for advertising services.

There is a risk that the Group's clients may, at any time, decide to discontinue cooperating with the Group in conducting advertising campaigns 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 turnover realised based on the orders placed by or through them. 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 payment for advertising space sold, and to a risk associated with the financial position of such clients

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. According to the last available Gemius/ PBI research as of January 2017 the number of real users of the Group's electronic mail service amounted to 10.0 million. 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.

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.

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 and online 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.

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.

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.

The proper functioning of 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.

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.

The attractiveness and presentation of the content made available on the Group's portals and websites

The Group earns the majority of its revenue from its core operations, i.e. sales of online advertising. 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.

The ability to adjust the Group's portals and websites to operation on mobile devices

Due to the increase in the number of people who access the Internet using devices other than PCs such as mobile phones, smartphones, laptops and tablets which has been observed in recent years, the importance of mobile advertising has grown year on year. On the other hand, the growing percentage of users having access to, and the further development of broadband Internet connections, has resulted in the increasing importance of video advertising in recent years. The users of mobile devices often change and upgrade the applications used on mobile devices, and more and more technologically advanced mobile devices continuously appear on the market. In order to maintain its competitiveness, the Group will need to follow the changes and improvements resulting from technological improvements and will have to implement the relevant upgrades. Should the Group be unable to ensure the compatibility of its portals and websites with mobile devices, or to effectively encourage its existing and future clients to use mobile and video advertising, the Group may fail to execute its strategy in the mobile and video advertising segments.

The popularity and strength of the brand of the Group's portals and websites

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, Wakacje.pl and Sportowe Fakty). There is a risk that the strength of the brands owned by the Group, may weaken, and that the Group's reputation may deteriorate, 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.

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.

The risk resulting from the development of the performance-based advertising (lead generation) business

The Group is developing and intends to continue developing its performance-based advertising (lead generation) business, which is intended to expand the traditional advertising business of the Group's portals and websites. The Group's natural advantages on this market include strong, trusted brands, the capability to acquire online traffic from search engines and social networking services, a large number of users of the Group's portals and websites and of the services offered by the Group, and knowledge of users' behaviours and preferences. These factors enable the Group not only to reach a specific group of users with its advertising message, but also to redirect a user with specific shopping interests directly to the e-commerce systems of the Group's clients and charge its fees depending on the effectiveness of sales efforts. The Group's success on the growing market of e-commerce depends mainly on the Group's ability to develop and implement new, innovative business models. An understanding of the e-commerce market and its trends and development directions is critical for developing, implementing and executing the operating strategy and short-term objectives which would allow the Group to expand in this segment of the online market. It cannot be guaranteed that the Group's development strategy for performance-based advertising (lead generation) or any subsequent changes thereto will ensure that the Group will attain the desired market position or the expected level of revenues.

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.

The integration of acquired entities

The execution of the Group's strategy, which assumes analysing potential investment targets and acquisitions 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.

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.

The attractiveness of WP Television content

We may not be able to select and purchase content that the viewer will find attractive. Achieving the desired level of audience highly depends on the ability to select, produce or purchase the programming content that will be positively received by the audience and yield viewers, which in turn will attract potential advertisers and allow us to offer competitive prices. We may not be able to achieve the desired audience in case our expectations regarding viewer preferences are wrong or less accurate than those of the competition. The higher level of competition may lead to higher cost of content. All expenditure increases may have a negative effect on our operations, financial situation, income level and cash flows

8.3. REGULATORY RISKS

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.

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.

The interpretation of laws and changes to Polish laws

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 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.

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.

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.

Changes in tax law regulations

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 rather 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.

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.

Supervisory measures 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 provides video on demand services (VoD) 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 neutrality of the Internet

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

9.1. SHARE CAPITAL STRUCTURE

As of 31 December 2016, the share capital of the Company amounted to PLN 1,433,826.05 and consisted of 28,676,521 shares with a par value of PLN 0.05 each, entitling 39,966,230 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;
- 411,571 D series ordinary bearer shares;
- 3,339,744 E series ordinary bearer shares;
- 12,168 F series ordinary bearer shares.

B, C, D, E and F series shares as well as A series non preffered in term of voting bearer shares are admitted to trading on the regulated market.

9.2. 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 S.A. shall be taken by the General Meeting.

9.3. 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 Świderski is indirectly entitled to exercise voting rights attached to 3,763,237 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,237 shares held by Orfe S.A. and 568,000 shares held by Liceia sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,474 votes at the general shareholders meeting of the Company and constituting 18.82% 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 having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by Albemuth Inwestycje S.A. and 568,000 shares held by Silveira sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes; and
- Michał Brański is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by 10X S.A. and 568,000 shares held by Palaja sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes.

In addition, under the first phase of the implementation of the incentive plan, Elżbieta Bujniewicz-Belka (Member of the Management Board) and Jarosław Mikos (Chairman of the Supervisory Board) acquired, respectively, 18,664 (nominal value of PLN 933) and 136,919 (nominal value of PLN 6,846) ordinary bearer shares of the new C series issued based on the resolution approving the issue of C series shares. In the next phase of the implementation of the incentive plan Jarosław Mikos acquired 287,133 (nominal value of PLN 14,356.65) D series ordinary bearer shares issued based on the resolution approving the issue of D series shares. Thus Jarosław Mikos acquired all shares under the incentive scheme. Elżbieta Bujniewicz-Belka is entitled to participate in the next phase of the implementation of the incentive plan.

- On 5 December 2016, the Company received from the person performing managerial responsibilities in the Company – i.e. Mr Jarosław Mikos, Chairman of Supervisory Board of the Company – notification of transactions on Company's shares concluded on 1 December 2016, i.e. the sale of 324,052 shares of the Company.

Additional information on the structure and changes in equity and voting rights are described in note 23 to the consolidated financial statements.

9.4. INFORMATION ON AGREEMENTS CONCERNING CHANGES IN THE SHAREHOLDING STRUCTURE

Investment agreement

On 23 October 2013, European Media Holding S.à r.l (EMH), Michał Brański, Krzysztof Sierota, Jacek Świderski (the"Founders"), Borgosia Investments Limited, Jadhave Holdings Limited, Bridge 20 Enterprises Limited, Grupa o2 SA and o2 sp. z o.o. executed an investment agreement (the "Investment Agreement"). The rights and duties of Borgosia Investments Limited, Jadhave Holdings Limited and Bridge 20 Enterprises Limited under the Investment Agreement were assumed by 10x SA, Albemuth Inwestycje SA and Orfe SA, respectively, in relation to the transfer of the shares in the Company.

Grupa Wirtualna Polska SA and Wirtualna Polska Holding SA are no longer parties of the Investment Agreement since the annex to the contract concluded on 15 February 2016.

Pursuant to the Investment Agreement, the Founders were entitled to a bonus on account of the increase in the Company's value (the "EMH Bonus") calculated on the basis of the return on investment of the European Media Holding S.à r.l and the Company's valuation related thereto.

As a consequence of the Company's IPO in 2015 and the sale of shares of EMH in the process of an accelerated book-building in December 2016, the Parties decided to settle the EMH bonus. As a result of the concluded agreements, the EMH bonus was settled by a contribution from the EMH subsidiary (Innova Noble S.à r.l.) of the shares of the Company as contributions in-kind to cover the new shares in the increased share capital of Orfe S.A., Albemuth Inwestycje S.A. and 10X S.A. Michał Brański, Jacek Świderski and Krzysztof Sierota acting through their subsidiaries 10X S.A., Albemuth Inwestycje S.A. and Orfe S.A. have also acquired from EMH shares in Liceia Sp. z o.o., Palaja Sp. z o.o. i Silveira Sp. z o.o. – companies in which shares of the Company had been contributed by EMH as in-kind contributions beforehand. As a result of those transactions, the pledge agreements dated 6 November 2015 (described in the consolidated financial report for 2015) were terminated.

Thereby, as of 9 February 2016 the process of exit of EMH from the investment in the shares of the company was finalised and the final settlement of the Investment Agreement was executed.

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 27 to the consolidated financial statements of the Group for the year ending 31 December 2016.

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 new incentive scheme is described in note 27 to the consolidated financial statements of the Group for the year ending 31 December 2016.

9.5. PURCHASE OF OWN SHARES

As of 31 December 2016, neither Wirtualna Polska Holding S.A. nor any of the Capital Group's companies hold any own shares.

9.6. USE OF THE PROCEEDS FROM THE PUBLIC OFFERING

The table below presents the use of proceeds obtained from the initial public offering as of 31 December 2015.

Use of proceeds from the offering (in PLN million)	31 December 2015
Capital contributions	106,90
IPO costs	(7,00)
Repayment of bank loans	(20,00)
Purchase of shares in NextWeb Media	(21,10)
Purchase of OpenFM and Polska Stacja	(3,80)
Purchase of shares in Finansowysupermarket	(10,90)
Purchase of shares in Enovatis	(33,64)
Costs of transaction advisory services	(0,50)
The remaining proceeds from the offering	***9,96***

In 2016 the Group used the rest of the proceeds from the offering. The amount of PLN 9.96 million was used to finance the acquisition of the shares in Totalmoney.pl Sp. z o.o.

9.7. ANALYSTS

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

Konrad Księżopolski, Haitong Bank, S.A., http://www.haitongib.com/en

Marcin Nowak, IPOPEMA Securities S.A., http://ipopemasecurities.pl/

Zbigniew Porczyk, Trigon TFI S.A., http://www.trigontfi.pl/index.php

Piotr Raciborski, Wood&Company, http://www.wood.com/

Przemysław Sawala, Pekao Investment Banking S.A., http://pekaoib.pl/

Paweł Szpigiel, Dom Maklerski mBanku S.A., http://www.mdm.pl/

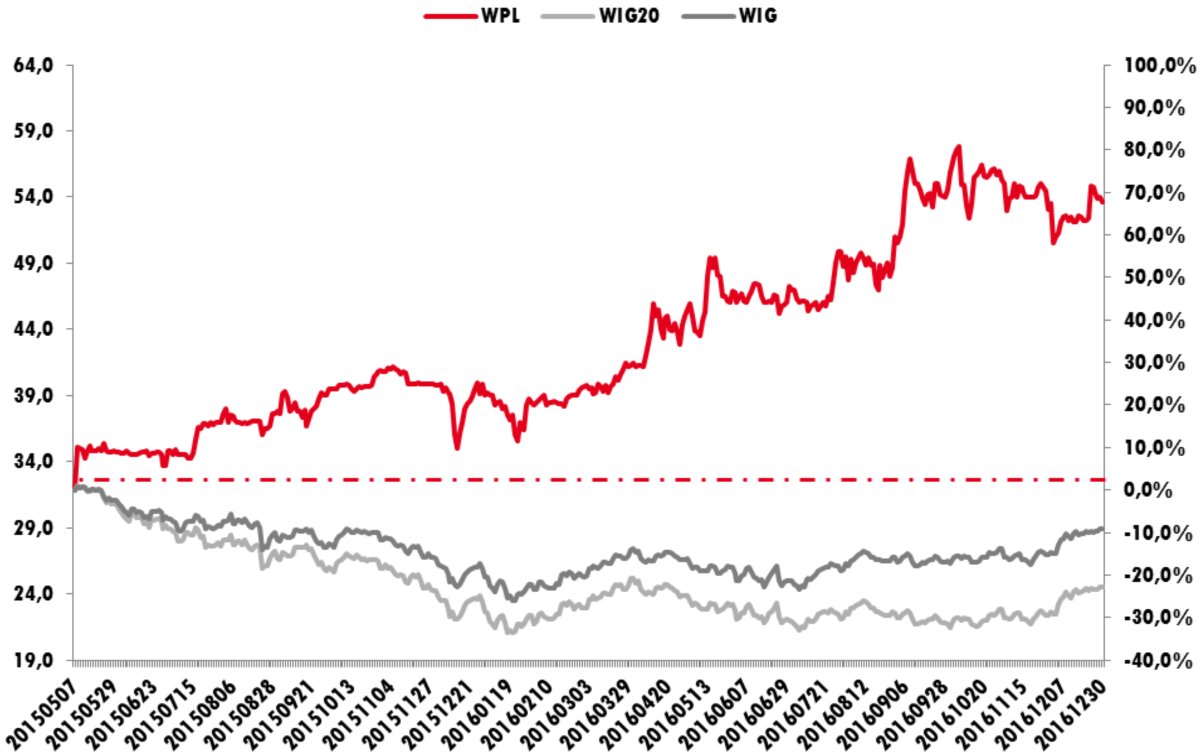
Małgorzata Żelazko, PKO BP S.A., http://www.pkobp.pl/

9.8. 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 sWIG80.

The chart below shows the development of the share price of the Wirtualna Polska Holding SA from the day of its IPO to 31 December 2016 against the WIG20 and WIG indexes.



10. ADDITIONAL INFORMATION

10.1. 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 S.A. The table below presents the remuneration payable or paid to the Members of the Management Board in 2016.

in PLN'000	Salaries and related benefits	Incentive scheme – share-based payments
Jacek Świderski	1 767	-
Krzysztof Sierota	1 186	-
Michał Brański	1 186	-
Elżbieta Bujniewicz - Belka	932	313
Total	***5 071***	***313***

Remuneration of the Members of the Supervisory Board

The table below presents the remuneration payable or paid to the Supervisory Board members in 2016.

in PLN'000	Salaries and related benefits	Incentive scheme – share-based payments
Jarosław Mikos	1 044	779
Krzysztof Krawczyk	25	-
Beata Barwińska-Piotrowska	38	-
Tomasz Czechowicz	19	-
Mariusz Jarzębowski	38	-
Krzysztof Rozen	19	-
Total	***1 183***	***779***

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.

10.2. EVENTS AFTER THE BALANCE SHEET DATE

Detailed information of all significant post- balance sheet events is provided in note 42 to to consolidated financial statements for the year ending 31 December 2016.

10.3. COMMENTS ON THE DIFFERENCES BETWEEN THE FINANCIAL RESULTS AND FORECASTS PUBLISHED EARLIER

The Group did not publish any forecasts of results for the year 2016.

10.4. PRODUCTS PROVIDED BY THE WIRTUALNA POLSKA HOLDING CAPITAL GROUP

All revenues of Wirtualna Polska Holding S.A. are generated from management services provided for subsidiaries.

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:

in PLN'000	For the year ending 31 December 2016		
	Online Advertising	TV Advertising	Total
Sales of services settled in cash	376 873	450	***377 323***
Sales of services settled in barter	37 821	-	***37 821***
Total	***414 694***	***450***	***415 144***

in PLN'000	For the year ending 31 December 2015		
	Online Advertising	TV Advertising	Total
Sales of services settled in cash	285 998	-	***285 998***
Sales of services settled in barter	39 585	-	***39 585***
Total	***325 583***	***-***	***325 583***

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 fundings of the programs distributed on the TV program.

Year to year changes in revenue level are described in item 3.1. of this report.

10.5. SALES MARKETS AND SOURCES OF SUPPLY

All revenue of Wirtualna Polska Holding S.A. is generated on the domestic market, since it is only intra-group revenue from the management services provided to the subsidiaries. The main customer of the management services is Grupa Wirtualna Polska S.A with the share in the revenues of the Company of 96%.

About 80% of the Group's revenue comes from the domestic market. Foreign sales occur mainly in the countries of the European Union.

in PLN'000	For the year ending 31 December 2016	Share %	For the year ending 31 December 2015	Share %
Domestic sales	330 885	80%	266 121	82%
Export sales	84 259	20%	59 462	18%
European Union	75 664	18%	51 021	16%
Outside European Union	8 595	2%	8 441	3%
Total	***415 144***	***100%***	***325 583***	***100%***

The Group manages a well-diversified portfolio of customers and suppliers. In 2016 there was one customer whose turnover exceeded 10% of the Group's consolidated revenue and amounted to 11%. 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.

10.6. LITIGATION PENDING BEFORE THE COURT, THE APPROPRIATE ARBITRATION BODY OR THE PUBLIC ADMINISTRATION BODY

Due to the specific nature of its operations, mainly operating internet portals, the Group is exposed to lawsuits in cases related to protection of personal rights. As of 31 December 2016, a several dozen such cases were in progress. The Group recorded a provision for pending litigation based on the actual status of cases and cost estimates prepared by the Legal Department conducting the cases. The provisions were recorded in an the amount of the claims and court fees, whose adjudgment 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 2016 the Capital Group paid the total amount of PLN 149 thousand as compensation in cases concerning the protection of personal rights. Additionally, in the analysed period, the provision for court proceedings increased by PLN 337 thousand.

10.7. 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 39 of the consolidated financial statements for the 12 months ending 31 December 2016.

10.8. 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 37 of the consolidated financial statements for the 12 months ending 31 December 2016 as well as in note 18 of the standalone financial statements of Wirtualna Polska Holding S.A.

10.9. INFORMATION ON GUARANTEES AND WARRANTIES GRANTED IN RESPECT OF LOANS & ADVANCES AND LOANS GRANTED

Guarantees granted to third-party entities

In the period under analysis none of the Group companies granted any warranties in respect of loans or advances 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.

Inter-company guarantees

The companies: Wirtualna Polska Holding SA, Business Ad Network Sp. z o.o., WP1 Sp. z o.o., Money.pl Sp. z o.o., Blomedia.pl Sp. z o.o., Enovatis S.A. and Nocowanie.pl Sp. z o.o. are guarantors of the bank loan agreement concluded by and between Grupa Wirtualna Polska S.A. and mBank i ING Bank Śląski. The Management Board assumes that all companies that are currently guarantors of the loan agreement will remain as such until the end of the credit agreement. The total guarantee amount corresponds to the current balance of the Group's debt of the credit agreement.

Loans granted

As of 31 December 2016 Wirtualna Polska Holding SA and Grupa Wirtualna Polska SA have granted loans to other Group members in order to finance their acquisitions and current operations. Wirtualna Polska Holding SA does not benefit from any loans granted by other Group's entities.

10.10. INFORMATION ON AGREEMENTS ON CREDITS AND LOANS RAISED AND TERMINATED IN THE FINANCIAL YEAR

Loans granted by financial institutions

In accordance with the financial model adopted by the Capital Group the only company which enters loan agreement with external institutions is Grupa Wirtualna Polska SA. However, the Issuer and selected Capital Group's entities are guarantors of this loan. The detailed description of the bank loan received and changes during the year are further described in note 31 to the financial statements.

Loans granted by non-controlling interest

On 6 October 2015, non-controlling shareholders granted a loan to Domodi of PLN 4,000 thousand for the purchase of shares in Allani Sp. z o.o. The loan bore an interest of 3M WIBOR plus the margin specified in the agreement. The loan has been fully repaid before 31 December 2016.

Inter-company loans

As of 31 December 2016 Wirtualna Polska Holding SA and Grupa Wirtualna Polska SA have granted loans to other Group members in order to finance their acquisitions and current operations. Wirtualna Polska Holding SA does not benefit from any loans granted by other Group's entities

10.11. 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 covenants required by financial institutions, as well as reduce the administrative costs.

The acquisition activity in 2016 was mainly financed with the own resources and partially with the investment tranche of the bank loan.

In 2016, the Wirtualna Polska Holding Capital Group had the full ability to discharge its liabilities as due.

10.12. 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.

10.13. CHANGES IN THE BASIC PRINCIPLES OF MANAGEMENT OF THE COMPANY AND THE CAPITAL GROUP

In 2016, no significant changes in the Company's and Capital Group's management principles were introduced.

10.14. 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

Contracts of employment with the members of the Management Board - Jacek Świderski, Michał Brański and Krzysztof Sierota - were concluded for an unspecified term and may be terminated by each of the parties upon 12 months' notice. If the contract is terminated by the Company or pursuant to a mutual understanding of the parties on the initiative of the Company, members of the Management Board are entitled to severance, except for the circumstances indicated below:

1) circumstances entitling the employer to terminate the employment agreement without notice on grounds of the employee's culpability, provided that the termination occurs in accordance with the respective provisions of law regarding the terms and conditions of such termination,
2) the inability of the employee to perform his duties because of an illness lasting longer than the total time of receiving remuneration, benefit and rehabilitation allowance within the first 3 months

The contract of employment with the member of the Management Board – Elżbieta Bujniewicz-Belka may be terminated by each of the parties upon 6 months' notice. If the contract is terminated by the Company or pursuant to a mutual understanding of the parties at the initiative of the Company, member of the Management Board is entitled to severance pay unless the sole reason of the termination of the contract includes:

- the circumstances entitling the employer to terminate the employment agreement without notice on grounds of employee's culpability, provided that the termination occurs in accordance with respective provisions of law regarding the terms and conditions of such termination,
- the inability of the employee to perform his duties because of an illness lasting longer than the total time of receiving remuneration, benefit and rehabilitation allowance within the first 3 months

Jarosław Mikos has concluded an agreement with the Company regarding his function on the Supervisory Board. In the case of dismissal of a member of the Supervisory Board from his/her function, the Company is obliged to pay compensation to the amount of 6-month's basic remuneration. In the case of a dismissal on the grounds of a significant matter, in particular in case of a significant or repetitive infringement of law, Articles of Association of the Company or other binding regulations regarding the functioning of the Chairman of the Supervisory Board including but not limited to internal policies, regulations and guidelines, the Chairman of the Supervisory Board is not entitled to compensation.

Members of the Management Board and Chairman of the Supervisory Board are required to observe non-competition restrictions, on the terms provided in the respective contracts (including the notice period) and for 12 months after the termination date (in case of Mrs Elżbieta Bujniewicz-Belka – during the whole period of employment, the 6-moth termination notice and also 6 months after the termination of the agreement). In exchange for observance of the non-competition restrictions within 12 months after discontinuation of the contract (in case of Mrs Elżbieta Bujniewicz-Belka – during 6 months after the termination of the employment contract), members of the Management Board and Chairman of the Supervisory Board have the right to compensation to the amount specified in the respective contract as a part of average monthly remuneration (including parts of the remuneration specified in the contract) payable to the Management Board member and the Chairman during 12 months preceding the date of termination of the agreement (in case of Mrs Elżbieta Bujniewicz-Belka – during last 6 months). If the Member of the Management Board is in breach of the non-competition restrictions, the Member of the Management Board will forfeit his right to compensation and will be required to reimburse the Company for any compensation he has already received.

10.15. 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 R&D activities.

10.16. 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 43 of these consolidated financial statements for the period of 12 months ending 31 December 2016. As for the audit of standalone financial statetemts, the information on the entity authorised to perform the audit and its remuneration is presented in note 23 of the standalone financial statement for the year ending 31 December 2016.

10.17. OTHER INFORMATION WHICH IN GROUP'S OPINION IS MATERIAL TO THE ASSESSMENT OF THE HUMAN RESOURCES, ASSETS AND FINANCIAL POSITION, ITS RESULTS 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.

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Jacek Świderski,
President of the Management Board

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Michał Brański,
Member of the Management Board

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Krzysztof Sierota,
Member of the Management Board

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Elżbieta Bujniewicz-Belka,
Member of the Management Board

Warsaw, 13 March 2017

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE STATEMENT REGARDING THE YEAR 2016

This corporate governance statement of Wirtualna Polska Holding SA ("Company") regarding the year 2016 was prepared on the basis of art. 91 section 5 point 4 of the Regulation of the Minister of Finance dated 19 February 2009 on current and periodic information published by issuers of securities and on conditions under which such information may be recognised as being equivalent to information required by the regulations of law of a state which is not a member state (Journal of laws of 2014, item 133) and the resolution of the Management Board of the Warsaw Stock Exchange no. 1309/2015 of 17 December 2015.

1. CORPORATE GOVERNANCE PRINCIPLES REGULATING THE OPERATIONS OF THE COMPANY IN 2015

In 2016 the Company was subject to the set of principles of the corporate governance for joint-stock companies issuing shares, convertible bonds, or senior bonds that are admitted to trade on the stock exchange. The principles of corporate governance in the form of the Best Practices of WSE Listed Companies ("Best Practices") were set out by the Warsaw Stock Exchange ("WSE") as an appendix to the resolution No. 26/1413/2015 of the Supervisory Board of WSE of 13 October 2015. The contents of the document, adopted by the WSE, is publicly available at the seat of the Warsaw Stock Exchange (WSE) and on the website of WSE dedicated to those issues available at http://corp-gov.gpw.pl.

INFORMATION ON THE APPLICATION OF THE CORPORATE GOVERNANCE PRINCIPLES

The Company strives to ensure the maximum transparency of its operations, the best quality of communication with its investors and the protection of its shareholders' rights, also in areas not governed by law. Accordingly, the Company takes the necessary actions to observe all the rules comprising the "WSE Best Practices" to the fullest extent possible. The Company observes all the WSE Best Practices that are subject to the comply-or-explain rule, subject to the following:

- ***Best Practice I.Z.1.20*** –to the extent that it applies to the obligation for the Company to present on its website the recordings of the General Meetings of the Company either in audio or video. The General Meetings of the Company are organised in a transparent and efficient way allowing shareholders to exercise all the rights attached to the shares on the basis of the comprehensive documentation of resolutions and motions of the General Meetings. The Company publishes all documents related to the General Meetings on its website including the announcement of the convening of such meetings, dates and terms of its course and resolutions adopted by each General Meeting. Thus the Company does not provide a direct broadcast of the General Meetings and does not publish the recordings of the meetings, also given certain legal problems arising thereout.

- ***Best Practice II.Z.2.*** – to the extent where company's management board members may sit on the management board or supervisory board of companies other than members of its group subject to the approval of the supervisory board. The Company's Management Board Members are not required to obtain approval from the Supervisory Board to sit on the management board or supervisory board of companies other than members of its group. Those people have concluded agreements with the Company containing non-competition clauses requiring them to spend a sufficient amount of time to pursue their duties.

- ***Recommendation IV.R.2*** – to the extent of the obligation to ensure participation in a General Meeting by using means of electronic communication. In accordance with the Articles of Association, the Company will ensure participation in the General Meeting by means of electronic communication if the announcement of the convocation of the General Meeting contains information about the shareholders having the option to participate in the General Meeting by means of electronic communication. Besides the aforementioned circumstances, the Company sees no justification for introducing such measures and such a demand has never been expressed by the shareholders of the Company.

- ***Best Practice IV.Z.2.*** –to the extent that it applies to the obligation of the Company to enable a live broadcast of the general meeting, the Company is confident that the form of the General Meetings of the Company appropriately secures the interests of all shareholders by ensuring them the possibility of exercising all the rights attached to the shares. The announcement of the General Meeting always contains information about the drafts of the resolutions and all necessary documentation while the adopted resolutions are published on the Company's website.

- ***Recommendation VI.R.1–*** to the extent that it applies to the Company's remuneration policy and the rules of the establishment thereof. The Company does not have a remuneration policy or terms for the establishment thereof with respect to the members of the Supervisory or the Management Board. The Company is considering the possibility of creating such a policy and rules in the future. Remuneration of the Members of the Management Board is related to the scope of duties and the responsibilities with which they are entrusted as well as the financial standing of the Company. The remuneration of the Members of the Management Board is set out by the Supervisory Board. Remuneration of the members of the Supervisory Board is set out by the General Meeting of the Company. All remunerations of the members of Management and Supervisory Board are disclosed in the yearly financial statement of the Company.

- ***Best Practice VI.Z.2.*** – to the extent where, to tie the remuneration of members of the management board and key managers to the company's long-term business and financial goals, the period between the allocation of options or other instruments linked to the company's shares under the incentive scheme and their exercisability should be no less than two years. The Company has introduce a management motivational scheme and according to its rules and concluded share option agreements, the period between the allocation of options and their exercisability is less than two years. However, the scheme and the agreements stipulate that the allocation of options occurs in certain periods of time (vesting) quarterly during 5-6 years provided that the entitled person continues working for the Company and thus the remuneration of members of the management board and key managers is tied to the company's long-term business and financial goals.

- ***Best Practice VI.Z.3.*** – to the extent where the remuneration of members of the supervisory board should not be linked to options or other derivatives or any other variable components, and nor should it be linked to the company's results. The remuneration of the Chairman of the Supervisory Board is partially dependent on the company's financial results. This was introduced due to the exceptional engagement of the Chairman in the supervisory actions provided for the Company. Moreover the Chairman has also received financial instruments in the management motivational scheme because of his duties regarding the integration of the Company's group.

2. WIRTUALNA POLSKA GROUP'S SOCIAL ACTIVITY

2.1. SOCIAL COMMITMENT

Corporate social responsibility ("CSR") is an important element of conducting business for the Company and the Wirtualna Polska Group ("Group"). It helps the Company achieve its business objectives, shape its image and drive corporate value. In the pursuit of its strategy the Group endeavours to give consideration to social interests, environmental aspects and establish and cultivate sound relations with various groups' stakeholders, including its clients and employees. The Group considers social responsibility as the basis, among others, for investing in human resources, endorsing educational and cultural projects and supporting the promotion of a healthy lifestyle, preventive medical checkups and tests and environmental protection. The Group strives to report to the community on the projects it executes and furnish complete information concerning its business, as this translates into greater business competitiveness and is conducive to sustainable social and economic development. The bulk of the Group's CSR activity is regular and ongoing or takes the form of a response to specific problems and social needs. By acting in this manner the Group tries to create a friendly culture of cooperation, a professional environment in which all employees are afforded the opportunity to develop their interests and passions while also having the freedom to attain their professional objectives.

2.2. CHARITABLE CAMPAIGNS

The Group has a diverse product portfolio enabling it to give active support (e.g. through its editorial efforts)to socially-significant events, campaigns and initiatives dedicated to a broad range of topics..
In 2016, the Group also used WP Poczta's potential in a charitable activity - a project called "Help by Logging In". Three times in 2016, the Group also involved internet users in pro-social activities aiming at helping the pupils of Mam Marzenie" Foundation to achive their dreams. In each of these editions it was enough to log in regularly to

one's e-mail account and in exchange, the WP Group transferred funds to the "Mam marzenie" Foundation. Advertising and editorial support (publications in the WP portal's services) was also provided for this project.

In 2016 the Group continued the project, started in 2015, entitled "First E-Mail. Safety on the Internet". The second edition of the project targeted pupils in state primary schools and emphasised the importance of developing practical skills such as setting up an e-mail account and issues related to observing safety on the web. The Group, Poland's largest provider of electronic mail services, has the necessary knowledge and appropriate experience to help pupils enter the world of using e-mail responsibly. The campaign entitled "First E-mail. Safety on the Internet" ended on 31 December 2016.

800 applications were received. The victorious schools will receive equipment from the WP Group for computer lab: Acer computers and a modern projector. Under this project the WP Group launched a special service called pierwszymail.wp.pl.

2.3. PROMOTING A HEALTHY LIFESTYLE AND PREVENTION

On the pages of its services, the Group promotes educational and sporting events as well as pro-health measures, concurrently encouraging employees to lend their active support to these initiatives. The Group joined the national social campaign of Allegro Foundation All For Planet - "Kręć kilometry". Contestants taking part in the "Kręć kilometry w Polsce. W Wirtualnej Polsce" challenge had to ride a bicycle 20 km within the prescribed time.

In 2016, the Group once again served as the patron for a project entitled "Gdansk Biega" (Gdank on the run), to popularise a healthy lifestyle among residents of the Tri-City area from which the Group originates and where it has one of its offices. More than 30 Group employees participated, espousing the Company's values such as energy, commitment and teamwork. The Group also supported the fourth annual campaign entitled "Wolf Trail. The Run to Remember Outcast Soldiers" - almost 60 WP Group employees in Warsaw, Gdansk, Wrocław and Poznan took part in this run, Orlen Warsaw's 4th Marathon Run and the Independence Run in Gdansk and Warsaw. Group's Employees also took part in the "Run IT" in Wrocław and "Sailing Championships of Journalists". In 2016 the Group employees additionally participated in the European Cycling Challenge, a cycling competition between European cities. As part of the support it gives to employees commuting to work by bicycle, the Group furnished self-service bicycle repair stations in its offices in Gdansk and Warsaw. A number of other projects in which the Group serves as a media patron and to which it has provided editorial support may also be listed, including: "I eat a second breakfast" and "We Brush Our Teeth - the Aquafresh Academy". Through its services, Grupa Wirtualna Polska also supported the action Wakacje z Muszkieteremi (Holidays with Musketeers) a joint trip of nearly a thousand children aged 8-12 years from all over Polish on their first holidays. The website belonging to the Group - ABC Health was a patron of the fourth edition of "Anioły Farmacji I Anioły Medycyny"("Angels of Pharmacy and Medicine"). Another action supported by Wirtualna Polska was "Zadbaj o swoje serce" ("Take care of your heart"), a campaign whose aim was free access to specialists and preventive cardiology i.e. ECG.

2.4. SOCIAL AND EDUCATIONAL CAMPAIGNS

For years the Group has cooperated with the Kwiat Kobiecości Association [Flower of Femininity], a nationwide organisation Combating Cervical Cancer. On the pages of its service, WP Kobieta presents numerous publications to promote preventive medical checkups and tests and to educate women on this subject. In 2016 the Group joined the Seventh Annual Edition of the Nationwide Social Campaign entitled "Piękna bo Zdrowa" ("She Is Beautiful Because She Is Healthy"), "Festiwal Młodych Talentów" ("Festival for Young Talents"), as well as educational camps - "Święto Gdanskiej Nauki" ("Celebration of the Science of Gdansk") and "Mega Misja" ("Mega Mission") – digital education of teachers and children using day-care rooms in schools.

2.5. EMPLOYEE COMMITMENT

In the Group there are many employees who have a penchant for social activity. The support provided by the Company, which promotes a number of social initiatives among its employees also contributed to employees participating in providing assistance in 2016 to the Pomeranian Hospice for Children in Gdansk and the "Hear the World" Foundation in Warsaw. Plastic capsules were collected in the Company's offices for the entire year under this campaign entitled "Let's Twist Ourselves into Helping". Rehabilitation classes for deaf children, among others, are funded by selling them. In 2016 WP Group employees also joined a campaign entitled "Give Blood - the Gift of Life" organised in cooperation with the Regional Centre for Blood Donation and Blood Treatment in Warsaw.

For many years our employees have also been involved in the "Noble Box" project. In 2016 WP Group volunteers in Gdansk and Warsaw coordinated assistance for needy families in Gdansk and Warsaw. Support was provided families who received, among others, food, cleaning agents, clothing, towels, sheets, school supplies, toys, books and kitchen equipment.

3. DESCRIPTION OF THE MAIN CHARACTERISTICS OF INTERNAL CONTROL AND RISK MANAGEMENT SYSTEMS IN RELATION TO THE PROCESS OF GENERATING THE FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENTS

The Management Board of the Company is responsible for the internal control system in the Company and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the Regulation of the Minister of Finance of 19 February 2009 regarding current and periodic information submitted by issuers of securities.

The internal control and risk management system in relation to the financial reporting process is realised through:

- procedures specifying the principles and responsibility for the process of preparing financial statements,
- verification of reporting data provided by the Capital Group's companies in relation to the consistency of applied accounting principles and IFRS,
- semi-annual review and annual audit of the financial statements by an independent auditor,
- the process of authorisation and approval of the financial statements before the publication.

An Audit Committee, appointed within the Parent Company's Supervisory Board, supervises the financial reporting process in the Group. The Audit Committee consists of, among others, two members of the Supervisory Board who meet the independence criteria mentioned in the Best Practices of WSE Listed Companies.

The Audit Committee supervises the financial reporting process to ensure the sustainability, transparency and integrity of financial information, including among others:

- analysis of the accounting methods adopted by the Company and its Capital Group,
- review of the management accounting system,
- analysis, together with the Management Board and certified auditors (external auditors) of the financial statements and audit's results with particular emphasis on significant adjustments resulting from the audit, statements about the continuation of operations and compliance with applicable accounting regulations.

Moreover, as part of monitoring the effectiveness of internal control systems, internal audit and risk management, the Audit Committee tasks include:

- verification of the adequacy of the internal control systems to ensure compliance with laws and internal regulations;
- performing at least once a year, the review of internal control procedures and risk management;
- reviewing the performance of the internal control systems and internal audit.

The substantive supervision over the process of preparing the financial statements and periodic reports is conducted by the Chief Financial Officer or Management Boards of the Group's Companies. The Financial Reporting and Cash Flow Management Department and financial-accounting departments of the Group's companies are responsible for the organisation of work related to the preparation of the financial statements. The Group's companies are required to apply uniform accounting policies in the preparation of reporting packages, which are the basis for preparation of the consolidated financial statements of the Wirtualna Polska Holding Capital Group. Separate reporting packages are reviewed by the Group's Financial Reporting and Cash Flow Management Department and by the independent auditor during the audit or review of the consolidated financial statements of the Capital Group.

The Capital Group's Companies use IT and organisational solutions securing access to the financial accounting system and providing adequate protection and archiving of the books. Access to the IT systems is limited by relevant authorisations for authorised employees. In 2015 the process of implementation of one integrated accounting system for all Groups' companies has started. The purpose of this process is to unify the recording of the economic events taking into account the specificity of the particular entities in the Group.

The financial statements and interim reports before publication are subject to verification by the Management Board and the Audit Committee of the Supervisory Board. According to the applicable laws, the financial statements are also subject to review or audit by an independent auditor. The results of the reviews and audits are presented by the auditor to the Management Board and the Audit Committee of the Supervisory Board. Certifies auditors are selected by the Supervisory Board of the Company from a group of reputable auditing companies, guaranteeing the proper standards of the services and their independence.

3.1. ENTITY AUTHORISED TO REVIEW THE FINANCIAL STATEMENTS OF THE COMPANY

PricewaterhouseCoopers sp. z o.o., with its registered seat in Warsaw (00-683 Warsaw, Aleja Armii Ludowej 14) ("PWC") is an entity authorised to review the financial statements of the Company for the year 2015. Moreover, PWC carried out in 2015 an interim review of financial report and consolidated financial report of the Company for the 6 months ending 30 June 2015.

PricewaterhouseCoopers sp. z o.o. is entered on the list of entities authorised to audit financial statements under No. 144.

On 15 February 2016 the Supervisory Board of the Company acting according to provisions of law, professional rules and the opinion of the Audit Committee adopted a resolution No. 6/2016 on electing PWC as an auditor authorised to review financial statements and consolidated financial statements of the Company for the years 2016-2018.

4. SHARE CAPITAL AND SHAREHOLDERS

4.1. STRUCTURE OF THE SHARE CAPITAL

As of 31 December 2016, the share capital of the Company amounted to PLN 1,433,826.05 and consisted of 28,676,521 shares with a par value of PLN 0.05 each, entitling 39,966,230 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;
- 411,571 D series ordinary bearer shares;
- 3,339,744 E series ordinary bearer shares;
- 12,168 F series ordinary bearer shares.

A (excluding registered shares with preferential voting rights), B, C, D, E i F series shares are admitted to trading on the regulated market. On 10 April 2015, the Polish Financial Supervision Authority approved a prospectus prepared by Wirtualna Polska Holding SA in connection with a public offering of B and E series shares and the intention to seek admission for the trading of B, C and E series shares and rights to E series shares on the regulated market.

On 7 May 2015, 5,852,634 the Company's B series ordinary bearer shares with a par value of PLN 0.05 (five groszy) each and 3,339,744 rights to E series ordinary bearer shares (also with a par value of PLN 0.05 (five groszy) each were admitted for trading on the regulated market.

The shares were assigned to specific categories of investors as follows:

- 1,378,857 (in words: one million three hundred and seventy-eight thousand eight hundred and fifty-seven) shares for Individual Investors;
- 7,813,521 (in words: seven million eight hundred and thirteen thousand five hundred and twenty-one) shares for Institutional Investors

On 13 May 2015 the increase in the share capital from 1,245,651.90 PLN to 1,412,639.10 PLN was registered in the National Court Register. As a result of the registration of the increase in share capital, 3,339,744 rights to ordinary E series bearer shares were recast into 3,339,744 ordinary E series bearer shares.

On 27 May 2015, 3,339,744 ordinary series E bearer shares were registered by the Central Securities Depository of Poland and admitted for trading on the regulated market.

On 14 October 2016 in relation to admission to the deposit of the securities and of the National Depository of Securities ("KDPW") of the 388.078 (three hundred and eighty eight thousand, seventy eight) ordinary bearer series B shares of the Company and their introduction for trading on the primary market by WSE, an increase in the share capital of the Company occurred.

On 14 October 2016 a conversion of 1,100,000 (in words: one million one hundred thousand) registered, privileged series A shares owned by EMH into ordinary bearer shares has taken place.

On 21 November 2016 in relation to admission to the deposit of the securities and of the National Depository of Securities ("KDPW") of 1,135,661 (one million one hundred thirty five thousand and six hundred sixty one) ordinary bearer shares of the Company with a nominal value of 0.05 zł (five groszy) each, including:

1. 1,100,000 (one million one hundred) series A shares,
2. 23,493 (twenty-three thousand four hundred ninety-three) series D shares issued under the conditional share capital increase pursuant to resolution no. 6 of the Extraordinary General Meeting of 14 January 2015 and resolution no. 3 of the Extraordinary General Meeting of 26 September 2016,
3. 12,168 (twelve thousand one hundred sixty-eight) series F shares issued under the conditional share capital increase pursuant to resolution no. 3 of the Extraordinary General Meeting of 5 March 2015 and resolution no. 3 of the Extraordinary General Meeting of 26, 2016 r.,

of the Company and their introduction to trading on the primary market by WSE, an increase in the share capital of the Company occurred.

The Group has introduced an employee stock ownership plan providing selected key employees of the Company with stock options.

First stock option plan

The total number of shares assigned within the programme amounts to 1,230,576 and shall not exceed 5% of the share capital of the Company. The rights to shares are vested in time, quarterly, during a certain period of time generally no longer than 6 years provided that the employment relationship lasts. The plan was classified as an equity settled share-based incentive plan

For the purpose of the plan, the share capital of the Company was increased through an issue of 301,518 ordinary C series bearer shares that were taken up by selected managers of the Company. There was also a conditional increase in the share capital of the Company through an issue of no more than 929 058 ordinary series D shares and series B warrants.

Second stock option plan

Moreover, the Group has introduced a second stock option plan and for the purpose of such a scheme an additional conditional increase in the share capital was made through an issue of no more than 593.511 ordinary series F shares and series C warrants. On 15 February 2016, the Supervisory Board of the Company has adopted a resolution on the rules regarding the new option plan granting key managers an opportunity to acquire options for shares in the Company. The total number of shares in the plan amounts to 593.511 and will not exceed 5% of the share capital of the Company.

4.2. SHAREHOLDERS WITH AT LEAST 5% OF THE TOTAL VOTING RIGHTS

In accordance with notifications received by the Company and to the best of its knowledge, as of 31 December 2016, 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 are as follows:

Akcjonariusz	Liczba akcji	% kapitału podstawowego	Liczba głosów	% głosów
European Media Holding SARL	3 400 000	11,86%	2 062 676	5,16%
J. Świderski* and Orfe S.A.	2 629 903	9,17%	6 838 914	17,11%
M. Brański* and 10x S.A.	2 629 903	9,17%	6 838 914	17,11%
K. Sierota* and Albemuth Inwestycje S.A.	2 629 903	9,17%	6 838 914	17,11%
Others	17 386 812	60,63%	17 386 812	43,51%
Altogether	***28 676 521***	***100,00%***	***39 966 230***	***100,00%***

* entitled, as a pledgee, to exercise voting rights attached to 789.554 bearer shares privileged with voting rights, pursuant to article 340 sec. 1 of Polish Commercial Companies Code on the conditions set out in pledge agreement concluded on November 6, 2015 with European Media Holding S.à r.l. as a pledger.

And as of the date of publication of this report:

Akcjonariusz	Liczba akcji	% kapitału podstawowego	Liczba głosów	% głosów
Jacek Świderski via subsidiaries:	3 763 237	13,11%	7 526 474	18,82%
Orfe S.A.	3 195 237	11,13%	6 390 474	15,98%
Liceia Sp. z o.o.	568 000	1,98%	1 136 000	2,84%
Michał Brański via subsidiaries:	3 763 236	13,11%	7 526 472	18,82%
10X S.A.	3 195 236	11,13%	6 390 472	15,98%
Palaja Sp. z o.o.	568 000	1,98%	1 136 000	2,84%
Krzysztof Sierota via subsidiaries:	3 763 236	13,11%	7 526 472	18,82%
Albemuth Inwestycje S.A.	3 195 236	11,13%	6 390 472	15,98%
Silveira Sp. z o.o.	568 000	1,98%	1 136 000	2,84%
Founders togehther	11 289 709	39,34%	22 579 418	56,47%
Others	17 408 915	60,66%	17 408 915	43,53%
Altogether	***28 698 624***	***100,00%***	***39 988 333***	***100,00%***

4.3. SHARES OWNED BY THE MANAGEMENT AND SUPERVISORY BOARD MEMBERS

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 Świderski is indirectly entitled to exercise voting rights attached to 3,763,237 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,237 shares held by Orfe S.A. and 568,000 shares held by Liceia sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,474 votes at the general shareholders meeting of the Company and constituting 18.82% 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 having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by Albemuth Inwestycje S.A. and 568,000 shares held by Silveira sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes; and
- Michał Brański is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by 10X S.A. and 568,000 shares held by Palaja sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes.
- In addition, under first phase of the implementation of an incentive plan, Elżbieta Bujniewicz-Belka (Member of the Management Board) and Jarosław Mikos (Chairman of the Supervisory Board) acquired, respectively, 18,664 (nominal value of PLN 933) and 136,919 (nominal value of PLN 6,846) ordinary bearer shares of the new C series issued based on the resolution approving the issue of C series shares. In the next phase of the implementation of the incentive plan Jarosław Mikos acquired 287,133 (nominal value of PLN 14,356.65) D series ordinary bearer shares issued based on the resolution approving the issue of D series shares. Thus Jarosław Mikos acquired all shares under the incentive scheme. Elżbieta Bujniewicz-Belka is entitled to participate in the next phase of the implementation of the incentive plan.
- On 5 December 2016, the Company received from the person performing managerial responsibilities in the Company – i.e. Mr Jarosław Mikos, Chairman of Supervisory Board of the Company – notification of transactions on Company's shares concluded on 1 December 2016, i.e. the sale of 324,052 shares of the Company.

Additional information on the structure and changes in equity and voting rights are described in note 23 to the consolidated financial statements.

On 19 March 2015, an agreement was concluded between the Founders and Orfe SA, 10x SA, Albemuth Inwestycje SA ("Founders' Companies"), concerned with joint voting at the general meeting of shareholders and conducting a long-term policy towards the Company within the meaning of article 87 sec. 1 point 5 of the Act dated 29 July 2005 on Public Offering, the Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies ("Founders Cooperation Agreement").

As a result of the Founders Cooperation Agreement, the Founders and Founders' Companies are entitled to collectively exercise voting rights attached to 11.289.709 A series registered shares which constitute 39,37% of the shares in the share capital of the Company and the right to exercise 22.579.418 votes at the general meeting of shareholders of the Company (which constitute 56,47% of the total number of votes)

None of the Founders nor Founders' Companies has entered into any agreement that would convey the voting rights as referred to in Article 87.1.3.c of the Act. Special rights attached to shares.

4.4. OWNERS OF SECURITIES PROVIDING SPECIAL CONTROL RIGHTS

Shareholders do not have voting rights at the General Meeting of the Company other than arising from shares. None of the shareholders of Company have any personal rights associated with their shares.

Series A shares to the amount of 11.289.709 (in words: eleven million two hundreds eighty nine thousands seven hundred and nine) are preferred in such a way that each series A share entitles its holder to exercise two voting rights. The other shares are registered shares.

Preferred shares are owned by:

- Jacek Świderski is indirectly entitled to exercise voting rights attached to 3,763,237 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,237 shares held by Orfe S.A. and 568,000 shares held by Liceia sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,474 votes at the general shareholders meeting of the Company and constituting 18.82% 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 having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by Albemuth Inwestycje S.A. and 568,000 shares held by Silveira sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes; and

- Michał Brański is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by 10X S.A. and 568,000 shares held by Palaja sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes.

The conversion of bearer shares into registered shares is not permitted.

The conversion of registered shares into bearer shares may be effected at the request of a shareholder. The Management Board, following the receipt of such a request, will immediately convert the shares in accordance with the request.

Each shareholder whose shares are not admitted for trading on such a market has the right to request the admission of those shares for trading on such a market. The shares will be admitted for trading on the regulated market on an alternative trading system immediately, however, not later than within six months from the date of receipt of a request by an authorised shareholder.

4.5. LIMITATION CONCERNING THE SHARES

The grant of the right to vote to a pledgee or a user of shares requires the consent of the General Meeting. No consent is required if the right to vote is granted to mBank SA with its registered seat in Warsaw and ING Bank Śląski SA with its registered seat in Katowice which, as pledgees, may exercise voting rights in accordance with the terms of the respective pledge agreements. On part of the shares owned by Orfe S.A., 10x S.A. and Albemuth Inwestycje S.A. a pledge agreement has been established and in case of a default or violation of the agreement the pledgees may exercise the voting rights attached to shares.

5. THE MANNER OF OPERATION AND ESSENTIAL AUTHORITIES OF THE GENERAL MEETING OF SHAREHOLDERS, DESCRIPTION OF THE SHAREHOLDERS` RIGHTS AND THEIR EXECUTION

The General Meeting of the Company shall act on the basis of the provisions of the Polish Commercial Companies Code, of the Articles of Association and on the basis of the By-laws of the General Meeting of Company, adopted by the resolution no. 10 of the Extraordinary General Meeting of the Company on 23 June 2015.General Meetings may be held at the registered office of the Company in Warsaw.

The powers of the General Meeting, apart from the matters reserved under the Commercial Companies Code, include:

1. appointment and dismissal of the President of the Management Board;
2. appointment and dismissal of the members of the Supervisory Board;
3. determination of the number of members of the Supervisory Board;
4. approval of the by-laws of the Supervisory Board;
5. determination of the remuneration of the members of the Supervisory Board;
6. grant of consent for the Company to execute a facility agreement, a loan or surety or any similar agreement with a member of the Management Board, the Supervisory Board, registered proxy (prokurent), liquidator or in favour of any of those people.

If any shareholder (except for entities that are the Company's shareholders on the date of 14 January 2015, i.e. European Media Holding S.à r.l. and Orfe SA, 10x SA and Albemuth Inwestycje S.A) reaches or exceeds the threshold of 30% of the overall number of outstanding votes in the Company, the matters stated in section 3, points 8) – 9) Articles of Association will no longer constitute the powers of the Supervisory Board, but will become the powers of the General Meeting.

The acquisition and sale of real property, perpetual usufruct or a share in real estate do not require a resolution of the General Meeting.

The right to participate in the General Meeting shall only be held by people being shareholders of the Company at sixteen days prior the date of the General Meeting.

The people entitled to registered shares or temporary certificate and pledgees or usufructuaries entitled to exercise the right to vote may participate in the General Meeting if they are entered to Share Register on the Registration Date.

A shareholder may participate in the General Meeting and exercise the right to vote in person or through an attorney.

The power of attorney to take part in the General Meeting and to exercise the right to vote should be granted in writing or in electronic form. A shareholder is obliged to send the Management Board a notification of having issued a power of attorney using electronic means of communication The above-mentioned notification should be sent to the following e-mail address walnezgromadzenia@grupawp.pl, no later than by 23:59 pm. the day prior to the General Meeting (failure to meet the time limit of the Company's notification shall not preclude taking part in the General Meeting on the basis of the power of attorney granted in writing

Members of the Supervisory Board and the Management Board should participate in the General Meeting in sufficient numbers to allow for substantive answers to questions raised during the General Meeting.

The General Meeting may also be attended by the following people with the right to speak: experts invited by the entity convening the General Meeting, as well as candidates for members of the Management Board, candidates for members of the Supervisory Board and the notary taking the minutes of the General Meeting. The Chairperson of the General Meeting shall be selected among the people entitled to attend the General Meeting, whose candidacies have been submitted by the people entitled to attend the General Meeting and who agree to be a candidate.The election of the Chairperson of the General Meeting shall be made by secret ballot by casting consecutive votes on each of the candidates. The Chairperson is the person who receives the largest number of votes.

The Chairperson shall preside over the General Meeting in accordance with the agreed agenda, provisions of law, the Code of Best Practice for WSE Listed Companies, the Articles of Association and Regulations.

The Chairperson of the General Meeting immediately after the election shall draft and sign the attendance list containing the names of participants in the General Meeting, specifying the number of shares they represent and the number of votes to which they are entitled.After signing the attendance list the Chairperson of the General Meeting shall put the agenda to vote

After calling each subsequent matter on the agenda, the Chairperson shall describe the matter and, in particular, shall present the draft of the resolution proposed for adoption by the General Meeting, then shall open the discussion, giving the floor in the order of the application of speakers. The Chairperson may order that a discussion be conducted on several items of the agenda.The Chairperson of the General Meeting may give the floor to members of the Management Board, Supervisory Board and invited experts.A shareholder has the right until the closure of the discussion on the agenda item to bring proposals for changes to the draft of the resolution proposed for adoption by the General Meeting. The proposal should be justified by the shareholder. Proposals must be submitted in writing to the Chairperson or orally for the minutes. The proposal must indicate the name and surname or company name of the shareholder, or in the case of a shareholder represented by a representative, the name and surname of the representative.In formal matters the Chairperson of the General Meeting may give the floor out of turn. A formal motion may be submitted by any shareholder of the Company.

.Adjournments in the General Meeting may not last longer than thirty (30) days.A General Meeting shall be valid regardless of the number of shares represented thereat.Resolutions of the General Meeting are adopted by a simple majority of votes, unless the applicable law or the terms of these articles of association provide for more stringent requirements for the adoption of a given resolution.

Upon completion of the agenda, the Chairperson of the General Meeting shall announce the closure of the proceedings.

5.1. AMENDMENTS OF THE ARTICLES OF ASSOCIATION

Amendments of the Articles of Association in accordance with the Commercial Code, requires a resolution of the General Meeting and entry into the court registry. The Management Board shall report the amendments to the Articles of Association to the court registry. The resolution of the General Meeting to amend the Articles of Association requires a three-quarters majority of the votes. The General Meeting may authorise the Supervisory Board to determine the uniform text of the amended Articles of Association or introduce other editorial changes as set out in the resolution of the General Meeting.

6. COMPOSITION AND OPERATION OF MANAGEMENT AND SUPERVISORY BODIES OF THE COMPANY AND ITS COMMITTEES

6.1. MANAGEMENT BOARD OF THE COMPANY

6.1.1. GENERAL INFORMATION

The governing body of the Company is the Management Board. The Management Board operates in accordance with provisions of the Polish commercial code, Articles of Association of the Company, By-laws of the Management Board and resolutions adopted by General Meeting and Supervisory Board.

The Management Board manages the Company's operations and assets and represents the Company before courts, authorities and third parties. The Management Board takes decisions regarding all matters that are not reserved under the provisions of the Articles of Association or the provisions of law for the determination by the Supervisory Board or the General Meeting on an exclusive basis. All members of the Management Board are required and authorised to jointly conduct the Company's affairs.

The Management Board is appointed for a joint three-year term.

Resolutions of the Management Board are adopted by an ordinary majority of votes. In the case of an equal number of votes "in favour" and "against", the President of the Management Board shall have the casting vote. The Management Board may adopt resolutions in writing or by means of remote communication. Members of the Management Board may participate in the adoption of resolutions of the Management Board by voting in writing through another member of the Management Board. Voting in writing cannot pertain to any matters introduced to the agenda during a meeting of the Management Board.

In accordance with the Articles of Association, the President of the Management Board supervises the activities of the Management Board and determines the internal division of tasks and powers among particular members of the Management Board, specifically, the President of the Management Board may entrust the management of the specific departments to specific members of the Management Board. Furthermore, the President of the Management Board calls and chairs meetings of the Management Board. The President of the Management Board may authorise other members of the Management Board to convene and chair meetings of the Management Board. In the absence of the President of the Management Board or if the position of the President of the Management Board is vacant, the meetings of the

Management Board are convened by the longest-standing of the Management Board. Additionally, special rights of the President of the Management Board in terms of managing the work of the Management Board may be determined in the By-laws of the Management Board.

If the Management Board consists of one member, the sole member of the Management Board is authorised to make representations on behalf of the Company. If the Management Board consists of more than one member, two members of the Management Board acting jointly or one member of the Management Board acting jointly with a registered proxy are authorised to make representations on behalf of the Company.

6.1.2. MANAGEMENT BOARD MEMBERS

The Management Board consists of four members. The mandates of the members of the Management Board expire no later than on the date of the General Meeting which approves the financial statements for the last full financial year of holding their positions as members of the Management Board, i.e. for the year 2016.

As of 31 December 2015 the composition of the Management Board was as follows:

Jacek Świderski	- President of the Management Board
Krzysztof Sierota	- Member of the Management Board
Michał Brański	- Member of the Management Board
Elżbieta Bujniewicz - Belka	- Member of the Management Board responsible for finance

During the period covered in this Report, there were no changes to the composition of the Company's Management Board

Jacek Świderski - President of the Management Board, CEO

Jacek Świderski commenced his professional career by conducting business activity as a sole trader from 1997 to 1998 while still studying at university. In 1999, together with Michał Brański and Krzysztof Sierota, he established an Internet portal under the name go2.pl (later o2.pl), and in 2000, he incorporated MediaOne sp. z o.o. (later, o2.pl sp. z o.o.), and, subsequently, Grupa o2 sp. z o.o., which, in 2011, was transformed into a joint stock company, Grupa o2 SA (currently, Wirtualna Polska Holding SA). Since the creation of the portal, Jacek Świderski has developed the business of the Company and its Subsidiaries on the Polish Internet market as, currently the President of the Management Board of the Company and of the following Subsidiaries: Grupa Wirtualna Polska SA and WP Shopping sp. z o.o. In 2009, he was appointed as a member of the management board of Bridge20 Enterprises Limited and continues to perform such a function today. Since 2014, he has been the president of the management board of: Orfe SA, Eurydyka Sp. z o.o. (from 2015) and Liceia Sp. z o.o. (from 2016). Additionally, Jacek Świderski is a member of the supervisory boards of the following companies: Money.pl sp. z o.o. (since 2014), Domodi sp. z o.o. (since 2014 as chairman of the supervisory board), Dobreprogramy sp. z o.o. (since 2013 as chairman of the supervisory board), Nocowanie.pl sp. z o.o. (since 2015 as chairman of the supervisory board) and Enovatis SA (since 2015).

Jacek Świderski graduated the Warsaw School of Economics in 2002 with a magister degree in management.

Michał Brański - Member of the Management Board/ VP Strategy

From February 10, 2014 Member of the Management Board / VP Strategy.

In 1999, Michał Brański, together with Jacek Świderski and Krzysztof Sierota, established an Internet portal under the name go2.pl (later o2.pl), and in 2000, he incorporated MediaOne sp. z o.o. (later, o2.pl sp. z o.o., and, subsequently, Grupa o2 sp. z o.o., which, in 2011, was transformed into a joint stock company, Grupa o2 SA (currently, Wirtualna Polska Holding SA). Since the creation of the portal, he has developed the business of the Company and its Subsidiaries on the Polish Internet market as, currently a member of the Management Board of the Company and of the subsidiarys Grupa Wirtualna Polska SA. Since 2009, Michał Brański has been a member of the management board of Borgosia Investments Limited, and since 2014, the president of the management board of 10x SA, Now2 Sp. z o.o. (from 2015) and Palaja Sp. z o.o. (from 2016). Additionally, Michał Brański is a member of the supervisory boards of WP1 sp. z o.o. (since 2016).

Michał Brański studied management and marketing at the Warsaw School of Economics.

Krzysztof Sierota - Member of the Management Board/ VP IT

From February 10, 2014 Member of the Management Board / VP IT.

In 1999, Krzysztof Sierota, together with Jacek Świderski and Michał Brański, established an Internet portal under the name go2.pl (later o2.pl), and in 2000, he incorporated MediaOne sp. z o.o. (later, o2.pl sp. z o.o., and subsequently, Grupa o2 sp. z o.o., which, in 2011, was transformed into a joint stock company, Grupa o2 SA (currently, Wirtualna Polska Holding SA)). Since the creation of the portal, Krzysztof Sierota has developed the business of the Company and its Subsidiaries on the Polish Internet market as, currently a member of the Management Board of the Company and of the subsidiary Grupa Wirtualna Polska SA. Since 2009, Krzysztof Sierota has also been a member of the management board of Jadhave Holdings Limited, and since 2010, a member of the management board of Bwave.pl sp. z o.o. and since 2014, the president of the management board of Albemuth Inwestycje SA, Highcastle Sp. z o.o. (from 2015) and Silveira Sp. z o.o. (from 2016).

Krzysztof Sierota studied quantitative methods in economics and information systems as well as finance and banking at the Warsaw School of Economics.

Elżbieta Bujniewicz-Belka - Member of the Management Board/ CFO / VP Finanse

From February 11, 2014 Member of the Management Board, CFO / VP Finanse.

Elżbieta Bujniewicz-Belka commenced her professional career in 1993 as an analyst at Enterprise Investors – Polish-American Enterprise Fund. Starting in 1995 she was an accounting supervisor at Young&Rubicam, and in of 1996 she continued her professional career as financial controller and director of the analyses and investments department at ComputerLand SA (currently Sygnity SA). Subsequently, in 1999, she was appointed as the vice president (chief financial officer) and member of the management board of the company and continued in that position until 2007. In 2010, Elżbieta Bujniewicz-Belka was appointed as a member of the management board of DRUMET Liny i Druty sp. z o.o. From 2012 to 2013, Elżbieta Bujniewicz-Belka cooperated with the Iglotex group as a member of the management board of Iglotex SA and as a member of the management board of Iglotex Dystrybucja sp. z o.o. Since February 2014, she has been connected with the Group – she is a member of the Management Board of the Company and of the Subsidiaries Grupa Wirtualna Polska SA and WP1 sp. z o.o.

Elżbieta Bujniewicz-Belka also is the member of the management board of Orfe SA, 10X SA, Albemuth Inwestycje SA, Liceia Sp. z o.o., Palaja Sp. z o.o. and Silveira Sp. z o.o.

Elżbieta Bujniewicz-Belka graduated the Warsaw School of Economics in 1993 with a magister degree in economics.

6.1.3. POWERS OF THE MANAGEMENT BOARD

The Management Board manages the Company's operations and assets and represents the Company before courts, authorities and third parties.

In particular, the powers of the Management Board include:

- acting on behalf of the Company and represent it to third parties,
- preparation of periodic information of the Company (including individual and consolidated financial statements of the Company) and the report on the activities of the Company in an appropriate terms to be published in accordance with relevant laws,
- subjecting the financial statements for examination or review by an auditor.
- submitting to the assessment of the Supervisory Board the documents referred to in point b) together with the opinion and report of the auditor (if required by law)
- timely convening General Meetings, submitting proposals to the General Assembly and preparing draft resolutions of this body,
- submitting to the General Meeting for consideration and approval Company's activities statements and financial statements for the last financial year, together with the opinion and report of the auditor,
- developing and adopting the Company's by-laws, unless they are reserved for the competence of another body of the Company,
- drawing up the draft budget and investment plans of the Company presented to the Supervisory Board for approval,
- other matters not reserved for other bodies of the Company.

If the provisions of the Statute or the law so require, prior to a specific activity Management Board is obliged to obtain the consent appropriate the Supervisory Board or the General Meeting.

The Management Board shall provide the transparent and effective information policy using both traditional methods and using modern technologies ensuring fast, secure and broad access to information. The Management Board, using the fullest extent of these methods of communication, ensure adequate communication with investors and analysts.

The Management Board shall determine the place and date of the General Meeting so as to enable the participation of the largest number of shareholders.

The Management Board shall endeavour that to cancellation of the General Meeting or change of its date should not prevent or restrict a shareholder of the Company exercising the right to participate in the General Meeting.

6.1.4. COMPOSITION AND ELECTION OF THE MANAGEMENT BOARD

The Management Board consists of one to five members, including the President of the Management Board, and, in the case of the Management Board consisting of more than one person, the President of the Management Board and the other members of the Management Board elected for a joint term of office. The number of the members of the Management Board is determined by the Supervisory Board in accordance with a motion of the President of the Management Board. The President of the Management Board is appointed and dismissed by the General Meeting. The other members of the Management Board are appointed and dismissed by the Supervisory Board in accordance with a motion of the President of the Management Board.

A Member of the Management Board may also be dismissed or suspended from his duties by way of a resolution of the General Meeting.

6.2. SUPERVISORY BOARD

6.2.1. GENERAL INFORMATION

The Supervisory Board exercises regular supervision over the Company's operations in all areas of its activity.
The Supervisory Board operates in accordance with provisions of the Polish Commercial Code, Articles of Association of the Company and By-laws of the Supervisory Board adopted in resolution No. 9 of the General Meeting of the Company on the 23 December 2015.
In order for the Supervisory Board's resolutions to be valid, all of the members must be invited to a meeting of the Supervisory Board and at least one half of the members of the Supervisory Board must be present at such a meeting.
Unless the Articles of Association provide otherwise, resolutions of the Supervisory Board are adopted by a simple majority of votes. In case of an equal number of votes "in favour" and "against", the Chairman of the Supervisory Board shall have the casting vote.
Members of the Supervisory Board may participate in the adoption of the resolutions of the Supervisory Board by casting their vote in writing through the intermediation of another member of the Supervisory Board. Votes in writing may not be cast with respect to any matters introduced to the agenda during a meeting of the Supervisory Board.
The Supervisory Board may adopt the resolutions in writing or by means of remote communication.
The adoption of resolutions in accordance with the above-mentioned procedure (casting a vote in writing through the intermediation of another member of the Supervisory Board, in writing or using means of direct remote communication) does not apply to the election of the Chairman or the Deputy Chairman of the Supervisory Board, the appointment of a member of the Management Board or dismissing or suspending such people from their duties.
Meetings of the Supervisory Board are convened by the Chairman of the Supervisory Board when needed but not less often than once in every quarter of a given year.
The Chairman of the Supervisory Board manages the activities of the Supervisory Board and represents it before the Management Board and other people. In his actions the Chairman of the Supervisory Board may not contradict the resolutions adopted by the Supervisory Board with the majority required for a certain matter.
The Supervisory Board may delegate its members to independently perform specific supervisory duties including participating in Management Board meetings or duties if necessary.

6.2.2. MEMBERS OF THE SUPERVISORY BOARD

Currently the Supervisory Board consists of nine members.

The mandates of the members of the Supervisory Board expire on the date of holding the General Meeting approving the financial statements for the last full fiscal year in which the members of the Supervisory Board fulfilled their duties, i.e. for 2016, at the latest.

As of 31 December 2016 the composition of the Supervisory Board was as follows:

Jarosław Mikos	- Chairman of the Supervisory Board
Krzysztof Krawczyk	- Vice-Chairman of the Supervisory Board
Beata Barwińska-Piotrowska	- Member of the Supervisory Board
Tomasz Czechowicz	- Member of the Supervisory Board
Mariusz Jarzębowski	- Member of the Supervisory Board
Krzysztof Kulig	- Member of the Supervisory Board
Magdalena Magnuszewska	- Member of the Supervisory Board
Magdalena Pasecka	- Member of the Supervisory Board
Krzysztof Rozen	- Member of the Supervisory Board

During 2016 no changes to the composition of the Supervisory Board took place. On 28 February 2017 as a result of ending the process of exit of European Media Holding S.a.r.l. from the investment in shares of the Company Krzysztof Kulig and Magdalena Pasecka submitted their resignation from the Supervisory Board. On the same day Tomasz Czechowicz also submitted his resignation from the Supervisory Board.

Jarosław Mikos - Chairman of Supervisory Board

Since 1 April 2015 Chairman of the Supervisory Board.

Jarosław Mikos commenced his professional career in 1991 at Dziennik Nowa Europa, where he worked until 1992 as a journalist. From 1993 – 1994 he was a journalist at Tygodnik Cash as the head of the business editorial office. In 1995, Jarosław Mikos commenced his cooperation with Delloite&Touche Tohmatsu Ltd. as senior consultant, and from 1996 to 1997 he worked as senior consultant for Coopers&Lybrand. From 1997 to 1999 he was a manager at the Department of Advising in Privatisation Processes and M&A at the London office of PriceWaterhouseCoopers, and from 1999 to 2000, the senior manager at the Warsaw office of PriceWaterhouseCoopers at the Department of Counselling in M&A Processes. From 2001 to 2005 he was the CFO, and since 2002 he has been the President of the Management Board at Energis Polska sp. z o.o. Subsequently, from 2006 to 2008 and from 2009 to 2010 he was the President of the Management Board of Stolarka Wołomin SA Additionally, from 2007 to 2011 he was the President of the Management Board of Stolarka SA, Seegerdach sp. z o.o. and Remix sp. z o.o., while from 2011 to 2013 he was a member of the Supervisory Board of Mediatel SA, Info TV FM sp. z o.o. and Info TV Operator sp. z o.o. In the meantime, he also acted as the President of the Management Board of Magna Polonia SA Since 2014, Jarosław Mikos has been related to the Group, in which he is a member of the supervisory boards of both the Company and the following Subsidiaries: Grupa Wirtualna Polska S.A., Domodi sp. z o.o.,Money.pl sp. z o.o., Nocowanie.pl sp. z o.o. and Enovatis SA.

Jarosław Mikos graduated from the Faculty of Law and Administration at the University of Warsaw in 1994 as a Master of Law

Krzysztof Krawczyk - Vice – chairman of the Supervisory Board

Since 23 June 2015 Member of Supervisory Board, from 31 August 2015 Vice - chairman of the Supervisory Board.

Krzysztof Krawczyk is a Head of Warsaw office at CVC Capital Partners, one of the world's leading private equity and investment advisory firms. Krzysztof Krawczyk has an over 18-year successful track record in European private equity and has served on the boards of numerous private and publicly-listed companies in telecom, media, manufacturing, logistics and healthcare sectors throughout the CEE region. Prior to joining CVC, Krzysztof Krawczyk was Managing Partner at Innova Capital, a leading mid-market private equity firm in Central Europe. Krzysztof Krawczyk also worked at Pioneer Investment, a Poland-based private equity fund, and Daiwa Institute of Research, an advisory arm of Japanese investment bank Daiwa. He is a Vice President and Treasurer of Polish Private Equity Association and co-founded and co-chaired its LBO Committee in the past.

Krzysztof Krawczyk holds a degree (with Honours) in Finance & Banking from the Warsaw School of Economics. He is also an alumnus of Executive Program at Harvard Business School. Krzysztof has been awarded a PE Person of the Year for 2014 by members of Polish Private Equity Association.

Beata Barwińska-Piotrowska – Member of the Supervisory Board

Since February 10, 2014 Member of the Supervisory Board.

Beata Barwińska-Piotrowska commenced her professional career in 1997 at the law office of Kancelaria Żebrowski i Wspólnicy, where she worked until 1998. From 1998 to 2001 she was an attorney at the law office of Kancelaria Adwokacka Wardyńscy i Wspólnicy, and from 2001 to 2004 at the law office of Linklaters. Subsequently, until 2005, Beata Barwińska-Piotrowska ran her own law firm, Indywidualna Kancelaria Adwokacka Beaty Barwińskiej. In 2005, she commenced cooperation as a senior attorney with the law firm of Weil, Gotshal & Manges. Since 2010 she has been an Of Counsel at the Warsaw office of the law firm of CMS Cameron McKenna.

Beata Barwińska-Piotrowska graduated the University of Łódź with a Master of Law degree. Additionally, in the same year, she completed the School of American Law organised by the Jagiellonian University in cooperation with the Catholic University of America. In 2004, she was registered on the list of advocates of the District Advocates Council in Łódź.

Beata Barwinska – Piotrowska is a Member of the Supervisory Board of the Company, as well as Grupa Wirtualna Polska SA – the Company's subsidiary.

Krzysztof Kulig - Member of the Supervisory Board

Since February 10, 2014 Member of the Supervisory Board.

Krzysztof Kulig commenced his professional career in 1996 at Euronet Worldwide Inc. as national manager for Poland. From 2000 to 2001 he worked at Heidrick & Struggles as head consultant and director of professional services and e-business. Since 2001, Krzysztof Kulig has cooperated with Innova Capital sp. z o.o. sp. k., first as partner and later as the managing partner.

Krzysztof Kulig graduated from the University of Łódź in 1995 with a Master of Science degree in Foreign Trade. During his studies, from 1992 to 1993, he spent a year in Great Britain, where he studied at the University of Kent. In 1998 he completed his MBA studies at the University of Calgary in Canada.

Magdalena Pasecka – Member of the Supervisory Board

Since December 8, 2015 Member of the Management Board

Magdalena Pasecka graduated with MA degree from Banking and Finance at the Warsaw School of Economics and studied also at Johannes Gutenberg University in Mainz (Germany); she is a member of Association of Charted Accountants in Great Britain (ACCA) and Polish Statutory Auditor.

She gained professional experience as an analyst/ intern in Feri Alternative Assets GmbH (Germany), a fund of funds advisor (2002), KPMG Audit (2003-2006), Financial Controller in Innova Capital (2006-2010) and CFO/ Board Member in MCI Management SA (2010-2014), a Warsaw Stock Exchange listed VC and PE house.

Since July 2014, Ms. Magdalena Pasecka has held the position of chief financial officer (CFO) in the Innova Capital Fund.

Magdalena Pasecka is a Member of the Audit Committee of the Supervisory Board.

Tomasz Czechowicz – Member of the Supervisory Board

Since February 11, 2014 Member of the Supervisory Board.

Tomasz Czechowicz commenced his professional career by establishing in 1990 a company named JTT-Computer SA, of which he was the President of the Management Board from 1994 to 1998. From May 1998 to 17 March 2014 he was the President of the Management Board, and since 18 March 2014 he has been the Vice President of the Management Board of MCI Management SA, while being the managing partner of the MCI Management SA group, one of the largest private equity groups in Poland. In 2006, he was also a member of the Supervisory Board of One-2-One SA until May 2010, from 2006 to 2010 at Alternative Investment Partners sp. z o.o. and for several months in 2006 at Easycall.pl sp. z o.o. From 2007 to 2013 he also performed such function in MCI.Bioventures sp. z o.o. In 2007, he was appointed to the Supervisory Board of ABC Data SA, where he was elected a member of the Supervisory Board for consecutive terms and currently performs this function. From 2007, Tomasz Czechowicz assumed a position at MCI Capital Towarzystwo Funduszy Inwestycyjnych SA as a member of the management board and at MCI Fund Management sp. z o.o. as the President of the Management Board, and currently holds such positions. Since 2008 he has been and he currently is a member of the supervisory boards of two Czech companies, Geewa a.s. and Invia.cz.a.s. Between July 2009 and January 2010 he was a member of the management board of Śpiący Rycerz sp. z o.o., and in 2010 he was elected the President of the Management Board of Alternative Investment Partners sp. z o.o., and he currently continues to hold such position. From 2010 to 2013, he was a member of the Supervisory Board of Fin Ventures Management sp. z o.o., and from 2011 to 2012 at Immopartners sp. z o.o. Since 2012 he has been and he currently is a member of the Supervisory Board of Frisco.pl sp. z o.o. and Morele.NET sp. z o.o., whereas in MCI Venture Projects sp. z o.o. he is the President of the Management Board and in ABCD Management sp. z o.o. the Vice President of the Management Board. In 2012, Tomasz Czechowicz also assumed and currently continues to hold the position of a member of the advisory council at the European Institute of Innovation and Technology, where he opines on long-term programmes intended to stimulate innovation in EU countries, and he was also appointed an observer in a Russian company, KupiVIP Holding, where he monitors the key strategic aspects of that company on the e-commerce market. One year later he was appointed the President of the Management Board of MCI Asset Management sp. z o.o., Fin Ventures Management sp. z o.o., Immopartners sp. z o.o. and DI Roberto sp. z o.o.; currently he continues to hold such positions. Since 2013, he has been a member of the board of directors of the German company Windeln.de and the Turkish company Indeks Bilgisayar Sistemleri Mühendislik Sanayi ve Ticaret A.Ş. In 2014, he assumed the position of a member of the Strategy Committee at the Warsaw Stock Exchange.

Tomasz Czechowicz graduated from the Warsaw University of Technology in 1994 with an engineering industry organiser degree. In 1997 he was granted a master's degree in Business Management at the University of Economics (Akademia Ekonomiczna) in Wrocław, and in 1998 he completed post-graduate studies in management at the Warsaw School of Economics.

Krzysztof Rozen – Member of the Supervisory Board

Since April 22, 2015 Member of the Supervisory Board.

Krzysztof Rozen commenced his professional career in 1993 at the International Finance Corporation, a member of the World Bank Group, and was involved with this corporation until 1995. In 1996, he was a director of the Project and Structured Finance Division at Citibank Polska. From 1998 to 2014 he worked for KPMG, first as the director responsible for the Corporate Finance division at KPMG Polska, then as the manager of the Corporate Finance team for Central Europe at KPMG CEE, and subsequently as a member of the European Corporate Finance Board at KPMG. From 2000 to 2014 he was the managing partner of the Corporate Finance division at KPMG Polska.

Krzysztof Rozen is a graduate of the Central School of Planning and Statistics (now the Warsaw School of Economics). He graduated with a master degree in economics in 1986. From 1992 to 1994 he completed studies in management at the Rotman School of Management at the University of Toronto, from which he graduated with an MBA.

Krzysztof Rozen is the Member of the Supervisory Board who satisfies the independence criteria and he holds a position of the Chairman of the Audit Committee

Magdalena Magnuszewska - Członek Rady Nadzorczej

Magdalena Magnuszewska commenced her professional career in 2003 in the Corporate Department of BZ WBK SA

In 2004 she joined Innova and began her career as an intern. Later on, she worked as an Analyst, Associate and Director and from 2011 Managing Director. Magdalena Magnuszewska has more than 10 years of experience in Private Equity. During her career she participated in many M&A transactions. She is also involved in supervision of the Innova's portfolio companies. Magadalena Magnuszewska also conducts a private business under the name "Magdalena Magnuszewska" where she provides consulting services for Innova Capital.

Ms. Magnuszewska graduated from Leon Kozminski Academy of Entrepreneurship and Management with honours. She holds a master degree in Finance and Banking.

Magdalena Magnuszewska is a Member of the Supervisory Board of the Company, as well as Grupa Wirtualna Polska SA – the Company's subsidiary.

Mariusz Jarzębowski – Member of the Supervisory Board

Since 23 June 2015 Member of the Supervisory Board

Mariusz Jarzębowski is an entrepreneur who has worked in the high-tech industry in the United States, Austria and Germany. Before coming back to Europe, Mariusz Jarzębowski worked in Silicon Valley at NeXT and Apple run by Steve Jobs. In Poland he was involved in establishing and running new ventures. Mariusz Jarzębowski worked at a venture capital firm where he continued to be involved in new venture development, and served on the Board of Directors and the Advisory Board. Mariusz Jarzębowski helped companies find and enter new markets. At Microsoft, as a specialist in competitive strategy and new markets, he helped organisations create new sources of growth, and learn from start-ups. Founder and owner a technology intelligence firm and Technology Policy Advisor at demosEUROPA–Centre for European

Strategy, a think-tank based in Warsaw. He holds MS and MBA degrees from the Warsaw University of Technology Business School in partnership with London Business School.

Mariusz Jarzębowski is the Member of the Supervisory Board who satisfies the independence criteria and a member of the Audit Committee.

6.2.3. MEMBERS OF THE SUPERVISORY BOARD WHO SATISFY THE INDEPENDENCE CRITERIA

According to Articles of Association at least two members of the Supervisory Board need to satisfy the criteria of independence from the Company and the entities materially related with the Company. The independence criteria need to comply with Annex II to the Commission Recommendation. Irrespective of Annex II to the Commission Recommendation, a person who is an employee of the Company, a subsidiary, or an associated company cannot be considered as a person who satisfies the independence criteria as specified in Annex II to the Commission Recommendation. Additionally, a relation of the shareholder that precludes the independence of a member of the Supervisory Board is any actual and important relationship with a shareholder who is entitled to exercise at least 5% of all of the votes at the General Meeting.

If the Management Board obtains a written representation from a member of the Supervisory Board who had thus far satisfied the aforementioned criteria to the effect that he no longer satisfies such criteria, or obtains such information from another source, the Management Board, within two weeks from the receipt of such representation or obtaining such information, will convene a General Meeting to appoint a member of the Supervisory Board who will satisfy the criteria set out in section 1.

It is assumed that the failure to satisfy the independence criteria by a member of the Supervisory Board and the failure to appoint an independent member of the Supervisory Board does not result in the invalidity of the resolutions adopted by the Supervisory Board. If an independent member of the Supervisory Board becomes dependent while performing the duties of a member of the Supervisory Board, it shall not impact the validity or expiry of his mandate.

Currently, there are two members of the Supervisory Board who satisfy the independence criteria, i.e.:

- Krzysztof Rozen – Member of the Supervisory Board
- Mariusz Jarzębowski – Member of the Supervisory Board

6.2.4. POWERS OF THE SUPERVISORY BOARD

Pursuant to §20, section 3 of the Articles of Association, subject to §20, section 4 Articles of Association, the powers of the Supervisory Board, aside from the matters stated in the Commercial Companies Code, include:

1) the election or change of the entity authorised to compile the financial statements of the Company and to audit the Company;
2) the appointment and dismissal of members of the Management Board in accordance with a request of the President of the Management Board;
3) the determination of the number of members of the Management Board in accordance with a request of the President of the Management Board;
4) the adoption of the By-laws of the Supervisory Board and the By-laws of the Management Board;
5) the granting of consent for the execution by the Company of any material transaction with a related party, excluding any standard transactions concluded on financial markets within the scope of the business conducted by the Company with a subsidiary in which the Company holds a majority share package;
6) reviewing and opining on matters which are to be the subject of resolutions of the General Meeting;
7) opining on long-term development programmes of the Company and the annual financial plans of the Company;
8) the acquisition or sale by the Company or any of its subsidiaries, in a single transaction or during any specific year, of a block or blocks of shares in other entity(ies), or any put or call option or bonds convertible into such shares having a joint value in any one year of the EBITDA consolidated profit;
9) the execution by the Company or any of its subsidiaries of an agreement resulting in a consolidated financial indebtedness in excess of 2.25 times the EBITDA consolidated profit;
10) both with respect to the Company and its subsidiaries, the execution of contracts of employment, mandate agreements, service agreements (or any other agreements of a similar nature) where the amount of annual remuneration exceeds PLN 1.2 million (including the maximum payable bonus under any such agreement.

Pursuant to §20, section 4 of the Articles of Association, if any shareholder (except for entities who are shareholders of the Company on 14 January 2015, i.e. the European Media Holding SAr.l. and Orfe SA, 10x SA and Albemuth Inwestycje SA) reaches or exceeds 30% of the overall number of outstanding votes in the Company, the matters referred to in sections 8) – 9) Articles of Associations will no longer constitute the powers of the Supervisory Board, but will become the powers of the General Meeting.

6.2.5. STRUCTURE AND METHOD OF ELECTION OF THE SUPERVISORY BOARD

The Supervisory Board consists of five to nine members appointed and dismissed by the General Meeting.

The number of members of the Supervisory Board is determined by the General Meeting. In the case of the election of the Supervisory Board by way of separate group voting in compliance with Article 385 of the Commercial Companies Code, the number of Supervisory Board members will be nine (9).

The Supervisory Board which, in consequence of the expiry of the mandates of certain members of the Supervisory Board (for reasons other than dismissal), consists of fewer members than required under the Articles of Association, but not fewer than five, may adopt binding resolutions.

If, as a consequence of the expiry of the mandates of certain members of the Supervisory Board (for any reason other than dismissal) the number of members of the Supervisory Board of a given term of office is lower than the statutory minimum number, the other members of the Supervisory Board may appoint a new member of the Supervisory Board by way of co-option (kooptacja) and such member will perform his duties until his successor is appointed by the next General Meeting, unless the General Meeting approves the member of the Supervisory Board appointed by way of co-optionIn the case of the expiry of a mandate of an independent member of the audit committee as referred to in §22, the member of the Supervisory Board appointed by way of co-option should satisfy the independence criteria referred to in Article 86 section 5 of the Auditors' Act and should have qualifications in accounting and auditing.

The Supervisory Board that appointed a member of the Supervisory Board by way of co-option will immediately convene a General Meeting to procure the approval of the member of the Supervisory Board appointed by way of co-option or the appointment of his successor.

Members of the Supervisory Board may appoint new members by way of co-option if the number of Supervisory Board members is at least two (2).

Members of the Supervisory Board shall effect the appointment of a new member by way of co-option on the basis of a written statement of all the members of the Supervisory Board on the appointment of a member of the Supervisory Board.

6.2.6. THE SUPERVISORY BOARD'S COMMITTEES

The Supervisory Board may appoint permanent committees or ad hoc committees acting as collective advisory bodies to the Supervisory Board.

A Committee shall be established by the Supervisory Board from among its members by means of a resolution.

A committee shall consist of 3 to 5 members.

The detailed tasks and rules of the appointment and operation of the committees shall be set out in the by-laws of the committee adopted by the Supervisory Board.

The Supervisory Board may in particular appoint a permanent the Audit Committee or the Nomination and Remuneration Committee.

6.2.6.1. THE AUDIT COMMITTEE

In accordance with § 22 of the Articles of Association, the Supervisory Board will appoint an audit committee consisting of at least three members, including at least one member who should meet the independence criteria within the meaning of Article 86 clause 5 of the Auditors Act and have qualifications in the area of accounting or auditing pursuant to Article 86 clause 4 of the Auditors Act.

A Supervisory Board which consists of not more than five members may fulfil the duties of the audit committee.

The tasks of the audit committee include, in particular:

a) supervising over the organisational unit performing an internal audit;
b) monitoring the process of financial reporting,

c) monitoring the effectiveness of the internal control systems, internal audit systems and risk management;
d) monitoring the performance of financial auditing;
e) monitoring the independence of the statutory auditor and the entity authorised to audit financial statements, including cases of the provision of services other than the financial auditing of the Company; and
f) recommending to the Supervisory Board an entity authorised to audit financial statements to perform such financial auditing of the Company.

The Audit Committee shall hold a meeting , as needed, at least four times a year.

The Audit Committee is chaired by a Chairman.

The Audit Committee's meetings shall be convened by its Chairman on his own initiative or at the request of a member of the Audit Committee, and also at the request of the Management Board, internal or external auditor.

The chairman of the Audit Committee invites all members of the committee and notifies all other Members of the Supervisory Board. All Members of the Supervisory Board may participate in the meetings of the committees.

The chairman of the Audit Committee may invite to the meetings Members of the Management Board, employees of the Company and other people who may be useful in performance of the committees' duties.

Members of the Audit Committee:

- Krzysztof Rozen - Chairman of the Audit Committee, Member of the Supervisory Board meeting the independence criteria
- Magdalena Pasecka - Member of the Audit Committee
- Mariusz Jarzębowski - Member of the Audit Committee, Member of the Supervisory Board meeting the independence criteria

On 28 February 2017 as a result of ending the process of exit of European Media Holding S.a.r.l. from the investment in shares of the Company Magdalena Pasecka submitted their resignation from the Supervisory Board and Audit Committee. On 2 March 2017 Jarosław Mikos (Chairman of the Supervisory Board) was appointed Audit Committee Member.

7. DESCRIPTION OF THE DIVERSITY POLICY APPLIED TO ADMINISTRATION, MANAGEMENT AND SUPERVISION

The Group exercises a policy whereby the Company employs competent and creative individuals with the relevant professional experience and education; sex and age is of no importance as regards employing any specific person in the Company. In accordance with the Articles of Association, the President of the Management Board is be appointed by the General Meeting; the other members of the Management Board are appointed by the Supervisory Board at the request of the President of the Management Board and to the extent provided therein, while the Supervisory Board is appointed by the General Meeting. Under the Articles of Association it is possible to add a new member to the Supervisory Board by means of co-option by the other members of the Supervisory Board if the number of the mandates of certain members of the Supervisory Board appointed by the General Meeting falls below the minimum number of members of the Supervisory Board as provided for in the Articles of Association. Consequently, the composition of the Management Board will depend on the General Meeting (with respect to the President of the Management Board) and the President of the Management Board and the Supervisory Board (with respect to the other members of the Management Board), while the composition of the Supervisory Board will principally depend on the Company's shareholders who will act by voting at the General Meeting.

Jacek Świderski
President of the Management Board

Michał Brański
Member of the Management Board

Krzysztof Sierota
Member of the Management Board

Elżbieta Bujniewicz-Belka
Member of the Management Board

Warsaw, 13 March 2017

MANAGEMENT BOARD REPRESENTATION

The Management Board of Wirtualna Polska Holding SA confirms that, to the best of their knowledge, the annual consolidated financial statements together with comparative figures, have been prepared according to all applicable accounting standards and reflect a true and fair view of the state of affairs and the financial results of the issuer's Capital Group for the period in question. Moreover, the Management Board of Wirtualna Polska Holding SA confirms that the combined report of the management board on the activities of the Company and its Capital Group shows a true view of the development and achievements and state of affairs of the Company and its Capital Group, including an evaluation of dangers and risks.

The Management Board of Wirtualna Polska Holding SA confirms that the entity authorised to the audit of the financial statements, auditing annual consolidated financial statements, has been elected according to applicable rules and that this entity as well as certified auditors engaged in the audit of this financial statements met objectives to present an objective and independent opinion about the audited annual consolidated financial statements in accordance with legal regulations and professional rules.

Jacek Świderski
President of the Management Board

Michał Brański
Member of the Management Board

Krzysztof Sierota
Member of the Management Board

Elżbieta Bujniewicz-Belka
Member of the Management Board

Warsaw, 13 March 2017

CONSOLIDATED FINANCIAL STATEMENTS OF WIRTUALNA POLSKA HOLDING SA CAPITAL GROUP

FOR THE YEAR ENDING
31 DECEMBER 2016

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

in PLN'000	Note	For the year ending 31 December 2016	For the year ending 31 December 2015
Sales	8	***415 144***	***325 583***
Amortization and depreciation of fixed assets and intangibles		(42 082)	(30 442)
Amortization and depreciation of acquired programming rights		(295)	-
Materials and energy used		(5 574)	(5 046)
Costs related to public offering, acquisitions of subsidiaries and restructuring, including:	9	(7 894)	(12 217)
External services	9	(1 287)	(7 803)
Salary and employee benefit expense	9	(6 030)	(2 275)
Other operating expenses	9	(577)	(2 139)
Costs of the employee option scheme	27	(1 767)	(1 393)
Other external services		(146 157)	(106 904)
Other salary and employee benefit expenses		(124 404)	(98 894)
Other operating expenses	13	(8 093)	(7 396)
Other operating income/gains	12	1 644	810
Gain/loss on disposal of other financial assets		341	(150)
Operating profit		***80 863***	***63 951***
Finance income	14	649	960
Finance costs	15	(17 986)	(21 400)
Revaluation of commitments to purchase non-controlling interests	33	(48 126)	(28 111)
Profit before tax		***15 400***	***15 400***
Income tax	16	38 448	(9 714)
Net profit		***53 848***	***5 686***
Other comprehensive income/(losses)	28	1 005	(1 844)
Comprehensive income		***54 853***	***3 842***
Net profit attributable to:			
Equity holders of the Parent Company		53 756	4 332
Non-controlling interests	29	92	1 354
Comprehensive income attributable to:			
Equity holders of the Parent Company		54 761	2 488
Non-controlling interests	29	92	1 354
Net profit attributable to equity holders of the Parent Company per share (in PLN)			
Basic	17	1,90	0,16
Diluted	17	1,88	0,16

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in PLN'000	Note	As of 31 December 2016	As of 31 December 2015
Non-current assets			
Property, plant and equipment	18	57 899	51 607
Goodwill	19-22	246 472	217 257
Trademarks	19	157 971	156 398
Homepage and WP mail	19	133 929	140 413
Other intangible assets	19	96 368	70 839
Non-current programming assets	23	5 358	-
Other financial assets	24	2 470	-
Deferred tax assets	30	29 275	1 681
		729 742	***638 195***
Current assets			
Trade and other receivables	25	77 304	62 723
Cash and cash equivalents		45 150	48 961
		122 454	***111 684***
TOTAL ASSETS		***852 196***	***749 879***
Equity			
Equity attributable to equity holders of the Parent Company			
Share capital	26	1 434	1 413
Supplementary capital		315 830	310 453
Revaluation reserve	27,28	(839)	(1 844)
Other reserves		(38 310)	(28 506)
Retained earnings		114 143	60 387
		392 258	***341 903***
Non-controlling interests	29	***16 467***	***15 676***
		408 725	***357 579***
Long-term liabilities			
Loans and leases	31	174 572	192 682
Other long-term liabilities	33	143 688	75 666
Deferred tax liability	30	10 993	23 884
Deferred income		879	1 194
		330 132	***293 426***
Short-term liabilities			
Loans and leases	31	39 202	38 399
Trade and other payables	33	68 845	54 668
Provisions for employee benefits	32	3 276	2 891
Other provisions	32	1 511	1 661
Current income tax liabilities		505	1 255
		113 339	***98 874***
TOTAL EQUITY AND LIABILITIES		***852 196***	***749 879***

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

in PLN'000	Note	Equity attributable to equity holders of the Parent Company						Non-controlling interests	Equity
		Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total		
Equity as of 1 January 2016		***1 413***	***310 453***	***(1 844)***	***(28 506)***	***60 387***	***341 903***	***15 676***	***357 579***
Net profit/ (loss)		-	-	-	-	53 756	53 756	92	53 848
Other comprehensive income/(losses)	28	-	-	1 005	-	-	1 005	-	1 005
Total comprehensive income/(losses)		***-***	***-***	***1 005***	***-***	***53 756***	***54 761***	***92***	***54 853***
Option scheme	27	21	5 377	-	1 767	-	7 165	-	7 165
Payment of dividend	29	-	-	-	-	-	-	(1 022)	(1 022)
Acquisition of a subsidiary	20-22,29	-	-	-	(11 571)	-	(11 571)	1 721	(9 850)
Equity as of 31 December 2016		***1 434***	***315 830***	***(839)***	***(38 310)***	***114 143***	***392 258***	***16 467***	***408 725***

in PLN'000	Nota	Equity attributable to equity holders of the Parent Company						Non-controlling interests	Equity
		Share capital	Supplementary capital	Revaluation reserve	Other reserves	Retained earnings	Total		
Equity as of 1 January 2015		***1 231***	***206 664***	***-***	***(29 899)***	***56 055***	***234 051***	***11 544***	***245 595***
Net profit		-	-	-	-	4 332	4 332	1 354	5 686
Other comprehensive income/(losses)	28	-	-	(1 844)	-	-	(1 844)	-	(1 844)
Total comprehensive income/(losses)		***-***	***-***	***(1 844)***	***-***	***4 332***	***2 488***	***1 354***	***3 842***
Share capital increase from initial public offering		167	106 705	-	-	-	106 872	-	106 872
Option scheme	27	15	2 001	-	1 393	-	3 409	-	3 409
Costs of public offering recognized in the supplementary capital		-	(4 917)	-	-	-	(4 917)	-	(4 917)
Payment of dividend	29	-	-	-	-	-	-	***(659)***	(659)
Acquisition of a subsidiary	21,29	-	-	-	-	-	-	3 437	3 437
Equity as of 31 December 2015		***1 413***	***310 453***	***(1 844)***	***(28 506)***	***60 387***	***341 903***	***15 676***	***357 579***

Holding SA

CONSOLIDATED CASH FLOW STATEMENT

in PLN'000	Note	For the year ending 31 December 2016	For the year ending 31 December 2015
Cash flows from operating activities			
Profit before tax		***15 400***	***15 400***
Adjustments for:		***113 372***	***81 080***
Amortization and depreciation of fixed assets and intangibles		42 082	30 442
Amortization and depreciation of acquired programming rights		295	-
Payments for programming rights		(2 130)	-
Losses on the sale /liquidation/revaluation of property, plant and equipment and intangible assets		463	659
Finance income and costs		17 986	20 440
Gain/loss on disposal of other financial assets		(341)	150
Revaluation of commitments to purchase non-controlling interests		48 126	28 111
Costs of the employee option scheme		1 767	1 393
Revaluation of contingent liabilities arising from business combinations		5 218	-
Other adjustments		(94)	(115)
Changes in working capital		***(6 033)***	***(10 219)***
Change in trade and other receivables	41	(12 434)	712
Change in trade and other payables	41	5 932	(5 661)
Paid IPO cost recognized in supplementary capital (aggio)		-	(4 917)
Change in provisions	41	469	(353)
Income tax paid		(9 403)	(2 168)
Income tax refunded		255	3 907
Net cash flows from operating activities		***113 591***	***88 000***
Cash flows from investing activities			
Sale of intangible assets and property, plant and equipment		105	-
Sale of other financial assets and subsidiaries		1	8
Purchase of intangible assets and property, plant and equipment		(37 221)	(32 048)
Repayment of contingent liabilities arising from business combinations		(19 113)	(5 344)
Acquisition of subsidiary (less cash acquired)	41	(36 385)	(123 371)
Net cash flows from investing activities		***(92 613)***	***(160 755)***
Net cash flows from financing activities			
Payments due to share capital increase		5 398	108 888
Loans received		12 000	273 500
Interest received on cash from the initial public offering		-	960
Repayment of finance leases		(430)	(723)
Repayment of bank commissions		(1 601)	(5 869)
Interest paid		(9 434)	(14 004)
Repayment of IRS derivative		-	(5 995)
Repayment of loans received		(29 700)	(265 530)
Dividends to non-controlling shareholders		(1 022)	(659)
Net cash flows from financing activities		***(24 789)***	***90 568***
Total net cash flows		***(3 811)***	***17 813***
Cash and cash equivalents at the beginning of the period		***48 961***	***31 148***
Cash and cash equivalents at the end of the period		***45 150***	***48 961***

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Wirtualna Polska Holding SA Capital Group ("the Group", "the Capital Group", "Wirtualna Polska Holding Group") is composed of Wirtualna Polska Holding SA ("the Company", "the Parent Company", "Wirtualna Polska Holding") and its subsidiaries.

Until 21 March 2014, the Parent Company operated under the name Grupa o2 SA. The Parent Company's name was changed after acquiring control of Wirtualna Polska SA (currently WP Shopping Sp. z.o.o.).

As of 31 December 2016 Wirtualna Polska Holding Capital Group composed of the Parent Company and 16 consolidated subsidiaries.

Wirtualna Polska Holding and the remaining Capital Group's companies were formed for an indefinite period. The Group's core operations comprise sale of advertising services on the Internet and operating Internet portals such as WP.pl, o2.pl, Pudelek.pl, Domodi.pl, Money.pl, Kafeteria.pl, Biztok.pl, abcZdrowie.pl, wakacje.pl, nocowanie.pl as well as providing electronic services (WP e-mail, o2 e-mail).

The Parent Company was registered in Poland and its seat is in Warsaw at Jutrzenki 137A.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. The policies were applied in all the periods presented on a consistent basis, unless otherwise stated.

2.1. BASIS FOR PREPARATION

The consolidated financial statements of the Wirtualna Polska Holding Group have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union (IFRS), in order to fulfil the requirements of art. 55 sec.1 of the accounting act dated 29 September 1994 ("Accounting act" – Journals of Laws from 2013, item 330 with later amendments).

These financial statements have been prepared in accordance with IFRS standards which are binding in the European Union in the financial year ending 31 December 2016 (for more information see Note 2.2).

The consolidated financial statements have been prepared on the historical cost basis.

The consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern for at least 12 months from the date of preparing these consolidated financial statements.

2.2. NEW AND AMENDED STANDARDS AND INTERPRETATIONS

In the financial statements for the financial years ending 31 December 2015 and 2014, the Group adopted early all the new and amended standards and interpretations which are binding in the European Union in the financial year ending 31 December 2016 (i.e. the new and amended standards coming into force in the financial year starting on 1 January 2015 and 1 January 2016). These financial statements have been prepared in accordance with IFRS standards which are binding in the European Union in the financial year ending 31 December 2016.

In these consolidated financial statements, the Group has not decided to apply early the following published standards before the date of their coming into force:

IFRS 9 "Financial Instruments"

IFRS 9 replaces IAS 39. The standard is binding for annual periods starting on or after 1 January 2018.

The standard introduces a single model providing for two categories of financial assets only: measured at fair value and measured at amortised cost. Classification is performed at initial recognition and it depends on the management model of financial instruments adopted by the entity and on the characteristics of contractual cash flows from such instruments. IFRS 9 introduces a new model for determining impairment losses – the expected loss model. Most IAS 39 requirements concerning classification and measurement of financial liabilities were transferred to IFRS 9 unchanged. An important change is the requirement to present the effects of changes in credit risk on financial liabilities designated for measurement at fair value through profit or loss in other comprehensive income. The purpose of the changes within the scope of hedge accounting was to better match hedge accounting to risk management.

The Group is going to apply IFRS 9 from 1 January 2018. The Management Board has appointed a project team whose aim will be to conduct a detailed analysis of the company's agreements with respect to their recognition in accordance with the new standard and to assess the impact of this change on the consolidated financial statements.

IFRS 15 "Revenue from contracts with customers"

The standard is binding for the annual periods starting on or after 1 January 2018.

The principles set out in IFRS 15 will apply to all contracts resulting with revenues. The core principle of the new standard is recognising revenue at the moment of transferring goods or services to the customer in an amount of the transaction price. All goods or services sold in bundles that can be made distinct within a bundle should be recorded separately; moreover, all discounts and rebates relating to the transaction price should in principle be allocated to the individual elements of a bundle. When an amount of revenue is variable, the variable amounts are classified as revenue according to the new standard if it is highly probable that the revenue recognition will not be reversed in the future as a result of revaluation. Moreover, according to IFRS 15 costs incurred to obtain and secure a contract with a customer should be capitalised and deferred over the period of consuming the benefits from the contract.

The Group is going to apply IFRS 15 from 1 January 2018. The Management Board has appointed a project team whose aim will be to conduct a detailed analysis of the company's agreements with respect to their recognition in accordance with the new standard and to assess the impact of this change on the consolidated financial statements.

IFRS 16 „Leases"

IFRS 16 „Leases" was published by the International Accounting Standards Board on 13 January 2016 and is binding for the annual periods starting on or after 1 January 2019.

The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset and liability arising from the payment obligation. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a period of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group is going to apply IFRS 16 after its adoption by the European Union. The Management Board has appointed a project team whose aim will be to conduct a detailed analysis of the company's agreements with respect to their recognition in accordance with the new standard and to assess the impact of this change on the consolidated financial statements.

The amendments to standards and interpretations not listed above which have been published but are not yet binding will have no effect on the financial statements of the Group.

2.3. CONSOLIDATION

2.3.1 SUBSIDIARIES

Subsidiaries are all entities (including structured entities) over which the Group exercises control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Consolidation is discontinued from the date control ceases.

The Group accounts for business combinations under the purchase method. The consideration made for acquisition of a subsidiary is the fair value of the assets given to and liabilities incurred towards former owners of the acquiree and equity instruments issued by the Group. The consideration made comprises the fair value of assets or liabilities resulting from contingent consideration arrangements. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Potential contingent consideration to be transferred by the Group is carried at fair value at the acquisition date. Subsequent fair value changes of the contingent consideration, which has been classified as a financial asset or liability, are recognised in accordance with IAS 39 in equity or in profit or loss. Contingent consideration which classifies as equity is not subject to revaluation and its subsequent payment is accounted for in equity. Identifiable assets and liabilities of an acquiree are measured at fair value at the date of acquiring control. The Group carries non-controlling interests either at fair value or at the proportionate share in fair value of identifiable net assets; the choice is made separately for each acquisition.

The surplus of the sum of the consideration made, the value of all non-controlling interests in the acquiree and the fair value of the previously held equity interests in the acquire as of the date of acquisition, over the fair value of the identifiable net assets acquired is recorded as goodwill. If the entire consideration made, identified non-controlling interests and previously held interests is less than the fair value of the net assets of a subsidiary acquired under a bargain purchase, the difference is recognised directly in profit or loss.

Transaction costs are charged to profit or loss when incurred.

Intragroup transactions and settlements and unrealised gains on transactions concluded between group companies are eliminated. Unrealised losses are also eliminated. Where necessary, the amounts reported by the subsidiaries are adjusted so that they comply with the Group's accounting policies.

2.3.2 NON-CONTROLLING INTERESTS AND TRANSACTIONS WITH NON-CONTROLLING SHAREHOLDERS

Non-controlling interests comprise shares in companies covered by consolidation not owned by the Group. The Group measures all non-controlling interests in an acquiree at the proportionate share (corresponding to the non-controlling interest) in net identifiable assets of the acquiree or at fair value. Non-controlling interests identified in net assets of the consolidated subsidiaries are recorded separately from the ownership interest of the Parent Company in these net assets. Non-controlling interests in net assets include:

(i) the value of non-controlling interests at the initial business combination date, calculated in line with IFRS 3; and

(ii) changes in equity attributable to non-controlling interests starting from the date of the business combination.

Gains and losses and each item of other comprehensive income are attributed to the shareholders of the Parent Company and to non-controlling interests. Total comprehensive income is attributed to the Parent Company's shareholders and to non-controlling interests even if as a result non-controlling interests are negative in value.

Transactions with non-controlling shareholders which do not result in loss of control are shown as equity transactions, i.e. as transactions with owners acting under capital ownership rights. The difference between the fair value of the consideration and the purchased or sold share in the carrying value of the subsidiary's net assets is shown in equity.

2.3.3 ASSOCIATES

Associates are entities on which the Group exerts significant influence but which it does not control, which usually accompanies holding 20% to 50% of the general number of votes in the decision-making body of the entity. Investments in associates are carried under the equity accounting method and initially stated at cost. The Group's share of its associate's post-acquisition profit or loss is recognised in profit or loss. Its share in other comprehensive income is recognised in other comprehensive income, and its share of post-acquisition movements in other capital items is recognised in other reserves. The cumulative post-acquisition movements in these capital items are adjusted against the carrying amount of the investment.

The measurement under the equity accounting method is discontinued on classifying an investment as "non-current assets held for sale" in accordance with IFRS 5.

2.4. OPERATING SEGMENTS REPORTING

Starting from 2016, after obtaining the final decision of the National Broadcasting Council and launch of work on the television programme in Multiplex 8, the Management Board re-segmented its activities and analyses Group's activity regarding revenue streams and the EBITDA operating result, dividing it into two segments – i.e. Online and TV. The main operating segment continues to be Online – i.e. the Group's activity on the Internet. Despite the fact that, based on 2016 data, the TV segment did not meet the criteria of IFRS 8 for its separate disclosure, due to the significant difference in its nature and perspective relevance, the Management Board decided to present the information about thi individual segment starting from 2016.

2.5. MEASUREMENT OF ITEMS DENOMINATED IN FOREIGN CURRENCIES

2.5.1. FUNCTIONAL AND PRESENTATION CURRENCIES

The items contained in the financial statements are valued in the currency of the basic economic environment in which the Group's companies conduct operations ("the functional currency"). The financial statements are presented in the Polish zloty (PLN), which is the functional currency of the Parent Company and Group's companies and presentation currency of the Group.

2.5.2. TRANSACTIONS AND BALANCES

Transactions denominated in foreign currencies are converted into the functional currency at the exchange rate as at the transaction date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

2.6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment items are measured at cost (cost of purchase or manufacture), less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent outlays are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their initial cost less their residual values over their estimated useful lives, as follows:

	Period:
• Leasehold improvements	10 years;
• Servers and other devices	3-10 years;
• Plant and machinery	2-10 years;
• Other property, plant and equipment items	1-10 years;

The useful life estimates and the depreciation method are verified at the end of each financial year.

Finance costs subject to capitalisation are also an element of assets under construction (Note 2.19).

Gains and losses on disposal of property, plant and equipment items are determined by comparing sales prices with carrying amounts and recognised in profit or loss in "Other operating income" or "Other operating expenses" respectively.

2.7. INTANGIBLE ASSETS

2.7.1. GOODWILL

Goodwill arises in connection with acquisition of businesses. Goodwill is reduced by impairment losses recorded after initial recognition in line with the policy presented in Note 2.9.

2.7.2. COPYRIGHTS

Purchased copyrights relating to the contents of the websites operated by the Group are carried at the amounts corresponding to the costs incurred on their purchase. These costs are amortised over the estimated useful lives of 2–10 years.

The useful life estimates and amortisation method are verified at the end of each financial year.

2.7.3. COMPUTER SOFTWARE

Purchased computer software (licenses) is recorded at the amount corresponding to the costs incurred on purchase of specific software and its preparation for use. These costs are amortised over the estimated useful lives of 2-5 years.

The useful life estimates and amortisation method are verified at the end of each financial year.

2.7.4. TRADEMARKS AND CLIENT RELATIONS AND INTERNET DOMAINS

Identifiable intangible assets obtained under an acquisition transaction are carried at fair value determined on acquisition. Except for a situation in which their indefinite useful life is justified, the initial cost is reduced by amortisation charges. Assets with indefinite useful lives are tested annually for impairment; all intangible assets are tested for impairment when there are indications of impairment.

The useful lives for the individual groups of intangible assets are as follows:

Period:	
• Trademarks	10-20 years or indefinite period;
• Client relations	5-13 years;
• Website services and other intangible assets	4-25 years.

The useful life estimates and amortisation method are verified at the end of each financial year.

2.7.5 OWNERSHIP RIGHTS – INTERNALLY GENERATED DEVELOPMENT PROJECTS

The costs of development projects directly related to designing and testing of identifiable and unique computer software and website services controlled by the Group are recorded as intangible assets when they meet the following criteria:

- technical possibility of completing the software so that it is fit for use;
- management has the intention to complete the software and use or sell it;
- the ability to use or sell the software;
- it is possible to show how the software will generate probable future economic benefits;
- the availability of adequate technical, financial and other means to complete the development and to use or sell the software; and
- the ability to reliably measure the expenditure attributable to the software during its development.

Costs which can be directly attributed and are capitalised comprise the costs of employment related to development of software and website services.

Other expenditure on development which does not meet these criteria is recognised as a cost when incurred. The development expenditure previously recorded as a cost is not capitalised in subsequent periods.

The capitalised costs related to development of software and website services are amortised over their estimated useful lives of 5–20 years.

2.8. PROGRAMMING ASSETS

Programming assets include acquired licences for the broadcasting of movies, TV series, television programmes and capitalised production costs with an expected emission period longer than one year.

Programming assets are recognised at the purchase price at the moment when the material is delivered to the Company, it has been verified and is available for its first running. Advance payments for acquired programming assets, prior to the licence start date, are recognised as prepayments for programming assets. Contractual costs are allocated to individual programs within a particular contract. Expenditure such as translation costs or technical costs associated with the materials delivered by the licensor are included in the purchase price of a given programming asset. Contracts for the purchase of programming inventory which are concluded and valid, but which do not meet the criteria for their recognition as assets are not recognised in the balance sheet, but disclosed as future contractual commitments at the amount of liabilities resulting from such contracts and outstanding as of the balance sheet date.

Programming inventory is classified as current or non-current, depending on the licence period. Programming rights with a licence period shorter than 1 year from the balance sheet date are classified as current.

Programming assets are amortised using the method reflecting the manner of consuming the economic benefits embodied in the licenses acquired within their estimated useful lives limited by the term of the respective license agreements. Amortisation starts at the first broadcast and is calculated depending on the number of available showings of the program. If the number of showings is unlimited, the programming rights are amortised on a straight-line basis over the licence period. Amortisation cost is recognised in the income statement in the "Amortisation and depreciation of acquired programming rights" line. The cost lowers the Group's EBITDA for the period.

Programming assets are null and void upon the disposal or termination of the licence period. Gains or losses on annulation of an intangible assets are determined at the amount of the difference between net proceeds from the sale of the asset, if any, and the carrying amount of the asset. These are shown in the profit or loss of the period under "Other operating income or expenses".

Expenditure on acquisition of programming rights is presented as operating activities in the cash flow statement.

Programming assets are reviewed for impairment at least annually and whenever there is any indication that the carrying amount may not be recoverable. Impairment write downs are recognised in the amount the balance sheet value exceeds the recoverable value. Impairment losses are recognised on each license in case of withdrawal from broadcasting an item in the expected future and expected future losses anticipated upon disposal of the rights. Impairment write-downs on programming assets are recognised as the cost of the period in which the impairment occurred. Impairment of programming assets is reversed if the reason for the original impairment ceases to exist. The reversals are recorded as cost reductions.

2.9. IMPAIRMENT OF NON-FINANCIAL ASSETS

Goodwill and assets with an indefinite useful life are not subject to amortisation but are tested annually for impairment, or more frequently if there are indications of impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For the purpose of impairment testing, goodwill is allocated to cash-generating units which according to expectations will benefit from the synergies of a business combination. Each CGU or CGU group to which goodwill was allocated represents the lowest level in an entity on which goodwill is monitored for internal management purposes. For the purposes of assessing impairment, other assets are also grouped at the lowest level for which there are highly independent cash flow (cash-generating units).

Impairment occurs when the carrying amount of an asset or CGU exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of sell and value in use. Impairment losses are allocated first to goodwill attributed to the CGU in respect of which impairment had been identified, and then the remaining amount is allocated to other assets based on relative carrying amounts.

Non-financial assets (other than goodwill) which were previously impaired are assessed at each balance sheet date for indications of a possibility of reversing the impairment write-downs recorded.

2.10. FINANCIAL ASSETS

The Group has financial assets belonging to the following categories: available for sale financial assets, financial assets carried at fair value through profit or loss (derivative financial instruments – Note 2.11) and loans and receivables (see Note 2.14). Available for sale financial assets are presented in other financial assets.

Available for sale financial assets (equity instruments) are initially recognised at fair value plus transaction costs. After initial recognition, they are measured at fair value with the measurement results carried in other comprehensive income. If the fair value of available for sale financial assets, representing shares in an unlisted company, cannot be reliably established the valuation is performed at cost less impairment.

2.11. DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value of at the contract date and are subsequently remeasured to their current fair value. In its activities, the Group uses derivative financial instruments and applies to them hedge accounting. As of the balance sheet date the Group has concluded four interest rate swaps. The purpose of interest rate hedge in the Group is to limit the changes in interest cash flow exposed to interest rates fluctuations. In particular, cash flow related to interest payments in respect of financial liability taken out by the Company under the loan agreement dated 24 March 2015.

On each balance sheet date the Group indicates effective and ineffective part of hedge according to rules of IAS 39.95 in order to note changes in fair value. The effective part of cumulated gain/loss (change in fair value) from the instrument is recognised in other comprehensive income. The ineffective part of cumulated gain/loss (change in fair value) from the instrument is presented in finance income/costs of the period under consideration.

Fair value of derivatives is classified to non-current assets or long-term liabilities when the time to maturity exceeds 12 months or to current assets or short-term liabilities when the time to maturity does not exceed 12 months.

Gains and losses on valuation of interest rate swaps under hedge accounting are recognised in other comprehensive income, while changes in valuation of instruments not classified as cash flow hedges are recognised in profit or loss as “finance income/costs”.

2.12.OPTION-RELATED COMMITMENTS TO PURCHASE NON-CONTROLLING INTEREST

The issued put options which give non-controlling shareholders the right to sell their shares to the Group constitute the Group’s commitment to buy its own equity instruments. This commitment is initially carried at fair value constituting the present value of the buy-up amount.

The commitment is initially recorded in correspondence with equity attributable to equity holders of the Parent Company (as “other reserves”) when the conditions for exercising the options do not transfer the risks and benefits related to those shares to the Group. When the conditions for exercising the option do transfer the risks and benefits related to the non-controlling interests to the Group, the commitment is no longer recorded in correspondence with other reserves.

After initial recognition, the commitment is measured at amortised cost; the interest expense is recognised in the finance costs. Changes to the amount of the commitment arising from changes in estimates of the amounts payable are also recorded in the finance costs in the period in which the estimate has been changed.

2.13. NON-CURRENT ASSETS (DISPOSAL GROUP) HELD FOR SALE

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount is to be recovered mainly through a sale transaction and the sale is considered highly probable. They are recorded at the lower of: their carrying amount and fair value less costs of sell.

2.14. TRADE RECEIVABLES

Trade receivables are amounts due from customers mainly for services provided in the course of normal business activities. Receivables repayable within one year (or in the course of normal business activities, if it is longer) are classified as current assets. Otherwise, they are shown as non-current assets. Trade receivables are initially carried at fair value. After initial recognition, receivables are stated at amortised cost using the effective interest rate method, taking account of impairment losses. In the case of short-term receivables, valuation at amortised cost corresponds to the amount due.

Receivables write-downs are estimated when collecting the full amounts receivable on initial terms is no longer probable. The costs of recording receivables write-downs are charged to other operating expenses in the consolidated financial statements.

2.15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash in hand and in the bank.

Cash equivalents are current investments with high liquidity, easily exchangeable for specific amounts of cash and exposed to insignificant risk of value fluctuations, with original maturity not exceeding three months.

2.16. SHARE CAPITAL

Share capital is stated at the amount specified in the Memorandum of Association and entered in the Court Register.

2.17. DIVIDEND DISTRIBUTION

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.18. LOANS AND BORROWINGS

Loans and borrowings are recognised initially at fair value, net of transaction costs incurred. Loans and borrowings are subsequently shown at amortised cost. Any differences between the proceeds (net of transaction costs) and the redemption value are recognised in the income statement over the period of the relevant agreements using the effective interest method.

Fees for availability of loan are recorded as transaction costs to an extent to which it is probable that the loan shall be used in whole or in part in the future. In this case, the fees are deferred until the time the loan is actually used. Where it is not probable that a loan would be used in whole or in part, the fee is capitalised as an advance payment for liquidity-related services and amortised over the period of the loan to which it relates.

2.19. BORROWING COSTS

Borrowing costs (both related to general and specific borrowings), which can be directly attributed to purchase, construction or manufacture of qualifying assets, i.e. assets that require substantial preparation time for intended use or sale, are capitalised as part of the cost of purchase or manufacture until substantially all actions necessary to prepare the qualifying asset to the intended use or sale have been completed.

Income from temporary investment of funds borrowed specifically to finance the acquisition of a qualifying asset reduces the capitalised borrowing costs.

Other borrowing costs are recognised in the period in which they were incurred.

2.20. TRADE PAYABLES

Trade payables are obligations to pay for goods and services acquired in the course of normal business activities. Trade payables are classified as short-term liabilities if their settlement is expected within one year (or in the normal business cycle of the enterprise, if longer). Otherwise, they are shown as long-term.

Trade payables are initially recognised at fair value and subsequently they are stated at amortised cost using the effective interest rate method. In the case of short-term liabilities, valuation at amortised cost corresponds to the amount due.

2.21. CURRENT AND DEFERRED INCOME TAX

Corporate income tax for a reporting period comprises current and deferred tax. Current income tax is calculated on the basis of taxable income (tax base) for a given financial year and the binding tax rate, based on the binding tax regulations.

Deferred income tax liabilities and assets are recorded on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax is not recorded if it arose on initial recognition of goodwill or initial recognition of an asset or a liability as part of a transaction other than a business combination, which does not affect profit or loss or taxable income (tax loss).

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised.

Deferred income tax is determined using tax rates (and laws) that were enacted or substantially enacted at the balance sheet date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax is recognised in profit or loss, except for situations when it relates to items recorded in other comprehensive income or directly in equity. Deferred tax is then also recorded in other comprehensive income or in equity.

Deferred tax assets and liabilities can be balanced off when the entity has an enforceable title to balance off its current income tax receivables and liabilities and when the deferred tax assets and liabilities relate to income tax imposed on the same tax-payer by the same tax authorities.

2.22. INCENTIVE SCHEME – SHARE BASED PAYMENTS

The Group runs equity settled and cash settled share-based incentive schemes.

Equity settled share-based incentive schemes

The Group obtains services from its employees in return for the Company's equity instruments (options). The fair value of the employee services obtained in return for granting options is recognised as a cost. The aggregate amount to be recorded in costs is determined with reference to the fair values of the granted options:

- taking account of all market conditions (e.g. the entity's share price);
- without taking into account the effect of all the conditions related to years of service and non-market vesting conditions (e.g. profitability of sales, sales growth targets and the indicated mandatory period of an employee's employment in a given entity); and
- taking into account the effect of all non-vesting conditions (for example, a requirement for the employees to hold the instruments obtained).

Non-market conditions have been included in the assumptions related to the expected number of options which will be vested. The aggregate cost is recorded over the entire vesting period, which is the period during which all the vesting conditions must be fulfilled.

Additionally, in certain circumstances the employees may render services before the date of the share options being granted to them. In such case, the fair value as of the date of granting the share options is estimated in order to record the costs over the period from the employees starting to render their services until the date of the options being actually granted to them. At the end of each reporting period, the entity reviews the adopted estimates of the expected number of options vested as a result of satisfying non-market vesting conditions. The entity presents the effect of a potential adjustment of the initial estimates in the income statement, with an appropriate adjustment in equity. The entity issues new shares the moment the options have been exercised. Funds obtained after deducting all costs that can be directly attributed to the transaction increase share capital (the par value) and share premium at the moment the options have been exercised.

Social insurance contributions payable in connection with granting the share options are considered an integral part of the benefit granted, and the costs are treated as a cash-settled transaction.

Cash settled share-based incentive schemes

Under cash settled share-based payments, the entity measures the services obtained and the liability incurred at fair value of the liability. Until the time the liability is settled, at each reporting date and at the settlement date, the entity measures the liability at fair value over the vesting period for the employees. The cost of the scheme is charged to profit or loss for the period.

2.23. PROVISIONS

Provisions are recognised when the Group has an obligation (legal or constructive) following from past events and when it is certain or highly probable that meeting the obligation will lead to the necessity of an outflow of funds embodying economic benefits and the amount of the liability can be reliably assessed. Provisions are measured at the present value of the expenditure which according to expectations will be necessary to fulfil the obligation.

2.24. REVENUE RECOGNITION

Revenue is stated at the fair value of the consideration received or receivable for the sale of services in the normal course of the Group's business. Revenue is presented net of value added tax, returns, rebates and discounts. The Group recognises revenue when the amount of revenue can be reliably measured and when it is probable that the entity will obtain economic benefits in the future and when the specific criteria discussed below have been met for each type of the Group's activities.

a) Revenues from services

Revenues are mainly generated by advertising services on the Internet. Other revenues include, among others, television advertisements and commissions on the sale of tourist services.

Revenue from sales of advertisements is recognised in the month of performing the service – e.g. displaying an online and television advertisement (straight line settlement) or redirecting to the customer's website (depending on the actual number of redirects), in the case of advertisement in the CPS model (cost per sale), the occurrence of the event conditioning the right to remuneration (including agreement signing, purchasing, etc.). The Group sells advertising on the Internet. Revenues are recognised less any rebates and discounts due, including volume discounts.

b) Income and costs from barter transactions

The Group recognises income from barter transactions comprising the exchange of advertising services only when the services are different in nature, i.e. they are advertising services on different carriers or they are emitted in different media, and the amount of income can be reliably established. Income from barter transactions is recognised at the fair value of the services provided, adjusted for any cash flow. The fair value of services provided via barter transactions is determined with reference to non-barter transactions which comprise services similar to those provided under the barter arrangement, occur frequently, represent a significant part of the transaction, where the amount of consideration is established in cash and the transactions do not relate to the same counterparty with which the barter transactions are concluded.

If the services were received before the Group has performed its service the respective liability is recorded. Similarly, if the advertising service was performed before receiving the services from the counterparty, the respective receivable is recorded.

2.2.5. LEASES – THE GROUP AS A LESSEE

A lease agreement where a considerable part of the risks and benefits of ownership is retained by the lessor is an operating lease. Lease payments made as part of operating leases (less any special promotional offers obtained from the lessor) are charged to costs using the straight line method over the lease term.

A lease of property, plant and equipment items where the Group substantially bears all the risks and substantially draws all the benefits of ownership – is classified as a finance lease. Assets and liabilities relating to a finance lease are recorded upon commencing the lease at the lower of: fair value of the leased asset and the present value of minimum lease payments.

Each lease payment is allocated between the liability and finance costs. The interest component of the finance cost is carried to profit or loss over the lease period to arrive at a fixed periodic interest rate for the remaining balance of the liability in each period. Property, plant and equipment items used under finance lease agreements are depreciated over the shorter of: the useful life of an asset and the lease period.

3. APPROVAL FOR PUBLICATION OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements have been approved for publication by the Management Board of Wirtualna Polska Holding SA on 13 March 2017.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in accordance with IFRS EU requires making the judgments, estimates and assumptions which affects the reported values of assets and liabilities and revenues and expenses in the period. Estimates and judgments are subject to a constant verification and are based on previous experience and other factors, including expectations on future events which seem reasonable in this situation.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equate to the actual results.

The main accounting estimates and assumptions made in these consolidated financial statements were the same as in financial statements for the year ending 31 December 2015.

The main assumptions relating to the future and other key sources of uncertainty as of the balance sheet date, involving a significant risk of material adjustments to the carrying values of assets and liabilities in the following financial year, are discussed below.

4.1.DEFERRED TAX ASSET

a) Deferred tax asset on contributing to the business

In 2011, the Parent Company contributed its business with a fair value of PLN 311,000 thousand to the subsidiary Grupa Wirtualna Polska SA (formerly o2 Sp. z o.o.). As a result of this transaction, a temporary difference arose in the consolidated financial statements between the tax and carrying value of the contributed business's assets of PLN 265,195 thousand. A deferred tax asset was recorded on this difference which as of 31 December 2016 amounted to PLN 21,207 thousand (PLN 26,675 thousand as of 31 December 2015).

b) Asset arising from the loss on sale of shares in WP Shopping Sp. z o.o.

As part of Group's plan to locate all of its editorial and advertising activity in Grupa Wirtualna Polska S.A., on 1 September 2014, a demerger of WP Shopping Sp. z o.o. (former Wirtualna Polska SA) was carried out. The demerger was carried out by transferring a business unit of WP Shopping Sp. z o.o. (former Wirtualna Polska SA) to Grupa Wirtualna Polska SA (the so-called spin-off). As a result of the demerger, the Editorial and Advertising Division was transferred to Grupa Wirtualna Polska SA (GWP) and the operations of the e-Commerce Centre were continued at WP Shopping Sp. z o.o. (former Wirtualna Polska SA). Moreover, all assets and liabilities which were not clearly designated as remaining with WP Shopping Sp. z o.o. (former Wirtualna Polska SA), shall transfer to Grupa Wirtualna Polska SA.

As a result of the merger, the majority of WP Shopping Sp. z o.o.'s (former Wirtualna Polska SA) assets and liabilities were transferred to Grupa Wirtualna Polska SA. The transaction did not result in changing the tax value of the investment in this subsidiary.

In December 2016, Grupa Wirtualna Polska S.A. sold all of its shares in WP Shopping Sp. Z o.o. to an external entity Nextfield Investments Limited. The tax loss on the sale of shares in WP Shopping as per individual accounting books of GWP amounted to PLN 377,652 thousand. The Company has prepared detailed tax and financial projections for the following years, showing the estimated taxable income on the basis of which the Management Board has decided to recognise an additional asset on the tax loss in GWP of PLN 54,996 thousand.

c) Recovery of deferred tax asset

The Group recognises a deferred tax asset based on the assumption that a tax profit will be generated in the future enabling its utilisation. The Parent Company's Management Board has prepared financial projections until 2023, which confirm that sufficiently high taxable income will be generated in the future to enable the utilisation of the asset. The financial model has been developed based on general market forecasts and the Management Board's expectations. Deterioration of tax results in the future might result in the assumption becoming unjustified.

4.2. AMORTISATION AND DEPRECIATION RATES

The depreciation and amortisation rates are established based on the expected useful lives of property, plant and equipment and intangible assets. The Group performs annual verifications of the adopted useful lives based on the current estimates. In particular, with reference to the WP.pl trademark, the Group estimated that the useful life of the trademark is indefinite. The factors considered by the Group when assessing the useful life of the "WP.pl" trademark are as follows:

- the expected usage of the brand and whether the brand could be managed efficiently,
- technical, technological, commercial or other types of obsolescence,
- stability of the sector in which the brand is used and changes in demand on the market of selling advertisements on the Internet,
- expected actions taken by competitors or potential competitors on the market of selling advertisements on the Internet,
- the level of subsequent expenditure required to obtain the expected future economic benefits from the trademark,
- whether the useful life of the brand is dependent on the useful lives of other assets.

Having considered the above factors the Group concluded that there is no foreseeable limit to the period over which the "WP.pl" trademark is expected to generate net cash flow for the Group, therefore, the useful life of the "WP.pl" trademark was assessed as indefinite.

In each reporting period the Group reviews whether events and circumstances continue to support the indefinite useful life assessment of the "WP.pl" trademark. If the review results in a change in the useful life assessment from indefinite to definite this change is accounted for as a change in the accounting estimate.

4.3. APPROACH TO BARTER TRANSACTIONS

In the course of its operations the Group sells advertising services via barter transactions. The Group recognises revenues and expenses on barter transactions when the exchanged advertising services are provided in various media or advertising services are exchanged for content provided on website pages, and when the fair value of the services provided can be established.

4.4. LITIGATION

Due to the nature of its operations, mainly running Internet portals, the Group is sued in cases related to personality right protection. As of 31 December 2016, a several dozen such cases were in progress. The Group recorded a provision for pending litigation based on the actual status of cases and cost estimates prepared by the Legal Department conducting the cases. The provisions were recorded to the amount of claims and court fees the adjudgement of which is probable in the Group's opinion.

4.5. VALUATION OF OPTION-RELATED COMMITMENT TO PURCHASE NON-CONTROLLING INTERESTS

Commitments in respect of put options for non-controlling interests are subsequently measured at the amount being the best present estimate of the discounted purchase price (the commitments are presented as other liabilities; see note 33).

As of the date of preparing these financial statements the Group has option-related commitment to purchase non-controlling interests in two entities: Domodi Sp. z o.o. and Nocowanie.pl Sp. z o.o.

Domodi Sp. z o. o.

The basic assumptions being the basis for the options' valuation are as follows: EBITDA, which constitutes the options exercise price, revenues and the discount rate. A change in the forecasted growth dynamics of revenues by 1 p.p. per annum in the years 2016–2019 increases the value of liabilities by 1.6%. A change in the forecasted EBITDA margin by 1 p.p. per annum in the years 2016-2019 increases the value of the liabilities by 3.4%. An increase in the discount rate of 1 p.p. decreases the liability by 2.26%.

The commitment was initially estimated at PLN 31,853 thousand. As of 31 December 2016 the value of these commitments amounted to PLN 113,983 thousand and as of 31 December 2015 amounted to PLN 62,762 thousand. Details concerning changes of value of these commitments during 2016 are described in note 33 to the consolidated financial statements for the year 2016.

Nocowanie.pl Sp. z o.o.

The basic assumptions being the basis for the options' valuation are as follows: EBITDA and its average annual growth rate, which are the basis for the calculation of the option exercise price and discount rate. An increase in the forecasted growth dynamics of revenues by 1 p.p. per annum in the years 2017–2019 increases the value of liabilities by 2.21%. An increase in the forecasted EBITDA margin by 1 p.p. per annum in the years 2017-2019 increases the value of the liabilities by 2.02%. An increase in the discount rate of 1 p.p. decreases the liability by 3.1%.

The commitment was initially estimated at PLN 11,571 thousand. As of 31 December 2016 the value of these commitments amounted to PLN 11,906 thousand.

Any changes in the value of these liabilities, resulting from discount settlement after the initial recognition, are presented in profit or loss as financial income/costs. Changes in the value resulting from an update of the forecasted results as the basis for estimating future liability are recognised as "Revaluation of commitments to purchase non-controlling interests".

4.6. DETERMINING THE VALUE OF TRADEMARKS AND OTHER INTANGIBLE ASSETS RELATED TO ACQUISITIONS

As part of the settlement of the acquired subsidiaries, the Group made significant estimates as to the valuation of intangible assets such as trademarks, client relationships, home page and WP e-mail. The estimates were based on revenues and costs to be generated by the acquired subsidiaries, as anticipated by the Group. In the case of trademarks, the Royalty Relief Method was adopted. The method focuses on determining the hypothetical royalties that would be charged to the company for using the trademark had the Company not been its owner. The details concerning the acquired assets and their valuation are presented in Note 20.

4.7. IMPAIRMENT TESTS

Goodwill and intangible assets were subject to an impairment test as of 31 December 2016. Details of the test are discussed in Note 19.

4.8. THE EXISTENCE OF CONTROL OVER SUBSIDIARIES – DOMODI

On 12 September 2014, the Group acquired 51% of shares in Domodi Sp. z o.o.

The Group established that it had acquired control of Domodi Sp. z o.o. based on the following premises:

- All important decisions concerning significant activities of Domodi Sp. z o.o. are made by establishing and approving the budget (including subsequent amendments). The remaining decisions are protective in nature and not significant in the course of the normal operating activities;
- 51% of the voting rights at the Shareholders' Meeting held by the Group and two out of three Supervisory Board members do not allow the Group to establish, approve and amend the budget on its own. However, the Group has the option to purchase the remaining 49% of shares in Domodi Sp. z o.o. in the event of the remaining shareholders not agreeing to establish, approve or amend the budget. The call option held by the Group constitutes significant potential voting rights in accordance with IFRS 10 because the Group will obtain benefits on exercising the option; the option's exercise price is not a barrier to its being exercised; the option can be exercised shortly after reaching an impasse.

Bearing in mind the above, the Group concluded that the significant potential voting rights give the Group control over Domodi Sp. z o.o.

4.9. ALLOWANCES FOR TRADE RECEIVABLES

The Group verifies the recoverability of trade receivables and based on that estimates the amount of write-downs (see note 25).

4.10.ESTIMATE OF ANNUAL REBATES LIABILITIES

As a part of cooperation with media houses, the Group grants annual rebates. These rebates are granted to media houses individually or in groups based on turnover value or percentage achieved. During the year the Group estimates annual rebates liabilities based on current turnover forecast and recognises them as a reduction of revenues for the period. The final amounts of rebates are known after the end of the financial year and may differ from the estimates adopted during the period.

4.11. ESTIMATE OF LIABILITIES DUE TO CONTINGENT CONSIDERATION RELATED TO BUSINESS COMBINATIONS

Agreements concluded by the Group within the acquisition activities often provide additional contingent consideration for sold shares or ventures. Additional consideration is usually dependent on financial or operating results of entities acquired. The final value of the contingent consideration is known after the end of the conditional period and may differ from the estimates at the moment of acquisition.

Changes in the fair value of contingent consideration as a result of additional information that the acquirer obtained after the date of acquisition about facts and circumstances that existed at the acquisition date are recognised as the purchase price adjustment. Changes in valuation due to differences in financial or operating results from the level assumed at initial recognition are presented in the income statement and other comprehensive income.

The Group analyses the conditions necessary for the payment of additional consideration at each time based on requirements of IFRS 3 and includes in purchase price this part of contingent consideration which is not the consideration other than due to transfer of rights to shares.

5. INFORMATION ON SEASONALITY IN GROUP'S OPERATIONS

Advertising revenues are subject to seasonality - revenues in the first and third quarters are lower than in the second and fourth quarters of the year, except for revenues generated by Enovatis SA and Nocowanie.pl Sp. z o.o., which operate in tourism sector and their revenues reach the highest levels in the third quarter of the year. Other Group's revenues do not show seasonality.

6. INFORMATION ON SEGMENT REPORTING

Starting from 2016, after obtaining the final decision of the National Broadcasting Council and launch of work on the television programme in Multiplex 8, the Management Board re-segmented its activities and analysed Capital Group's activity regarding revenue streams and the EBITDA operating result, dividing it into two segments – i.e. Online and TV. The main operating segment continues to be Online – i.e. the Group's activity on the Internet. Although based on 2016 data, the TV segment did not meet the criteria of IFRS 8 for its separate disclosure, although due to the significant difference in its nature and perspective relevance, the Management Board decided to present the information about the individual segments starting from 2016.

For the year ended 31 December 2016 (in PLN'000)	Online Segment	TV Segment	Eliminations and consolidation adjustments	Total
Sales to third parties	***414 694***	450	-	415 144
Sales between segments	-	-	-	-
Total sales	***414 694***	***450***	-	***415 144***
including cash sales	376 873	450	-	377 323
EBITDA	***126 672***	***(3 727)***	-	***122 945***
Adjusted EBITDA	***135 884***	***(3 729)***	-	***132 155***

For the year ended 31 December 2015 (in PLN'000)	Online Segment	TV Segment	Eliminations and consolidation adjustments	Total
Sales to third parties	***325 583***	-	-	***325 583***
Sales between segments	-	-	-	-
Total sales	***325 583***	-	-	***325 583***
including cash sales	285 998	-	-	285 998
EBITDA	94 668	(275)	-	94 393
Adjusted EBITDA	***107 925***	***(100)***	-	***107 825***

The Management Board does not analyse the operating segments in relation to their asset's value. The Group's operating segments are presented consistently with the internal reporting submitted to the Parent Company's Management Board, which is the main body responsible for making operational decisions.

7. THE GROUP'S STRUCTURE

As of 31 December 2016 the Capital Group represented: the parent company Wirtualna Polska Holding SA and 16 subsidiaries.

The consolidated financial statements of the Group comprise the Company and the following subsidiaries:

No.	Name of subsidiary	Registered office	% of shares held 31 December 2016	% of shares held 31 December 2015
1	Grupa Wirtualna Polska S.A.	Poland, Warsaw	100%	100%
2	http Sp. z o.o.	Poland, Warsaw	100%	100%
3	Money.pl Sp. z o.o.	Poland, Wroclaw	100%	100%
4	Business Ad Network Sp. z o.o.	Poland, Wroclaw	100%	100%
5	Businessclick Sp. z o.o.	Poland, Wroclaw	100%	100%
6	Favore Sp. z o.o.	Poland, Wroclaw	-	100%
7	WP Shopping Sp. z o.o.	Poland, Warsaw	-	100%
8	Legalsupport Sp. z o.o.	Poland, Cracow	-	100%
9	Brand New Media Sp. z o.o.	Poland, Wroclaw	100%	100%
10	dobreprogramy Sp. z o.o.	Poland, Wroclaw	51%	51%
11	Domodi Sp. z o.o.	Poland, Wroclaw	51%	51%
12	WP1 Sp. z o.o.	Poland, Warsaw	100%	100%
13	Finansowysupermarket.pl Sp. z o.o.	Poland, Warsaw	100%	100%
14	Web Broker Sp. z o.o.	Poland, Warsaw	-	100%
15	Blomedia.pl Sp. z o.o.	Poland, Warsaw	100%	100%
16	Allani Sp. z o.o.	Poland, Warsaw	51%	51%
17	Totalmoney.pl Sp. z o.o.	Poland, Warsaw	100%	-
18	Nocowanie.pl Sp. z o.o.	Poland, Lublin	75%	-
19	Netwizor Sp. z o.o.	Poland, Warsaw	100%	-
20	Enovatis S.A.	Poland, Gdansk	100%	100%

Most of the Group's companies are focused on selling advertisements on the Internet, except for http Sp. z o.o., which conducts publishing operations (Internet portals) and sell its services within the Group. In addition, the different activities are also conducted by Enovatis SA and Nocowanie.pl Sp. z o.o. which operate in the online tourism sector and Netwizor, which runs internet services connected with the distribution of television channels on the Internet.

Changes in the Group's structure in 2016

On 16 March 2016, Grupa Wirtualna Polska SA signed a share purchase agreement for 200 shares in TotalMoney.pl Sp. z o.o with its registered office in Warsaw with a nominal value of PLN 1,600 each and a total nominal value of PLN 320,000 which represents 100% of the share capital in TotalMoney.pl Sp. z o.o and represents 100% of the votes at the general meeting of shareholders of the acquired company.

On 7 June 2016, the final sale agreement for 75% of the shares in Nocowanie.pl Sp. z o.o was concluded. The purchase price amounted to PLN 21,957 thousand, out of which PLN 12 million was financed from the CAPEX tranche of the loan facility granted to the Group and the remaining part from Group's own resources.

On 1 July 2016, Finansowysupermarket.pl Sp. z o.o. and Web Broker Sp. z o.o. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Web Broker Sp. z o.o. to Finansowysupermarket.pl Sp. z o.o.

On 30 September 2016, WP Shopping Sp. z o.o. and Favore Sp. z o.o. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all the assets of Favore Sp. z o.o. to WP Shopping Sp. z o.o. As a result of the merger, the part of the shares in WP Shopping Sp. z o.o. corresponding to 9.57% of the votes at the general meeting was transferred to the previous owner of Favore Sp. z o.o. - Money.pl Sp. z o.o. On 21 December 2016 Grupa Wirtualna Polska S.A. and Money.pl disposed of 100% of its shares in WP Shopping Sp. z o.o. The consolidated result on this sale was PLN 665 thousand.

Additionally, on 21 July 2016 Money.pl sold 100% of its shares in Legalsupport Sp. z o.o. The transaction had no significant effect on the Group's operations.

On 13 December 2016 Grupa Wirtualna Polska S.A. signed a share purchase agreement for 100% of the shares in Netwizor Sp. z o.o. with its registered office in Warsaw.

Changes in the Group structure after the balance sheet date

On 2 January 2017, Business Ad Network Sp. z o.o. and Grupa Wirtualna Polska S.A. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all the assets of Business Ad Network Sp. z o.o. to Grupa Wirtualna Polska S.A.

On 2 January 2017, Totalmoney.pl Sp. z o.o. and Money.pl Sp. z o.o. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all assets of Totalmoney.pl Sp. z o.o. to Money.pl Sp. z o.o.

On 31 January 2017, Blomedia.pl Sp. z o.o. and Grupa Wirtualna Polska S.A. merged pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code, by transferring all the assets of Blomedia.pl Sp. z o.o. to Grupa Wirtualna Polska S.A.

8. SALES

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Sales of services settled in cash	377 323	285 998
Sales of services settled in barter	37 821	39 585
Total	***415 144***	***325 583***

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Domestic sales	330 885	266 121
Export sales	84 259	59 462
European Union	75 664	51 021
Outside European Union	8 595	8 441
Total	***415 144***	***325 583***

9. EBITDA AND ADJUSTED EBITDA

The Group's EBITDA is calculated as operating profit plus depreciation and amortisation, and the Group's adjusted EBITDA is calculated as EBITDA adjusted for events, including: transaction costs related to the public offering and acquisitions, result on barter transactions, income from revaluation of non-operational provisions, revaluation of non-current assets and costs of the management option scheme. EBITDA and adjusted EBITDA are presented because in the Group's opinion they are a useful measure of the results of operations. The EBITDA and adjusted EBITDA ratios are not defined by IFRS and should not be treated as an alternative to the profit/(loss) categories provided for in IFRS as a measure of operating results nor as a measure of cash flow from operating activities based on IFRS. Neither can they be treated as a liquidity ratio.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Profit before tax	***15 400***	***15 400***
Finance costs	17 986	21 400
Finance income	(649)	(960)
Revaluation of commitments to purchase non-controlling interests	48 126	28 111
Operating profit	***80 863***	***63 951***
Amortization and depreciation of fixed assets and intangibles	42 082	30 442
EBITDA	***122 945***	***94 393***
Adjustments including:		
Restructuring and transaction costs - external services	1 287	7 803
Restructuring and transaction costs – salary and employee benefit expenses	6 030	2 275
Restructuring and transaction costs -other operating expenses	577	2 139
Costs of the employee option scheme	1 767	1 393
Gain/loss on disposal of other financial assets	(341)	150
Net result on barter transactions settlement	(317)	(874)
Revaluation and liquidation of non-financial assets	207	546
Adjusted EBITDA	***132 155***	***107 825***

10. ADJUSTED PROFIT BEFORE TAX

The adjusted profit before tax of the Group is calculated as profit before tax adjusted for events, comprising: transaction costs related to the public offering and acquisitions, result on settlement of barter transactions, income from revaluation of non-operational provisions, revaluation of non-current assets, costs of the management option scheme and valuation of interest rate hedging instrument as well as costs recognised due to refinancing of the Group's debt and revaluation of commitments to purchase non-controlling interests. The adjusted profit before tax is not defined by IFRS and should not be treated as an alternative to the profit/(loss) categories provided for in IFRS as a measure of operating results nor as a measure of cash flow from operating activities based on IFRS. Neither can it be treated as a liquidity ratio.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Profit before tax	***15 400***	***15 400***
Adjustments including:		
Restructuring and transaction costs - external services	1 287	7 803
Restructuring and transaction costs – salary and employee benefit expenses	6 030	2 275
Restructuring and transaction costs -other operating expenses	577	2 139
Costs of the employee option scheme	1 767	1 393
Gain/loss on disposal of other financial assets	(341)	150
Net result on barter transactions settlement	(317)	(874)
Revaluation and liquidation of non-financial assets	207	546
Revaluation of commitments to purchase non-controlling interests	48 126	28 111
Finance costs in connection with loan refinancing	-	6 201
Valuation of hedging instrument IRS	-	341
Total adjustments	***57 336***	***48 085***
Adjusted profit before tax	***72 736***	***63 485***

11. BARTER TRANSACTIONS

In the opinion of the Group's Management Board, the result on barter transactions does not form a basis for evaluating the results realised during the period. 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 recognised. Some barter transactions are executed in different reporting periods but the result on the individual contracts over their entire period is equal to zero.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Sales of advertising services	37 821	39 585
Costs of external services	(37 640)	(38 355)
Other operating expenses	136	(356)
Net result on barter transactions settlement	***317***	***874***

12. OTHER OPERATING INCOME/GAINS

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Revenues from grants	700	480
Liabilities expired and forgiven	597	48
Repayment of receivables previously written off	-	87
Other	347	195
Total	***1 644***	***810***

13. OTHER OPERATING EXPENSES

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Representation and other costs by type	4 273	3 789
Write-downs of receivables	252	1 164
Taxes and charges	1 921	1 404
Revaluation of provisions (lawsuits)	425	384
Revaluation and liquidation of non-financial assets	463	546
Loss on disposal of non-financial assets	1	9
Other	758	100
Costs related to public offering, acquisitions of subsidiaries and restructuring	577	2 139
Total	***8 670***	***9 535***
including:		
Restructuring related costs	577	2 139
Other operating expenses	8 093	7 396

14. FINANCE INCOME

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Interest income	419	959
Other	230	1
Total	***649***	***960***

15. FINANCE EXPENSES

The following table presents the financial expenses incurred by the Group in the years 2016 and 2015.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Interest and commissions	10 963	10 523
Valuation of interest rate swaps	-	341
Reversal of discount on investment liabilities	6 056	3 624
Costs of early loan repayment	-	6 201
Fees to the Bank Guarantee Fund	931	609
Other	36	102
Total	***17 986***	***21 400***

16. CURRENT AND DEFERRED INCOME TAX

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Current income tax	***4 707***	***2 954***
For the financial year	4 707	3 029
Adjustments relating to prior years		(75)
Deferred tax	***(43 155)***	***6 760***
Temporary differences arising and reversed (note 30)	(43 155)	6 760
Total income tax	***(38 448)***	***9 714***

The notional amount of corporate income tax on profit before tax of the Group differs as follows from the income tax amount shown in the profit or loss:

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Profit before tax	***15 400***	***15 400***
Corporate income tax at the statutory rate of 19%	***2 926***	***2 926***
Tax effects of the following items:		
Revenues and costs non-taxable permanent differences	1 705	991
Revaluation of commitments to purchase non-controlling interests	9 144	5 341
The reversal of the discount on commitments to purchase non-controlling interest	652	436
Unrecognized tax assets	2 080	368
Activated portion of tax loss on the sale of WP Shopping	(54 996)	-
Other	25	(273)
Previous years adjustments	16	(75)
Total income tax	***(38 448)***	***9 714***

Partial recognition of the deferred tax asset on the tax loss resulting from the sale of WP Shopping

On 1 September 2014, a demerger of WP Shopping Sp. z.o.o. (formerly Wirtualna Polska SA) was carried out. The demerger was carried out by the transfer of an organised part of the assets of WP Shopping Sp. z.o.o. to Grupa Wirtualna Polska S.A. (i.e. a demerger by spin-off). As a result of the demerger, the Editorial and Advertising Department was transferred to Grupa Wirtualna Polska S.A., and the activities of the e-Commerce Department continued in WP Shopping Sp. z.o.o. In addition, all assets and liabilities that were not clearly identified as remaining in the WP Shopping Sp. z.o.o. were transferred to Grupa Wirtualna Polska S.A. (GWP).

It was decided that the business of WP Shopping Sp. z.o.o., due to its distinct nature (e-commerce business in the field of mediation in sales via the Internet), should not be transferred to GWP, but should function as a separate company in accordance with the Group's development strategy, which involves the separation of heterogeneous businesses so that they can be developed in separate companies, integrated with similar business, purchased within the next acquisition campaigns depending on their potential for development and whether or not their activities will fit the Group's strategy.

Following the merger, the majority of the assets of WP Shopping Sp. z.o.o. were transferred to Grupa Wirtualna Polska S.A. The transaction did not change the tax value of the investment in the subsidiary, resulting in the deductible temporary difference on this investment to the amount of PLN 71,402 thousand. Due to the fact that on 31 December 2015, Grupa Wirtualna Polska S.A. did not plan in the foreseeable future to make the sale of shares, in accordance with IAS 12 par. 44 the deferred tax assets of the temporary difference was not recognised.

In December of 2016 Grupa Wirtualna Polska S.A. and Money.pl Sp. z.o.o. sold all of its shares in WP Shopping Sp. z.o.o. to an external entity Nextfield Investments Limited. Tax revenue from the sale of shares amounted to PLN 2,950 thousand, of which PLN 2,666 thousand was attributed to GWP.

The tax loss on the sale of shares in WP Shopping in the individual books of GWP amounted to PLN 377,652 thousand. The Company has prepared detailed tax projections for the coming years, showing the estimated income tax on the basis of which the Management Board has decided to recognise an additional asset for tax loss of GWP to the amount of PLN 54,996 thousand.

Tax settlements and other regulated areas of activities (for example, customs or foreign currency issues) may be subject to inspections by administrative bodies which are entitled to impose high penalties and sanctions. The lack of reference to established legal regulations in Poland results in ambiguities and inconsistencies in the binding regulations. Frequent differences of opinion as to the legal interpretation of tax regulations, both internally within the state bodies and between the state bodies and enterprises, result in areas of uncertainty and conflict. Due to these factors the tax risk in Poland is considerably higher than in countries with more precisely developed tax systems. Tax settlements may be subject to inspections within five years from the end of the year in which tax was paid. As a result of inspections, the Group's tax settlements may be increased by additional tax liabilities. The Group is of the opinion that as of 31 December 2016 there were no premises to record a provision against identifiable and measurable tax risk.

WP Holding SA

17. EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the net profit for the period attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares in issue during the year. The dilutive items include shares under the option scheme (Note 27).

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Net profit attributable to equity holders of the Parent Company	***53 756***	***4 332***
Weighted average number of shares shown for the purpose of calculating basic earnings per share (no. of units)	28 339 622	27 085 948
Effect of diluting the number of ordinary shares	251 121	483 342
Weighted average number of ordinary shares shown for the purpose of calculating diluted earnings per share (no. of units)	28 590 743	27 569 290
Basic (in PLN)	1,90	0,16
Diluted (in PLN)	1,88	0,16

WP Holding SA

18. PROPERTY, PLANT AND EQUIPMENT

Description	Buildings, structures and leasehold improvements	Servers, machines and other devices	Vehicles	Other property, plant and equipment items	Fixed assets under construction	Total
Gross carrying amount as of 1 January 2016	***10 312***	***61 638***	***1 453***	***2 936***	***4 055***	***80 394***
Additions due to:	***2 807***	***13 239***	***780***	***1 203***	***19 871***	***37 900***
- purchases and transfers	2 807	13 239	624	1 190	19 818	37 678
- business combinations (Note 20 and Note 22)	-	-	156	13	53	222
Disposals due to:	***(19)***	***(547)***	***(371)***	***(101)***	***(17 030)***	***(18 068)***
- transfers	-	-			(17 030)	(17 030)
- liquidation	(19)	(547)	(371)	(101)		(1 038)
Gross carrying amount as of 31 December 2016	***13 100***	***74 330***	***1 862***	***4 038***	***6 896***	***100 226***
Accumulated depreciation as of 1 January 2016	***1 906***	***25 014***	***480***	***1 179***	***-***	***28 579***
Additions due to:	***1 470***	***11 831***	***379***	***639***	***-***	***14 319***
- depreciation	1 470	11 831	379	639		14 319
Disposals due to:	***(12)***	***(490)***	***(195)***	***(82)***	***-***	***(779)***
- liquidation	(12)	(490)	(195)	(82)		(779)
Accumulated depreciation as of 31 December 2016	***3 364***	***36 355***	***664***	***1 736***	***-***	***42 119***
Impairment loss as of 1 January 2016	***-***	***208***	***-***	***-***	***-***	***208***
Impairment loss as of 31 December 2016	***-***	***208***	***-***	***-***	***-***	***208***
Net carrying amount as of 31 December 2016	***9 736***	***37 767***	***1 198***	***2 302***	***6 896***	***57 899***

Description	Buildings, structures and leasehold improvements	Servers, machines and other devices	Vehicles	Other property, plant and equipment items	Fixed assets under construction	Total
Gross carrying amount as of 1 January 2015	***8 911***	***48 507***	***1 010***	***1 455***	***5 788***	***65 671***
Additions due to:	***1 401***	***13 230***	***540***	***1 598***	***13 083***	***29 852***
- purchases	1 015	12 484	464	1 489	13 083	28 535
- business combinations (Note 21)	386	746	76	109	-	1 317
Disposals due to:	-	***(99)***	***(97)***	***(117)***	***(14 816)***	***(15 129)***
- transfers	-	-	-	-	(14 816)	(14 816)
- liquidation	-	(99)	(97)	(117)	-	(313)
Gross carrying amount as of 31 December 2015	***10 312***	***61 638***	***1 453***	***2 936***	***4 055***	***80 394***
Accumulated depreciation as of 1 January 2015	***831***	***14 297***	***279***	***767***	-	***16 174***
Additions due to:	***1 075***	***10 807***	***269***	***441***	-	***12 592***
- depreciation	1 075	10 807	269	441	-	12 592
Disposals due to:	-	***(90)***	***(68)***	***(29)***	-	***(187)***
- liquidation	-	(90)	(68)	(29)	-	(187)
Accumulated depreciation as of 31 December 2015	***1 906***	***25 014***	***480***	***1 179***	-	***28 579***
Impairment loss as of 1 January 2015	-	***216***	-	-	-	***216***
Decreases due to:	-	***(8)***	-	-	-	***(8)***
- liquidation	-	(8)	-	-	-	(8)
Impairment loss as of 31 December 2015	-	***208***	-	-	-	***208***
Net carrying amount as of 31 December 2015	***8 406***	***36 416***	***973***	***1 757***	***4 055***	***51 607***

As of 31 December 2016 and 31 December 2015 the Group did not have any commitments to purchase property, plant or equipment.

The Group uses contracts classified as finance leases in respect of vehicles and IT equipment. As of 31 December 2016, the net value of property, plant and equipment under finance leases was PLN 1,073 thousand, including vehicles of PLN 1,050 thousand and IT equipment of PLN 23 thousand.

As of 31 December 2016 bank loans are secured with property, plant and equipment to the carrying amount of PLN 55,382 thousand.

Holding SA

19. INTANGIBLE ASSETS

in PLN'000	Goodwill	Trademarks	Homepage and WP mail	Other intangible assets: Client relations	Other intangible assets: Copyrights and other intangible assets	Total
Gross carrying amount as of 1 January 2016	***217 437***	***157 962***	***152 300***	***38 367***	***56 412***	***622 478***
Additions due to:	***29 215***	***5 673***	-	***8 943***	***35 264***	***79 095***
- purchases	-	150	-	-	34 890	35 040
- business combinations (Note 20 and Note 22)	29 215	5 523	-	8 943	374	44 055
Disposals due to:	-	***(880)***	-	***(664)***	***(1 258)***	***(2 802)***
- liquidation and sale	-	-	-	-	(1 258)	(1 258)
- sale of subsidiary	-	(880)	-	(664)	-	(1 544)
Gross carrying amount as of 31 December 2016	***246 652***	***162 755***	***152 300***	***46 646***	***90 418***	***698 771***
Accumulated depreciation as of 1 January 2016	-	***1 564***	***11 887***	***4 495***	***19 285***	***37 231***
Additions due to:	-	***3 302***	***6 484***	***6 971***	***11 006***	***27 763***
- depreciation	-	3 302	6 484	6 971	11 006	27 763
Disposals due to:	-	***(82)***	-	***(266)***	***(955)***	***(1 303)***
- liquidation and sale	-	-	-	-	(955)	(955)
- sale of subsidiary	-	(82)	-	(266)	-	(348)
Accumulated depreciation as of 31 December 2016	-	***4 784***	***18 371***	***11 200***	***29 336***	***63 691***
Impairment loss as of 1 January 2016	***180***	-	-	-	***160***	***340***
Impairment loss as of 31 December 2016	***180***	-	-	-	***160***	***340***
Net carrying amount as of 31 December 2016	***246 472***	***157 971***	***133 929***	***35 446***	***60 922***	***634 740***

in PLN'000	Goodwill	Trademarks	Homepage and WP mail	Other intangible assets		Total
				Client relations	Copyrights and other intangible assets	
Gross carrying amount as of 1 January 2015	***125 014***	***123 370***	***152 300***	***20 658***	***34 654***	***455 996***
Additions due to:	***92 423***	***34 592***	**-**	***17 709***	***24 045***	***168 769***
- purchases	-	318	-	-	15 776	16 094
- business combinations (Note 21 and Note 22)	92 423	34 274	-	17 709	8 269	152 675
Disposals due to:	**-**	**-**	**-**	**-**	***(2 287)***	***(2 287)***
- liquidation and sale	-	-	-	-	(2 287)	(2 287)
Gross carrying amount as of 31 December 2015	***217 437***	***157 962***	***152 300***	***38 367***	***56 412***	***622 478***
Accumulated depreciation as of 1 January 2015	**-**	***200***	***5 403***	***769***	***14 880***	***21 252***
Additions due to:	**-**	***1 364***	***6 484***	***3 726***	***6 276***	***17 850***
- depreciation	-	1 364	6 484	3 726	6 276	17 850
Disposals due to:	**-**	**-**	**-**	**-**	***(1 871)***	***(1 871)***
- liquidation	-	-	-	-	(1 871)	(1 871)
Accumulated depreciation as of 31 December 2015	**-**	***1 564***	***11 887***	***4 495***	***19 285***	***37 231***
Impairment loss as of 1 January 2015	***180***	**-**	**-**	**-**	***35***	***215***
Additions due to:	**-**	**-**	**-**	**-**	***125***	***125***
- impairment	**-**	**-**	**-**	**-**	***125***	125
Impairment loss as of 31 December 2015	***180***	**-**	**-**	**-**	***160***	***340***
Net carrying amount as of 31 December 2015	***217 257***	***156 398***	***140 413***	***33 872***	***36 967***	***584 907***

The Group capitalises salary expense as part of development projects. In the years covered by these financial statements, capitalised salary expense amounted to PLN 14,848 thousand in 2016 and PLN 7,271 thousand in 2015. The main projects completed, whose expenditure was capitalised in 2016 were: the new WP e-mail project, new CRM system for Enovatis SA, content platforms and tv24 services on the wp.pl home page.

As of 31 December 2016 and 31 December 2015, bank loans are secured with intangible assets to the carrying amount of PLN 305,794 thousand in 2016 and PLN 307,841 thousand in 2015.

Goodwill

The table below presents the allocation of goodwill to the consolidated subsidiaries.

in PLN'000	*Cash generating unit*	*As of 31 December 2016*	*As of 31 December 2015*
Grupa Wirtualna Polska S.A.	Publishing and Advertising activities	92 040	92 040
Capital Group Money.pl Sp. z o.o.	Publishing and Advertising activities	11 550	11 550
Capital Group Money.pl Sp. z o.o.	Financial lead generation	7 808	7 808
NextWeb Media Sp. z o.o. (since 03.06.2015)	Publishing and Advertising activities	19 072	19 072
Finansowysupermarket.pl sp. z o.o.	Financial lead generation	6 148	6 102
dobreprogramy Sp. z o.o.	Dobreprogramy	3 593	3 593
Domodi Sp. z o.o.	Lead Generation fashion/interior	9 349	9 349
Allani Sp. z o.o.	Lead Generation fashion/interior	9 497	9 497
Enovatis SA	Enovatis	59 530	58 246
TotalMoney.pl Sp. z o.o.	Financial lead generation	8 820	-
Nocowanie.pl Sp. z o.o.	Nocowanie	16 793	-
Netwizor Sp. z o.o.	Publishing and Advertising activities	2 272	-
http Sp. z o.o.	Publishing and Advertising activities	180	180
Goodwill (gross)		***246 652***	***217 437***
Impairment of goodwill:			
http Sp. z o.o.	Publishing and Advertising activities	(180)	(180)
Goodwill (net)		***246 472***	***217 257***

In the case of the acquisitions of TotalMoney.pl Sp. z o.o., Netwizor Sp. z o.o. and Nocowanie.pl Sp. z o.o. the goodwill presented above is based on the provisional settlement of the purchase price as of 31 December 2016.

The cash generating unit of the Grupa Wirtualna Polska SA holds the trademark "WP.pl" with a carrying amount of PLN 102,500 thousand, which has been attributed with an unspecified useful life and is tested for impairment.

Impairment tests

The Management Board analysed for impairment of intangible assets as part of the following cash generating units (according to the table above):

- Publishing and Advertising activities;
- Dobreprogramy;
- Enovatis;
- Nocowanie;
- Lead Generation fashion/interior;
- Financial Lead Generation.

Impairment test were conducted as of 31 December 2016.

The recoverable value of the cash generating units was determined based on the calculated value in use. The key assumptions which when changed may have a significant effect on the estimated value in use of the assets are: the revenue growth rate, EBITDA margin and discount rate before tax.

Cash flow projections have been prepared based on the budget for 2017, past results and expectations of the Management Board for the development of the market in 2018-2021, based on the available market sources. Due to the limited scope of long-term forecasts as to the development of the advertising market in Poland, it was assumed for the purposes of the tests that the cash flow growth rate in the residual period exceeding the five-year forecast period would be equal to the inflation target of the NBP of 2.5%. The pre-tax discount rate was estimated based on the macroeconomic and market data for the individual cash generating units.

The impairment tests conducted with the following assumptions and taking into account probable changes in these assumptions did not show a need to record impairment allowances in respect of the tested assets.

	Period of forecast	Annual growth rate in the residual period	Discount rate
Dobreprogramy	5 years	2,5%	10,7%
Publishing and Advertising activities	5 years	2,5%	10,7%
Lead Generation fashion/interior	5 years	2,5%	10,7%
Financial lead generation	5 years	2,5%	10,7%
Nocowanie	5 years	2,5%	10,7%
Enovatis	5 years	2,5%	10,7%

20. ACQUISITIONS AND BUSINESS COMBINATIONS IN 2016

Acquisitions and business combinations in 2016 - TotalMoney.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Netwizor Sp. z o.o.

TotalMoney.pl Sp. z o.o.

On 16 March 2016, Grupa Wirtualna Polska SA purchased 200 shares in TotalMoney.pl Sp. z o.o with its registered office in Warsaw with a nominal value of PLN 1,600 each and a total nominal value of PLN 320,000 which represents 100% of the share capital in TotalMoney.pl Sp. z o.o and represents 100% of the votes at the general meeting of shareholders of the acquired company.

TotalMoney.pl is the leading comparison service of banking and insurance products, including loans, deposits, credit cards, accounts, insurance. Revenue TotalMoney.pl disclosed in the financial statements for 2015 years amounted to PLN 5,489 thousand.

The final purchase price for 100% of the shares amounted to PLN 14,500 thousand. The price was calculated as PLN 12,500 thousand plus the PLN 2,000 thousand of cash in the bank accounts of TotalMoney.pl Sp. z o.o. as of the last day of the month proceeding the month in which the agreement was concluded. The payment was made via bank transfer, of which PLN 9,959 thousand was financed from cash obtained from an initial public offering and the remaining part from their own resources.

Goodwill on the acquisition of PLN 8,820 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with entity acquired. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables amounted to PLN 662 thousand (including PLN 628 thousand of trade receivables). As of the date of taking control, there were no receivables considered as uncollectible.

Costs related to the acquisition of PLN 208 thousand were presented in the consolidated income statement and other comprehensive income for the year ending 31 December 2016 in the section "external services costs related to public offering, acquisitions of subsidiaries and restructuring".

Nocowanie.pl Sp. z o.o.

On 7 March 2016, Grupa Wirtualna Polska SA signed a preliminary conditional purchase agreement for 75% of the shares in Nocowanie.pl Sp. z o.o with its registered office in Lublin. On 7 June 2016 the sale agreement for 75% of the shares in Nocowanie.pl Sp. z o.o was concluded as the conditions specified in the preliminary agreement had been fulfilled.

Nocowanie.pl Sp. z o.o. is the owner of the nocowanie.pl portal, the domestic leader of the accommodation booking market and one of the most frequently visited tourist websites.

The final purchase price of 75% of the shares amounted to PLN 21,957 thousand.

Additionally, after the end of 2018, the Group will be entitled to purchase, and the minority shareholder entitled to sell, half of the minority interests in the share capital of Nocowanie.pl. The option exercise price will be calculated as the product of the normalised EBITDA for the year 2018 and the multiplier specified in the agreement dependent on the average EBITDA growth ratio in the years 2016-2018 in relation to the EBITDA for the year 2015.

After the end of 2019 the Group will be entitled to purchase, and the minority shareholder entitled to sell, the remaining minority interests in the share capital of Nocowanie.pl. The option exercise price will be calculated as the product of the normalised EBITDA for the year 2019 and the multiplier specified in the agreement dependent on the average EBITDA growth ratio in the years 2016-2019 in relation to the EBITDA for the year 2015.

The terms and conditions for exercising the call and put options referred to above do not transfer the risks and benefits relating to the non-controlling interests to the Group and therefore non-controlling interests covered by the options will be disclosed in the financial statements. The liability in respect of the put option of PLN 11,571 thousand was disclosed in correspondence with equity. The liability as of 31 December 2016 amounted to PLN 11,906 thousand.

Goodwill on the acquisition of PLN 16,793 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with entity acquired. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables amounted to PLN 425 thousand (including PLN 77 thousand of trade receivables). As of the date of taking control, there were no receivables considered as uncollectible.

Costs related to the acquisition of PLN 241 thousand were presented in the consolidated income statement and other comprehensive income in the section "external services costs related to public offering, acquisitions of subsidiaries and restructuring", out of which PLN 76 thousand in 2016 and PLN 165 thousand in 2015 in financial result for the period of twelve months ending 31 December 2015.

Netwizor Sp. z o.o.

On 13 December 2016 Grupa Wirtualna Polska S.A. signed share purchase agreement for 1,000 of the shares in Netwizor Sp. z o.o. with its registered office in Warsaw with a nominal value of PLN 100 each and the total nominal value of PLN 100,000 which represents 100% of the share capital in Netwizor Sp. z o.o. and represents 100% of the votes at the general meeting of shareholders of the acquired company.

Netwizor Sp. z o.o. conducts activities related to the issuance, operation and administration of web sites related to the dissemination and distribution, including re-emission as an IPTV operator, Internet TV channels and VOD to end customers, among others, under the brand name Videostar. Netwizor was registered under number 729 in the Book of the recording of programs distributed conducted by the National Broadcasting Council.

The purchase price for 100 % of shares in Netwizor Sp. z.o.o. amounted to PLN 549 thousand. This amount includes the pre-calculated excess net debt of the Company over a contractually agreed level. The final value of this surplus will be determined in the first quarter of 2017, and in case of a change of more than PLN 20 thousand, the purchase price will be adjusted.

In addition, the structure of the transaction provides for three contingent payments. The first payment of a nominal value of PLN 650 thousand may be paid in 2017, and its payment is conditioned by obtaining the EBITDA specified in the agreement by Netwizor Sp. z o.o. The second and third tranches will be calculated on the basis of contractually fixed percentage of the appraised value of the company, calculated as a multiplication of the Company's EBITDA respectively for the year 2019 (earn-out 1) and 2020 (earn-out 2) and the multiplier dependent on the average growth rate of Netwizor's EBITDA for the financial years 2018 and 2019 (in the case of earn-out 1) and for the financial years 2019 and 2020 (in the case of earn-out 2).

Goodwill on the acquisition determined provisionally of PLN 2,272 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with the operations of Netwizor. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables amounted to PLN 82 thousand and includes trade receivables with a fair value and the contractual gross value of PLN 82 thousand. As of the date of taking control, there were no receivables considered as uncollectible.

Costs related to the acquisition of PLN 161 thousand were presented in the consolidated income statement and other comprehensive income for the year ending 31 December 2016 in the section "external services costs related to public offering, acquisitions of subsidiaries and restructuring".

The following table shows the consideration paid and the fair values of acquired assets and liabilities at the acquisition date. As of 31 December 2016 the acquisitions of TotalMoney.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Netwizor Sp. z o.o. have been settled provisionally.

in PLN'000	TotalMoney.pl Sp. z o.o.	Nocowanie.pl Sp. z o.o.	Netwizor Sp. z o.o.	Total
Cash and cash equivalents - payment for the shares	14 500	21 957	549	37 006
Long- term contingent consideration	-	-	1 699	1 699
Total	***14 500***	***21 957***	***2 248***	***38 705***
Non-controlling interests measured at the value of share in net assets	-	1 721	-	1 721
Recognized values of identifiable acquired assets and liabilities				
Cash and cash equivalents	2 067	743	54	2 864
Property, plant and equipment	-	165	5	170
Trademark	1 588	3 832	103	5 523
Client relations	2 631	6 108	204	8 943
Copyrights and other intangible assets	218	-	-	218
Trade and other receivables	662	425	82	1 169
Loans	-	(125)	-	(125)
Trade and other payables	(719)	(3 172)	(414)	(4 305)
Deferred tax	(745)	(1 091)	(58)	(1 894)
Provisions for employee benefits	(22)	-	-	(22)
Total identifiable net assets	***5 680***	***6 885***	***(24)***	12 541
Goodwill	***8 820***	***16 793***	***2 272***	***27 885***

For information purposes, the following table presents the unaudited results of TotalMoney.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Netwizor Sp. z o.o. from 1 January 2016 to the date of taking control, as per separate financial statements of those entities. The financial data below has not been audited by a certified auditor.

in PLN'000	TotalMoney.pl Sp. z o.o.	Nocowanie.pl Sp. z o.o.	Netwizor Sp. z o.o.	Total
Sales	1 350	3 507	708	5 565
Cash sales	1 350	3 494	708	5 552
EBITDA	115	1 167	(7)	1 275
Adjusted EBITDA	115	1 497	(7)	1 605
Net profit	149	1 235	(26)	1 358

These consolidated financial statements include the results of above acquisitions from the date of taking control to 31 December 2016. The impact of these acquisitions on the consolidated results of the Capital Group is presented in the following table.

in PLN'000	TotalMoney.pl Sp. z o.o.	Nocowanie.pl Sp. z o.o.	Netwizor Sp. z o.o.	Total
Sales	3 863	4 812	-	8 675
Cash sales	3 787	4 771	-	8 558
EBITDA	1 310	1 685	-	2 995
Adjusted EBITDA	1 374	1 685	-	3 059
Net profit	1 064	1 182	-	2 246

21. ACQUISITIONS AND BUSINESS COMBINATIONS IN 2015

Acquisitions and business combinations in 2015 - NextWeb Media Sp. z o.o., Finansowysupermarket.pl Sp. z o.o., Allani Sp. z o.o. and Enovatis SA

NextWeb Media Sp. z o.o.

On 3 June 2015, the Group purchased 100% of the shares in NextWeb Media Sp. z o.o. (hereinafter NWM) together with its subsidiary – i.e. Blomedia Sp. z o.o.. NWM was mainly involved in internet services and selling advertising on the Internet. Goodwill on the acquisition of PLN 19,072 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with those of NWM. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables is PLN 2,098 thousand and comprises trade receivables with a fair value of PLN 2,066 thousand and the contractual gross amount of PLN 2,236 thousand, of which – according to estimations – PLN 170 thousand are uncollectible.

Costs related to the acquisition of PLN 540 thousand were presented in the consolidated income statement and other comprehensive income for the period of twelve months ending 31 December 2015 in the section "external services costs related to public offering and acquisitions of subsidiaries and restructuring".

According to the share purchase agreement, the previous shareholder was entitled to three tranches of additional remuneration. The nominal value of the estimated additional remuneration as of the date of the acquisition amounted to PLN 16,635 thousand and the discounted value amounted to PLN 11,836 thousand and was recognised as part of the purchase price.

On 25 November 2016, the Company concluded the settlement agreement concerning the early settlement of earn-out amounts related to the SPA of NextWeb Media Sp. z o.o. The payment in this respect amounted to PLN 15,500 thousand.

On 31 August 2015, Grupa Wirtualna Polska Sp. z o.o. and NextWeb Media Sp. z o.o. merged by transferring of all assets of NextWeb Media Sp. z o.o. to Grupa Wirtualna Polska Sp. z o.o. Group (merger by acquisition).

Finansowysupermarket.pl Sp. z o.o.

On 16 September 2015, Money.pl Sp. z o.o., a subsidiary of the parent company, finalised a purchase of 100% of the shares in Finansowysupermarket.pl Sp. z o.o. which held 100% of the shares in Web Broker Sp. z o.o. with its registered office in Warsaw. The final goodwill of PLN 6,148 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with two acquired entities. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables amounted to PLN 2,167 thousand. As of the date of taking over control, there were no receivables considered as uncollectible.

The purchase price for 100% of the shares in Finansowysupermarket.pl amounted to PLN 12,319 thousand. Moreover, as a part of the settlement Money.pl Sp. z o.o. was obliged to repay the Web Broker's liabilities to the previous owners due to loans at a total amount of PLN 200 thousand. The repayment of Web Broker's liabilities was made on the date of the share purchase agreement.

Costs related to the acquisition of PLN 218 thousand were presented in the consolidated income statement and other comprehensive income for the period of twelve months ending 31 December 2015 in the section "external services costs related to public offering, acquisitions of subsidiaries and restructuring".

Allani Sp. z o.o.

On 6 October 2015, Domodi Sp. z o.o. (a subsidiary of the parent company) purchased 100% of the shares in Allani Sp. z o.o.

Allani is a specialised fashion marketplace with social elements, collating the services of more than 110 shops, including Zalando, Answear or Eobuwie. The acquisition of Allani Sp. z o.o. consolidates the market of fashion stores where Domodi Sp. z o.o. operates and has resulted in its rise as the undisputed leader in this area of e-commerce. Due to the acquisition of Allani Sp. z o.o., a number of operational and financial synergies between the activities of this company and Domodi Sp. z o.o. were identified, which result in the further significant strengthening of the competitive and financial position of both companies.

Shares were acquired on the basis of three agreements:

- the sale agreement for 1,417 shares at the unit price of PLN 5.7 thousand;
- two share sale agreements and further cooperation concluded with two key members of Allani's management team ("Allani's Managers"), being also previous shareholders of the company. These agreements have transferred to Domodi Sp. z o.o. the ownership of 367 shares in case of the first and 23 shares in case of the second one, for PLN 1 million (the price of one share amounted to PLN 2.7 thousand) and PLN 69 thousand (the price of one share amounted to PLN 3 thousand) respectively.

In the case of the contracts for the sale of shares belonging to Allani's Managers, the signed agreements also contain detailed guidance on further cooperation between the parties and the provisions on the rights of the sellers to additional contingent consideration for sold shares (so called "earn-out"). The agreements provided for two payments of additional consideration for the sold shares.

As of the acquisition date, the Management Board estimated that the total value of additional contingent consideration for Allani's Managers may amount to PLN 9.6 million. Due to existing relations between the value of the earn-out paid and the fact that Allani's Managers shall remain in the company, the purchase price of the shares from those managers, for the purpose of settlement of this transaction, was set at an amount which would be paid for the same number of shares to other shareholders not covered by conditional consideration, which is PLN 2.8 million. After reduction of this amount by the actual price of PLN 1.069 million paid on the day of the transaction, the contingent liability recognised in the original settlement of this transaction amounted to PLN 1.7 million. According to the IAS 19, the difference between the total estimated earn-out payment and the amount recognised as the share price will be the cost of employee benefits and will be settled in costs relating to salary expenses within the period when services entitling to the payment are rendered.

On 20 May 2016, the annex to the contract of sale of shares by the main key Manager was signed. In connection with the resignation of the Board Manager of Allani Sp. z.o.o., the parties agreed to pay him PLN 2.8 million, which is an early settlement of 50% of the contingent liability due to him related to growth in the enterprise value. In addition, as a result of termination of the Manager function in Allani Sp. z.o.o. the Capital Group ceased to recognise in time the provision for the remaining 50% of the conditional remuneration due to him and recognised is as a PLN 2.4 million one-off item of "Costs associated with the public offering, purchases of subsidiaries and restructuring" in the second quarter of 2016.

Similarly, in the case of the second Manager entitled to the earn-out payment, in December 2016 his contract was terminated and he was paid PLN 384 thousand as the early settlement of the contingent liability related to the business combination.

The structure of Allani's acquisition transaction assumes that the purchase of this company is financed by the Group and previous minority shareholders of Domodi in proportion to their shareholding – i.e. 51% and 49% respectively. Pursuant to this assumption, benefits related to the increase in value of combined Domodi and Allani business will be also divided according to this proportion. As a result, the Group signed an amendment to the investment agreement with the minority shareholders of Domodi in which the parties agreed that the valuation, being the basis to exercise the option to purchase the non-controlling package, will be based on the consolidated results of Domodi and Allani. At the same time, the parties confirmed that the value of the contingent consideration payable to Allani's Managers will reduce the valuation of the company as the basis to exercise the put option connected with the purchase of non-controlling interests from Domodi's shareholders.

Goodwill on the acquisition of PLN 9,497 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with entity acquired. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables is PLN 658 thousand. As of the date of taking control, there were no receivables considered as uncollectible.

Costs related to the acquisition of PLN 355 thousand were presented in the consolidated income statement and other comprehensive income for the year ending 31 December 2015 in the section "external services costs related to public offering, acquisitions of subsidiaries and restructuring".

Enovatis S.A.

On 23 December 2015, Grupa Wirtualna Polska SA, a subsidiary of the parent company, finalised a purchase of 100% of the shares in Enovatis SA ("Enovatis") for a total of PLN 83,566 thousand, paid in cash.

Enovatis is the largest and fastest growing online travel agent in the country. The Company's portfolio consists of three popular travel portals – wakacje.pl, easygo.pl and wypoczynek.pl. The Company operates in four segments: outbound package tourism and leisure tourism, sales of airline tickets and intermediation in hotel reservations in Poland and worldwide. Enovatis cooperates long-term with several dozen tourist, technological and commercial partners, including the largest tour operators in the country.

The Goodwill on the acquisition of PLN 59,530 thousand is attributable to the client base acquired and economies of scale expected as a result of the combination of the Group's operations with the entity acquired. No portion of goodwill recorded will be deductible for income tax purposes. The fair value of trade and other receivables is PLN 8,486 thousand and includes trade receivables with a fair value of PLN 7,682 thousand and the contractual gross amount of PLN 8,639 thousand, of which – according to estimations – PLN 957 thousand are uncollectible.

Costs related to the acquisition of PLN 1,199 thousand were presented in the consolidated income statement and other comprehensive income for the year ending 31 December 2015 in the section "external services costs related to public offering, acquisitions of subsidiaries and restructuring".

The following table shows the consideration paid and the fair values of acquired assets and liabilities at the acquisition date. All the presented settlements of the transaction are final.

in PLN'000	NextWeb Media Sp. z o.o.	Finansowy supermarket.pl Sp. z o.o.	Allani Sp. z o.o.	Enovatis S.A.	Total
Consideration					
Cash and cash equivalents - payment for the shares	19 381	12 319	9 080	83 566	124 346
Cash and cash equivalents - unpaid part of shares price	-	-	2 243	-	2 243
Cash and cash equivalents - advance payment for contingent consideration	1 219	-	-	-	1 219
Long- term contingent consideration	12 070	-	1 752	-	13 822
Repayment of loans from previous shareholders	-	200	-	-	200
Other liabilities - taken over liabilities to make capital contribution	100	-	-	-	100
Total	***32 770***	***12 519***	***13 075***	***83 566***	***141 930***
Non-controlling interests measured at the value of share in net assets	***-***	***-***	***3 437***	***-***	***3 437***
Cash and cash equivalents	48	457	473	1 196	2 174
Property, plant and equipment	87	8	5	961	1 061
Trademark	4 970	-	5 048	24 256	34 274
Client relations	8 620	5 467	2 964	658	17 709
Copyrights and other intangible assets	2 211	107	79	5 792	8 189
Trade and other receivables	2 098	2 167	658	8 486	13 409
Loans	-	-	(2)	(5 037)	(5 039)
Finance leases	-	-	-	(82)	(82)
Long-term liabilities	-	-	-	(1 194)	(1 194)
Trade and other payables	(2 062)	(824)	(827)	(5 187)	(8 900)
Deferred tax	(2 217)	(1 011)	(1 383)	(5 382)	(9 993)
Provisions for employee benefits	(57)	-	-	(242)	(299)
Other provisions	-	-	-	(189)	(189)
Total identifiable net assets	***13 698***	***6 371***	***7 015***	***24 036***	***51 120***
Goodwill	***19 072***	***6 148***	***9 497***	***59 530***	***94 247***

22. FINALISING THE PROVISIONAL SETTLEMENT OF THE BUSINESS COMBINATION

The financial statements for the financial year ending 31 December 2015 present the disclosures on the acquisition of Finansowysupermarket.pl Sp. z o.o., Allani Sp. z o.o. and Enovatis S.A settled based on provisional amounts. As a result of the final settlement of the acquisition, the following adjustments were introduced in these financial statements compared with the information provided in the published consolidated financial statements for the year ending 31 December 2015.

Enovatis S.A.

in PLN'000	Final settlement	Adjustments to the provisional settlement	Provisional settlement
Purchase price	***83 566***	-	***83 566***
Cash and cash equivalents	1 196	-	1 196
Property, plant and equipment	961	(52)	909
Trademark	24 256	-	24 256
Client relations	658	-	658
Copyrights and other intangible assets	5 792	(156)	5 636
Trade and other receivables	8 486	1 210	9 696
Loans	(5 037)	-	(5 037)
Finance leases	(82)	-	(82)
Long-term liabilities	(1 194)	-	(1 194)
Trade and other payables	(5 187)	(279)	(5 466)
Deferred tax	(5 382)	537	(4 845)
Provisions for employee benefits	(242)	-	(242)
Other provisions	(189)	24	(165)
Total identifiable net assets	***24 036***	***1 284***	***25 320***
Goodwill	***59 530***	***(1 284)***	***58 246***

Finansowysupermarket.pl Sp. z o.o.

in PLN'000	Final settlement	Adjustments to the provisional settlement	Provisional settlement
Purchase price	***12 519***	**-**	12 519
Cash and cash equivalents	457	-	457
Property, plant and equipment	8	-	8
Client relations	5 467	-	5 467
Copyrights and other intangible assets	107	-	107
Trade and other receivables	2 167	46	2 213
Trade and other payables	(824)	-	(824)
Deferred tax	(1 011)	-	(1 011)
Total identifiable net assets	***6 371***	***46***	***6 417***
Goodwill	***6 148***	***(46)***	***6 102***

As a result of the final settlement of the acquisition of Allani Sp. z o.o., no adjustments were introduced in these financial statements compared with the information provided in the published consolidated financial statements for the year ending 31 December 2015.

23. NON-CURRENT PROGRAMMING ASSETS

Programming assets include acquired licences for the transmission of movies, TV series, television programmes and capitalised production costs with the expected emission period longer than one year.

Programming assets is classified as current or non-current, depending on the licence period. Programming rights with a licence period shorter than 1 year are classified as current.

in PLN'000	As of 31 December 2016	As of 31 December 2015
Acquired programming rights	5 205	
Advances	153	
Total	***5 358***	-
including:		
current programming assets	-	-
Non-current programming assets	5 358	-

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Net carrying value as of 1 January	-	-
Additions:	5 653	-
- purchase of programming assets	5 653	-
Amortization and depreciation of acquired programming rights	- 295	-
Net carrying value as of 31 December	5 358	-

24. OTHER FINANCIAL ASSETS

Acquisition of shares in Fachowcy Ventures SA

On 21 December 2016, as part of the settlement of the sale of shares in WP Shopping Sp. z.o.o., Grupa Wirtualna Polska S.A. acquired 2,941,176 bearer shares of Fachowcy Ventures SA., company listed on New Connect. The contractual sale price of the shares amounted to PLN 0.68 per share, while at the acquisition date the market price amounted to PLN 0.82 per share.

Fachowcy Ventures SA shares are subject to lock-up until 21 December 2017. Liability under the Lock-Up expires when the share price of Fachowcy.pl on the NewConnect market or the Main Market of the Stock Exchange in Warsaw at the close of trading on any day of the term of the Lock-Up falls below the amount of PLN 0.40 per share. Moreover, in the case when during the Lock-Up, or on the Business Day immediately following the expiry of the term of the Lock-Up, a decision is made to delist the Fachowcy.pl shares from trading on the NewConnect market or the Main Market of the Stock Exchange in Warsaw, the Buyer agrees to purchase or to indicate a third party who purchases from all GWP acquired by GWP shares Fachowcy.pl in accordance with Article 5 of the Agreement, for a price not lower than the average six-month share price Fachowcy.pl at the close of trading volume-weighted but not lower than the contractual selling price of shares (PLN 0.68 for one).

The Company does not have explicit strategy for this investment - depending on the results achieved by Fachowcy Ventures SA. After the lock-up the Group may decide on the sale of shares or maintaining capital commitment at a similar level. These shares are classified as financial assets available for sale and, according to group accounting policies, recognised initially at fair value plus transaction costs. After initial recognition, they are measured at fair value. Valuation effects are recognised in other comprehensive income.

The table below presents the valuation of Fachowcy Ventures S.A. shares as of 31 December 2016:

in PLN'000	For the year ending 31 December 2016
Number of shares held (units)	***2 941 176***
contractual sale price of shares (PLN)	0,68
share price as of the date of acquisition (PLN)	0,82
Fair value of shares as of the date of acquisition	***2 412***
share price as of 31.12.2016 (PLN)	0,84
Fair value of shares as of 31.12.2016	***2 470***
Change in valuation recognized in Other comprehensive income	58
Deferred tax assets recognized in Other comprehensive income	(11)

25. TRADE AND OTHER RECEIVABLES

in PLN'000	As of 31 December 2016	As of 31 December 2015
Trade receivables	67 773	56 244
Impairment allowances	1 829	2 462
Trade receivables net	***65 944***	***53 782***
Barter receivables gross	831	953
Impairment allowances	107	118
Barter receivables net	***724***	***835***
State receivables	5 585	4 799
Settlements with employees	46	23
Other	5 005	3 284
Total	***77 304***	***62 723***

Trade receivables do not bear any interest and are usually payable within 30 days.

The security for the Group loan constitutes the Group's current and future receivables subsequent to trade contracts. To secure the loan, the Borrower and the Additional Guarantors were obliged to make a conditional assignment of receivables from trade contracts with a total value of at least PLN 10,000 thousand. As of the date of the agreement, the Borrower conditionally transferred receivables from Orange Polska SA with its registered office in Warsaw from major trade contracts and also from other contracts with a total value of PLN 5,000 thousand. The Group also made the commitment that to secure the loan at any time, 75% of the Group's receivables shall be assigned.

As of 31 December 2016, trade receivables of PLN 1,936 thousand (as of 31 December 2015: PLN 2,580 thousand) were individually considered as non-collectible, and therefore covered by an allowance, due to the fact that the debtors questioned the debt by failing to settle it on the due date or by court dispute.

Changes in write-downs of trade receivables were as follows:

in PLN'000	As of 31 December 2016	As of 31 December 2015
Impairment allowances for trade receivables at the beginning of the period	***2 580***	***1 561***
Increases, including:	***1 100***	***1 868***
- allowances recorded	1 100	1 868
Decreases, including:	***(1 744)***	***(849)***
- utilization of impairment allowances	(896)	(145)
- release of allowances due to repayment of receivables	(848)	(704)
Impairment allowances for trade receivables at the end of the period	***1 936***	***2 580***

As of 31 December 2016, overdue receivables without impairment amounted to PLN 18,647 thousand (as of 31 December 2015: PLN 15,110 thousand). The ageing analysis of these receivables was as follows:

in PLN'000	As of 31 December 2016	As of 31 December 2015
Overdue - up to 3 months	12 385	10 316
Overdue - from 3 to 6 months	624	4 348
Overdue- from 6 to 12 months	5 471	350
Overdue - more than 12 months	167	96
Total	***18 647***	***15 110***

26. SHARE CAPITAL

As of 31 December 2016, the share capital was composed of 28,676,521 shares with a par value of PLN 0.05 each, including 11,289,709 preferred voting shares and 17,386,812 ordinary shares. The structure of share capital was as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
European Media Holding SARL	3 400 000	11,86%	2 062 676	5,16%
Orfe S.A.	2 629 903	9,17%	6 838 914	17,11%
10x S.A.	2 629 903	9,17%	6 838 914	17,11%
Albemuth Inwestycje S.A.	2 629 903	9,17%	6 838 914	17,11%
Other	17 386 812	60,63%	17 386 812	43,51%
Total	***28 676 521***	***100,00%***	***39 966 230***	***100,00%***

As of 31 December 2015, the share capital was composed of 28,252,782 shares with a par value of PLN 0.05 each, including 12,389,709 preferred voting shares and 15,863,073 ordinary shares and its structure was as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
European Media Holding SARL	10 869 177	38,47%	10 631 853	26,16%
Orfe S.A.	2 629 903	9,31%	6 838 914	16,83%
10x S.A.	2 629 903	9,31%	6 838 914	16,83%
Albemuth Inwestycje S.A.	2 629 903	9,31%	6 838 914	16,83%
Other	9 493 896	33,60%	9 493 896	23,36%
Total	***28 252 782***	***100,00%***	***40 642 491***	***100,00%***

The share capital of the Company was fully paid up as of 31 December 2016 and 2015.

Option schemes

In connection with the implementation of option schemes existing in the Company, two share capital increases took place in 2016:

- on 14 October 2016, the increase in the Company's share capital by PLN 19.4 thousand took place due to the admission to the deposit of the securities, introduction to trading and entering into the accounts of the entitled of 388,078 D series ordinary bearer shares with a par value of PLN 0.05 each;
- on 21 November 2016, another increase in the Company's share capital by PLN 1.8 thousand took place due to the admission to the deposit of the securities, introduction to trading and entering into the accounts of the entitled of 23,493 D series ordinary bearer shares and 12,168 F series ordinary bearer shares with a par value of PLN 0.05 each.

Conversion and dematerialisation of shares previously preferred in terms of voting rights

On 14 October 2016, the 1,100,000 registered shares of Wirtualna Polska Holding S.A. preferred in terms of voting rights held by European Media Holding S.À R.L were converted into ordinary bearer shares. With regard to this conversion and the earlier issue of 388,078 D series ordinary bearer shares, on 18 October 2016 the Company received from European Media Holding S.à r.l. the notice about the change in the share of this shareholder in the total number of shares in the share capital of the Company and in the total number of votes at the General Meeting of the Company. The share of European Media Holding S.à r.l. in the total number of shares in the share capital of the Company decreased by 0.52 p.p. and the share in the total number of votes at the General Meeting decreased by 2.29 p.p.

On 21 November 2016, all described above, converted ordinary bearer shares held by the European Media Holding S.à r.l. were admitted to the deposit of the securities.

Significant changes in shareholders in 2016

On 5 December 2016, the Company received from the shareholder European Media Holding S.à r.l., with its registered seat in Luxembourg, notice about the change in the share of this shareholder in the total number of shares in the Company's share capital and in the total number of votes at the General Meeting of the Company due to the settlement of the block transactions concluded on 1 December 2016 by way of the accelerated book-building process, where 7,469,177 of Company's shares were sold. The transactions were settled on 5 December 2016.

As a result of the transaction, the share of the shareholder in the total number of shares in the share capital of the Company decreased by 26.04 p.p. and the share in the total number of votes at the General Meeting of the Company decreased by 18.69 p.p. After the settlement of the transaction, the shareholder directly holds 3,400,000 of the Company's shares, constituting an 11.86% interest in the share capital of the Company and entitling 2,062,676 votes at the general meeting of the Company, representing 5.16% of the total number of votes. The number of votes which European Media Holding S.à r.l.is entitled to exercise is lower than the number of the shares held as a result of the execution on 6 November 2015 of three registered pledge agreements by and among the shareholder as the pledger and Michał Brański, Krzysztof Sierota and Jacek Świderski as the pledgees.

Significant changes in shareholders after the balance sheet date

On 4 January 2017, European Media Holding S.à r.l. contributed 3,400,000 registered shares of the Company, preferred in terms of voting rights so that one share entitles two votes at the general meeting, as an in-kind contribution to pay for newly issued shares in the increased share capital of its subsidiaries: Palaja sp. z o.o., Silveira sp. z o. o., Liceia sp. z o.o. and Innova Noble S.à r.l.

As a result of the transaction:

- the Shareholder directly does not hold any shares in the Company, and its direct interest in the total number of shares in the share capital of the Company decreased by 11.86 pp, and the Shareholder's interest in the total number of votes at the general meeting of the Company decreased by 5.16 pp which is below the threshold of 5% of the total number of votes at the general meeting of the Company;
- the Shareholder's indirect interest in the total number of shares in the share capital of the Company and in the total number of votes at the general meeting of the Company remained unchanged and amounts to 11.86% (share in the share capital of the Company) and 5.16% (share in the total number of votes at the general meeting of the Company).

As a result of the transaction European Media Holding S.à r.l. held shares through the following subsidiaries:

- Palaja sp. z o.o., directly holds 568,000 shares in the Company representing a 1.98% interest in the share capital of the Company; Palaja sp. z o.o. is not entitled to exercise the voting rights attached to these shares, as these voting rights are subject to the Pledge Agreement;
- Silveira sp. z o. o., directly holds 568,000 shares in the Company representing a 1.98% interest in the share capital of the Company; Silveira sp. z o.o. is not entitled to exercise the voting rights attached to these shares, as these voting rights are subject to the Pledge Agreement;
- Liceia sp. z o.o., directly holds 568,000 shares in the Company representing a 1.98% interest in the share capital of the Company; Liceia sp. z o.o. is not entitled to exercise the voting rights attached to these shares, as these voting rights are subject to the Pledge Agreement;
- Innova Noble S.à r.l., directly holds 1,696,000 shares in the Company representing a 5.91% interest in the share capital of the Company and entitling to exercise 5.16% of the votes at the general meeting of the Company (some of the shares held by Innova Noble S.à r.l. are subject to the Pledge Agreement).

On 9 February 2017, the Company received from European Media Holding S.à r.l., with its registered seat in Luxembourg, notice about the change in the share of the shareholder in the total number of shares in the Company's share capital and in the total number of votes at the General Meeting of the Company as a result of:

- a transfer, on 8 February 2017, by the Shareholder of all the shares in the subsidiaries : Palaja sp. z o.o., Silveira sp. z o. o. and Liceia sp. z o.o., which jointly held 1,704,000 registered shares in Wirtualna Polska Holding S.A. preferred in terms of voting rights so that one share entitles two votes at the general meeting and
- a contribution by a shareholder's subsidiary Innova Noble S.à r.l., with its registered office in the Grand Duchy of Luxembourg, of 1,696,000 registered shares of the Company preferred in terms of voting rights so that one share entitles two votes at the general meeting, as contributions in-kind to cover the new shares in the increased share capital of the companies: Orfe S.A., Albemuth Inwestycje S.A. and 10X S.A.;

thereby European Media Holding S.à r.l. indirectly sold 3,400,000 of the Company's shares.

Moreover, on 9 February 2017, the Company received from its shareholder companies 10x S.A., Albemuth Inwestycje S.A. and Orfe S.A., as well as from Michał Brański, Krzysztof Sierota and Jacek Świderski (collectively referred to as "Founders"), notice about the change in the share of the Shareholders and Founders in the total number of votes as a result of the following events:

- the acquisition, on 8 February 2017, of (i) 100% of the shares in Palaja sp. z o.o. by 10X S.A.; (ii) 100% of the shares in Silveira sp. z o.o. by Albemuth Inwestycje S.A.; and (iii) 100% of the shares in Liceia sp. z o.o. by Orfe S.A.; and
- a contribution, on 8 February 2017, by Innova Noble S.à r.l., with its registered office in the Grand Duchy of Luxembourg, of registered shares having preferential rights as to voting i.e. (i) 565,333 registered shares in Wirtualna Polska Holding S.A. being an in-kind contribution to pay for newly issued shares in the increased share capital of 10X S.A.; (ii) 565,333 registered shares of the Company, being an in-kind contribution to pay for newly issued shares in the increased share capital of Albemuth Inwestycje S.A.; and (iii) 565,334 registered shares of the Company, being an in-kind contribution to pay for newly issued shares in the increased share capital of Orfe S.A.,
- the expiry of pledges established on the registered A series shares of the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting pursuant to the pledge agreement of which the Company notified the public in the current report No. 46/2015 of 9 December 2015,

After the Transaction, the Founders and Shareholders are entitled to exercise the voting rights in the following manner:

- Jacek Świderski is indirectly entitled to exercise voting rights attached to 3,763,237 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,237 shares held by Orfe S.A. and 568,000 shares held by Liceia sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,474 votes at the general shareholders meeting of the Company and constituting 18.82% 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 having preferential rights as to voting, so that one share entitles two votes at the general meeting (including 3,195,236 shares held by Albemuth Inwestycje S.A. and 568,000 shares held by Silveira sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes; and
- Michał Brański is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company having preferential rights as to voting, so that one share entitles two votes at the general meeting

(including 3,195,236 shares held by 10X S.A. and 568,000 shares held by Palaja sp. z o.o.), which constitutes a 13.11% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.82% of the overall number of votes.

Increase in share capital after the balance sheet date

On 24 February 2017, the share capital was increased from PLN 1,433,826.05 to PLN 1,434,931.20 i.e. by PLN 1,105.15. The share capital increase took place in connection with the admission to trading and entering on the accounts (issue) of 22,103 shares with a par value of PLN 0.05 each under the option scheme.

Current structure of the share capital

Taking into account the above changes, 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 as of the day of publication of this report is as follows.

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świderski through subsidiaries:	3 763 237	13,11%	7 526 474	18,82%
Orfe S.A.	3 195 237	11,13%	6 390 474	15,98%
Liceia Sp. z o.o.	568 000	1,98%	1 136 000	2,84%
Michał Brański through subsidiaries:	3 763 236	13,11%	7 526 472	18,82%
10X S.A.	3 195 236	11,13%	6 390 472	15,98%
Palaja Sp. z o.o.	568 000	1,98%	1 136 000	2,84%
Krzysztof Sierota through subsidiaries:	3 763 236	13,11%	7 526 472	18,82%
Albemuth Inwestycje S.A.	3 195 236	11,13%	6 390 472	15,98%
Silveira Sp. z o.o.	568 000	1,98%	1 136 000	2,84%
Founders together*	11 289 709	39,34%	22 579 418	56,47%
Other	17 408 915	60,66%	17 408 915	43,53%
Total	***28 698 624***	***100,00%***	***39 988 333***	***100,00%***

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

Dividend policy

In 2015 and 2016 the Parent Company of the Group did not pay any dividend. On 20 December 2016, the Management Board of Wirtualna Polska Holding S.A adopted a Dividend Policy. The policy assumes a dividend payment at the level above PLN 1 per share, but not more than 70% of the consolidated net profit of the Capital Group reported in the consolidated financial statements for a given financial year.

When recommending the payment of a dividend by WPH S.A, the Management Board of WPH S.A. will consider all the relevant factors, including in particular the current financial situation of the Group, its investment plans and potential acquisition targets as well as the expected level of free cash in WPH S.A. in the financial year in which the payment of dividends is due.

The Dividend Policy applies starting from the distribution of the consolidated net profit of the Issuer's Capital Group for the year ending 31 December 2016.

27. INCENTIVE SCHEME-SHARE-BASED PAYMENTS

First Incentive Scheme

On 23 October 2014, the 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 Capital Group in which the Company is the Parent Company. The total number of shares earmarked for the scheme is 1,230,576 and this 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.

In connection with the above arrangements, there is an incentive scheme whose basic principles are defined in Resolution No. 6 of the Extraordinary General Meeting dated 12 December 2014. On the basis of the existing incentive plan, selected members of the Supervisory Board and Management Board as well as selected employees or co-workers of the Company or other companies of the Group which concluded the management option agreement with the Company or other Group's companies are entitled to acquire Company shares. The right to acquire the Company's shares also relates to entities to which the Managers, in accordance with the terms of the management option agreement, transferred the rights and obligations of the management option agreement with the approval of the Company.

The existing incentive scheme includes two phases of the realisation of the right to acquire Company shares: (i) acquiring series C shares due to the realisation of rights under the management option contract until the end of December 2014 and (ii) acquiring series D shares due to the realisation of rights starting from January 2015.

The scheme was classified as an equity settled share-based incentive scheme.

On 20 April 2016, the Ordinary Shareholders Meeting of the Company passed a resolution on changing the existing Incentive Scheme.

According to the introduced changes, the vesting period for Managerial Shares has been extended and can take place no later than 14 January 2025. The participants in the scheme are entitled to acquire the subscription warranties and to subscribe to shares within 10 working days from the end of each subsequent quarter of the acquisition of rights specified in the schedule.

After the modification of the scheme, the weighted average fair value of the options awarded during the period, determined using the BMS valuation model developed by Fisher Black, Myron Scholes and Robert Merton amounted to PLN 5.50 per option. The key input data for the model were as follows: the weighted average share price as of the date of awarding the options, the exercise price, volatility of rates of return on shares between 20.64%-23.04%, a dividend rate of 0.0%, the six-year planned vesting period and the annual risk-free interest rate of 1.56%-2.14%. The total established value of the scheme after the modification amounted to PLN 6,770 thousand which is PLN 341 thousand higher than the valuation of the scheme before the changes to the vesting period.

The expected total cost of the scheme as of the balance sheet date to be recognised in the financial statements over the following periods of its validity amounted to PLN 1,949 thousand. The total costs recognised in the financial result for the period ending 31 December 2016 in respect of the scheme amounted to PLN 1,474 thousand and the total cost recognised in the previous periods amounted to PLN 3,347 thousand.

On 26 September 2016, the resolution no. 3 of the Extraordinary Shareholders Meeting of the Company was passed. On the basis of the resolution, the subscription warrants issued after the date of adoption of this resolution are non-transferable, the issuance of subscription warrants under the incentive scheme will be carried out by a private placement addressed to no more than 149 entitled people, and shares will be offered by a private placement addressed to no more than 149 entitled people who will be entitled to subscribe to subscription warrants.

	Share options (no. of units)
As of 1 January 2016	***793 888***
Awarded	49 224
Non executed	(78 472)
Executed	(411 571)
As of 31 December 2016	***353 069***
Including the number of options vested as of the balance sheet date	90 715

The exercise price of the options outstanding as of 31 December 2016 amounted to PLN 12.17, and the period remaining to the end of the contractual life of the option is between 2.5 and 6 years.

Second Incentive Scheme

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

The issue price of F series shares was determined by the Management Board at PLN 32, which is the price at which the shares were acquired under the initial public offering. Participants in the scheme will be entitled to exercise their rights to shares no later than 5 March 2025, and rights to shares will be acquired gradually in accordance with the schedule set out in individual contracts between the Company and the participants in the scheme. The scheme includes a requirement of being currently employed as a condition for the rights to the options vesting. The participants in the scheme will be able to subscribe to shares within 10 working days from the end of each subsequent quarter; however, the vesting in three consecutive quarters after the day of initial public offering was suspended and was cumulative at the end of the second quarter of 2016.

The weighted average fair value of the options awarded during the period, determined using the binomial valuation model, amounted to PLN 15.23 per option. The key input data for the model were as follows: the share price as of the date of awarding the options, the exercise price, volatility of rates of return on shares between 18.6%-19.4%, a dividend rate of 0.0%, the expected vesting period and the annual risk-free interest rate of 1.68%-3.18%. The total estimated option value in the scheme amounted to PLN 9,039 thousand. The total expected cost of the scheme as of the balance sheet date to be recognised in the financial statements over the following periods of its validity amounted to PLN 8,746 thousand. The total costs recognised in the financial result for the period ending 31 December 2016 in respect of the scheme amounted to PLN 293 thousand.

The scheme was classified as equity settled share-based incentive scheme.

	Share options (no. of units)
As of 1 January 2016	-
Awarded	143 000
Executed	(12 168)
As of 31 December 2016	***130 832***
Including the number of options vested as of the balance sheet date	7 056

The exercise price of the options outstanding as of 31 December 2016 amounted to PLN 32, and the period remaining to the end of contractual life of the option is between 4.5 and 6 years.

28. DISCLOSURE OF COMPONENTS OF OTHER COMPREHENSIVE INCOME

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
The effective part of gains and losses on the cash flow hedges:	***1 241***	***(2 276)***
- Gains arising during the year	2 081	439
- Losses arising during the year	(840)	(2 715)
Income tax related to other comprehensive income/(losses)	***236***	***(432)***
Total comprehensive income	***1 005***	***(1 844)***

The following table shows the tax effect of the other comprehensive income:

in PLN'000	For the year ending 31 December 2016		
	Before tax	Tax	After tax
Gains (losses) on revaluation of available for sale financial assets	58	11	47
The effective part of gains and losses on the cash flow hedges	1 061	202	859
Actuarial gains (losses) from defined benefit pension plans	122	23	99
Total comprehensive income	***1 241***	***236***	***1 005***

Hedge accounting

The loan agreement signed by the Group on 24 March 2015 obliged the Group to conclude IRS transactions (Interest Rate Swap).

Therefore, on 28 April the Group concluded four IRS transactions. The IRS floating to fixed transactions was concluded with creditors in relation to PLN 48.8 million of the A tranche of the loan and PLN 77.2 million of the B tranche of the loan. The key parameters of the instruments (interest periods dates, the reference rate, payment schedules and amortisation) are consistent with those deriving from the loan agreement.

These financial instruments are treated as hedge accounting and recognised in the financial statements of the Group as cash flow hedge under IAS 39.

On each balance sheet date, the Group indicates the effective and ineffective part of the hedge according to the IAS 39.95 rules in order to note changes in the fair value. The effective part of the cumulated gain/loss (change in fair value) from the instrument is recognised in other comprehensive income. The ineffective part of the cumulated gain/loss (change in fair value) from the instrument is presented in the finance income/costs of the period under consideration.

Since the hedging instruments concluded are in total compliance in respect of both the interest periods and the amortisation, the effectiveness tests conducted in the twelve months of 2015 and 2016 have shown the full effectiveness of the hedge. The table below shows the presentation of the hedging instruments held by the Group as of 31 December 2016 in the consolidated balance sheet.

in PLN'000	As of 31 December 2016
Long-term liabilities from valuation of hedging instrument	522
Short-term liabilities from valuation of hedging instrument	694
Deferred tax assets recognized on the valuation of hedging instrument	231
Revaluation reserve	985

Using the cash flow hedge accounting allows the effective part of the financial instrument to be booked as other comprehensive income which will adjust the influence on the financial results of both: the valuation of the hedging instrument and the cost generated by the hedged instrument. This allows a reduction in the volatility of the financial results from the valuation of the hedging instrument and achieve a compensation effect in the profit and loss account in the same reporting period. As a result, the economic and accounting effect of the hedging will be reflected in the same period of time.

29. SUBSIDIARIES WITH A NON-CONTROLLING INTEREST

Presented below is a summary of the financial information of the subsidiaries for which the value of non-controlling interests is significant from the Group's perspective. The amounts presented contain adjustments resulting from fair value measurement (Note 20 and 21) and do not contain adjustments eliminating transactions between dobreprogramy Sp. z o.o., DOMODI Sp. z o.o., Allani Sp. z o.o., Nocowanie.pl Sp. z o.o. and other Group companies. As of 31 December 2016, the net asset value attributable to non-controlling interests amounted to PLN 16,467 thousand (as of 31 December 2015 it amounted to PLN 15,676 thousand).

in PLN'000 Selected information from the statement of financial position:	DOMODI Sp. z o.o. As of 31 December 2016	dobreprogramy Sp. z o.o. As of 31 December 2016	Allani Sp. z o.o. As of 31 December 2016	Nocowanie.pl Sp. z o.o. As of 31 December 2016
Current assets	5 563	2 622	3 817	1 545
Short-term liabilities	(3 540)	(139)	(1 978)	(2 515)
Long-term liabilities	(7 161)	(9)	-	(72)
Deferred tax	(1 592)	(659)	(1 335)	(1 361)
Non-current assets	23 457	3 720	7 101	9 733
Net assets	***16 727***	***5 535***	***7 605***	***7 330***
Accumulated non-controlling interests	***8 196***	***2 712***	***3 726***	***1 833***

in PLN'000 Selected information from the income statement and other comprehensive income:	DOMODI Sp. z o.o. For the year ending 31 December 2016	dobreprogramy Sp. z o.o. For the year ending 31 December 2016	Allani Sp. z o.o. For the year ending 31 December 2016	Nocowanie.pl Sp. z o.o. For the year ending 31 December 2016
Sales	37 484	2 871	14 347	4 812
Profit/(loss) before tax	(531)	(65)	931	546
Net profit /(loss) from continuing operations	(729)	(53)	743	445
Other comprehensive income	-	-	-	-
Comprehensive income/(losses)	***(729)***	***(53)***	***743***	***445***
Comprehensive income /(losses) attributable to non-controlling interests	(357)	(26)	364	111
Dividends paid to non-controlling interests	514	345	164	-

in PLN'000 Selected information from the cash flow statement:	DOMODI Sp. z o.o. For the year ending 31 December 2016	dobreprogramy Sp. z o.o. For the year ending 31 December 2016	Allani Sp. z o.o. For the year ending 31 December 2016	Nocowanie.pl Sp. z o.o. For the year ending 31 December 2016
Net cash and cash equivalents on operating activities from the date of acquisition or prior reporting date	6 247	610	2 216	1 097
Net cash and cash equivalents on investing activities from the date of acquisition or prior reporting date	(5 917)	(167)	(68)	(362)
Net cash and cash equivalents on financing activities from the date of acquisition or prior reporting date	(1 536)	(685)	(336)	-
Net cash and cash equivalents as of the date of acquisition or prior reporting date	4 253	2 337	792	743
Net cash and cash equivalents as of 31 December 2016	3 047	2 095	2 604	1 478
Net change in cash and cash equivalents	***(1 206)***	***(242)***	***1 812***	***735***

30. DEFERRED TAX ASSET AND LIABILITY

The following table presents the components of the deferred tax asset and liability.

in PLN'000	1 January 2016	Financial result	OCI	Sale of subsidiary	Business combinations	31 December 2016
Deferred tax assets:						
Change in tax values of assets as a result of internal reorganization of the Group	26 675	(5 468)	-	-	-	21 207
Unutilized tax losses	9 257	46 308	-	(174)	-	55 391
Write-downs of assets	996	258	-	-	-	1 254
Differences in tax and carrying amounts of liabilities	6 735	1 101	(225)	-	474	8 085
Other differences	1 258	(943)	-	(30)	-	285
Deferred tax assets	***44 921***	***41 256***	***(225)***	***(204)***	***474***	***86 222***
Deferred tax liability:						
Differences in carrying and tax amounts of property, plant and equipment	65 980	(2 187)	-	(201)	2 368	65 960
Other	1 144	288	11	-	537	1 980
Deferred tax liability	***67 124***	***(1 899)***	***11***	***(201)***	***2 905***	***67 940***
Deferred tax assets/liability net	***(22 203)***	***43 155***	***(236)***	***(3)***	***(2 431)***	***18 282***

in PLN'000	31 December 2015	31 December 2016
Offsetting of deferred tax liability	(43 240)	(56 947)
Deferred tax assets after offsetting	***1 681***	***29 275***
Deferred tax liabilities after offsetting	***23 884***	***10 993***

Deferred tax in connection with tax losses deductible in the following years is recorded as an asset when the realisation of the tax benefits is probable by reducing future taxable income by the amount of these losses. The amount of the tax losses on which deferred tax was not recognised as of 31 December 2016 amounted to PLN 96,193 thousand (31 December 2015: 6,173 thousand). As of 31 December 2016, tax losses of PLN 167,270 thousand and PLN 167,260 thousand expire in 2020 and 2021 respectively (as of 31 December 2015 tax losses of PLN 15,711 thousand and PLN 1,815 thousand were to expire accordingly in 2019 and 2020).

31. LOANS AND LEASES

in PLN'000	As of 31 December 2016	As of 31 December 2015
Long-term:		
Bank loans	174 018	192 399
Finance leases	554	283
	174 572	***192 682***
Short-term:		
Bank loans	38 927	35 241
Loans	-	2 800
Finance leases	275	358
	39 202	***38 399***
Total:	***213 774***	***231 081***

Bank loans

On 24 March 2015, Grupa Wirtualna Polska S.A. and mBank and ING Bank Śląski concluded a loan agreement to refinance the current debt, finance capital expenditure and acquisitions, and the bank overdraft, on the basis of which they granted a loan to Grupa Wirtualna Polska S.A. to a total amount of up to PLN 279.5 million.

From the date of refinancing to the date of preparing these financial statements there were two drawdowns and eight repayments of debt under the new loan agreement. In December 2015, the Group used the investment tranche for the partial repayment (PLN 50 million) of the purchase price for the shares in Enovatis SA. Additionally, in June 2016 the Group used the investment tranche for the partial repayment (PLN 12 million) of the purchase price for the shares in Nocowanie.pl Sp. z o.o.

The first repayment of PLN 20 million took place on 21 May 2015 and was financed with the proceeds obtained from the initial public offering. Moreover, at the end of each calendar quarter since 30 June 2015, the Group made a repayment of the loan principal of PLN 6,725 thousand each in accordance with the loan schedule.

The new loan agreement bears an interest rate of 3M WIBOR plus a specified margin depending on the ratio of the Group's net debt to EBITDA.

Grupa Wirtualna Polska S.A. is obliged to repay the debt as follows:

- tranche A should be repaid in twenty equal quarterly instalments payable over a period of 5 years after a lapse of 3 months from concluding the new loan agreement;
- tranche B should be repaid on the final maturity date which will fall on the 6th anniversary of the conclusion of the new loan agreement;
- tranche CAPEX should be repaid in twelve equal quarterly instalments payable after the lapse of two and a half years from concluding the new loan agreement.

Receivables of the new lenders in respect of the loan granted are secured as follows:

- financial and registered pledges on shares in Grupa Wirtualna Polska, http Sp. z o.o., Dobreprogramy Sp. z o.o., Business Ad Network Sp. z o.o., BusinessClick Sp. z o.o., Money.pl Sp. z o.o., Domodi Sp. z o.o., WP1 Sp. z o.o., Blomedia.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. Enovatis SA;
- registered pledges on items and rights of Wirtualna Polska Holding SA, Grupa Wirtualna Polska SA, Money.pl Sp. z o.o., Business Ad Network Sp. z o.o., WP1 Sp. z o.o., Nocowanie.pl Sp. z o.o. , Blomedia.pl Sp. z o.o., Enovatis SA;
- ordinary and registered pledges on the rights to the trademarks of Grupa Wirtualna Polska SA, Money.pl Sp. z o.o. and Blomedia.pl Sp. z o.o., Nocowanie.pl Sp. z o.o., Enovatis SA;
- financial and registered pledges on bank accounts maintained for Wirtualna Polska Holding S.A. and, Grupa Wirtualna Polska SA, Money.pl Sp. z o.o., Business Ad Network Sp. z o.o., WP1 Sp. z o.o., Blomedia.pl Sp. z o.o., Nocowanie.pl Sp. z o.o., Enovatis S.A. together with powers of attorney to those bank accounts;
- transfer of rights from agreements mentioned in the new loan agreement (including insurance policies, commercial contracts, intercompany loans) Wirtualna Polska Holding S.A. and Grupa Wirtualna Polska SA; Money.pl Sp. z o.o.; Business Ad Network Sp. z o.o., WP1 Sp. z o.o., Blomedia.pl Sp. z o.o., Nocowanie.pl Sp. z o.o., Enovatis SA,

- declarations on submission to enforcement procedures by Wirtualna Polska Holding SA, Grupa Wirtualna Polska SA, Money.pl Sp. z o.o.; Business Ad Network Sp. z o.o., WP1 Sp. z o.o., Blomedia.pl Sp. z o.o., Nocowanie.pl Sp. z o.o., Enovatis S.A and
- a subordination agreement for the repayment of indicated existing and future dues in respect of Grupa Wirtualna Polska S.A. to the dues of the new borrowers.

The debt from the loan agreement was presented in the balance sheet as of 31 December 2016 as long and short term. The short-term part was calculated as the sum of planned payments for 12 consecutive months according to the repayment schedule.

The Group had the following undrawn credit lines:

in PLN'000	As of 31 December 2016	As of 31 December 2015
Expiring after one year	48 000	10 000
Total	***48 000***	***10 000***

Loans

As of 31 December 2016 the Group had no unpaid loans. During 2016 the Group repaid PLN 2,800 thousand of the loan granted on 6 October 2015 to Domodi by non-controlling shareholders for the purchase of shares in Allani Sp. z o.o. The loan bore an interest of 3M WIBOR plus the margin specified in the agreement.

Leases

As of 31 December 2016, the Group is a lessee of cars and computer hardware. The lease contracts have been signed for periods not exceeding 5 years. Lease liabilities are effectively secured because the rights to the assets held under lease agreements return to the lessor upon the lessee's default.

in PLN'000	As of 31 December 2016	As of 31 December 2015
Gross finance lease liability:		
up to 1 year	288	370
from 1 to 5 years	621	284
over 5 years	-	-
Total	***909***	***654***
(-) future payments in respect of finance leases	(80)	(13)
Present value of finance lease liabilities	***829***	***641***
up to 1 year	275	358
from 1 to 5 years	554	283

32. PROVISIONS

in PLN'000	As of 31 December 2016	As of 31 December 2015
Provision for employee benefits	***3 276***	***2 891***
provision for pension benefits	249	327
holiday pay provision	3 027	2 564
Other provisions, including:	***1 511***	***1 661***
Provisions for litigation	1 451	1 114
Onerous contracts	-	233
Other	60	314
Total	***4 787***	***4 552***

in PLN'000	As of 31 December 2016	As of 31 December 2015
Provision for employee benefits		
At the beginning of the period	***2 891***	***2 096***
Recorded during the year	490	771
Utilized	-	-
Released	(98)	(218)
Business combinations	22	242
Sale of subsidiaries	(29)	
At the end of the period	***3 276***	***2 891***
Other provisions:		
At the beginning of the period	***1 661***	***2 115***
Recorded during the year	794	685
Utilized	(460)	(1 142)
Released	(369)	(301)
Business combinations	25	304
Sale of subsidiaries	(140)	
At the end of the period	***1 511***	***1 661***

33. TRADE AND OTHER PAYABLES

The following table presents the structure of trade and other payables as of 31 December 2016 and 31 December 2015.

in PLN'000	As of 31 December 2016	As of 31 December 2015
Long-term:		
Contingent liabilities related to business combinations	6 075	11 582
Interest rate swaps - cash flow hedges	522	1 322
Liabilities with respect to the put option for non-controlling interests	125 890	62 762
Liabilities in respect of purchase of property, plant and equipment and intangible assets	11 201	
	143 688	***75 666***
Short-term:		
Trade payables	34 778	30 335
Contingent liabilities related to business combinations	-	4 008
Liabilities related to business combinations (other than earn-out)	-	2 243
Interest rate swaps - cash flow hedges	694	954
State liabilities	4 821	5 346
Barter liabilities	875	12
Wages and salaries payables	5 947	3 565
Liabilities in respect of purchase of property, plant and equipment and intangible assets	12 436	1 593
Deferred income	4 567	2 943
Other	4 727	3 669
Total	***68 845***	***54 668***

Liabilities with respect to the put option for non-controlling interests

Long-term liabilities increased primarily due to the revaluation of the option for non-controlling interests in Domodi Sp. z o.o. As of the date of this report, the Group holds a controlling package of 51% of the shares in Domodi. After the end of 2017, the Group will be entitled to purchase, and the former shareholder to sell, a further 24.5% of shares in Domodi Sp. z o.o. at a price based on the results for the year 2017. After the end of 2019, the Group will be entitled to purchase, and the former shareholder to sell, the remaining 24.5% of shares in Domodi Sp. z o.o. at a price determined on the results for the year 2019 or the market value of the company's shares.

Since the purchase of the controlling package of 51% shares, the operating and financial results, including in particular, revenues and the EBITDA operating profit have recorded dynamic growth.

The option liability increased in total by PLN 30.4 million in 2015 for the following reasons:

(i) The revision of the long-term forecast for this company and revaluation of the liability in the consolidated balance sheet by PLN 11.5 million.

(ii) The amendment to the agreement between the Group and minority shareholders of Domodi sp. after the purchase of Allani Sp. z o.o. The value of the put option should be calculated based on the combined financial data of both entities, while taking into account the participation of minority shareholders Domodi Sp. z.o.o. the earn-out paid for Managers Allani. The combined impact of these factors on the valuation of options and financial costs amounted to 13.5 million in 2015;

(iii) Discount reversal and change of the discount rate, which resulted in the revaluation of PLN 4.9 million

The combined results of Domodi Sp. z.o.o. and Allani Sp. z. o.o. were better than expected at the end of 2015. This positive trend has resulted in the increase in the value of shares remaining in the hands of minority shareholders of Domodi Sp. z.o.o. and therefore the increase in the stock option obligations of the Group to purchase these minority interests in the future. The update of the financial forecasts for both companies in 2016 was followed by the revaluation of the option liability by PLN 46,866 thousand in 2016.

In accordance with IAS 39, the Group recognises the increase in long-term option liability as the financial costs. This cost is a non-cash and therefore eliminated in the statement of cash flows.

The originally estimated non discounted value of the liability recognised in the consolidated equity of the Group amounted to 43.1 million. After taking into account current forecasts and changes in the contract conditions, the liability was revalued to the amount of PLN 127.98 million.

34. CONTINGENT LIABILITY

Contingent liabilities arising from the purchase of subsidiaries arise from the agreement with the former owners Allani Sp. z.o.o. and Netwizor Sp. z.o.o. As of 31 December 2016, the estimated non discounted amount of all future payments that the Group may be required to make under the arrangements adopted is PLN 8,395 thousand. The fair value of contingent consideration of PLN 6,075 thousand was in all cases estimated using the income method. Valuations of both obligations are at level 3 of the fair value hierarchy. Further information is disclosed in Note 37.

In the analysed period the liabilities related to business combination significantly decreased. This decrease was caused mainly by the early repayment of a contingent liability related to the share purchase agreement of NextWeb Media Sp. z.o.o. The discounted value of the liability as of 31 December 2015 amounted to PLN 13.1 million, of which PLN 9.4 million have been reported as long-term liability.

On the other hand, in 2016 the liability related to earn-out payment for the previous owners of Allani Sp. z o.o. increased by PLN 2.1 million. The Group also recognised new earn-out liability to the previous owners of Netwizor Sp. z o.o.

Details of these commitments are described in note 21.

35. OPERATING LEASES

The Group uses office and warehouse buildings based on operating lease agreements. The lease periods are from 1 to 5 years or for indefinite periods, and the majority of the lease contracts are renewable at the end of the lease period at market rates. The total amounts of future minimum lease payments in respect of irrevocable operating lease agreements are:

in PLN'000	As of 31 December 2016	As of 31 December 2015
Less than one year	12 051	6 054
From one to five years	13 322	17 230
Over five years	1 630	2 184
Total	***27 003***	***25 468***

The rental cost recorded in other external services in the years ending 31 December 2016 and 2015 amounted to PLN 6,530 thousand and PLN 6,819 thousand respectively.

36. LITIGATION

Due to the specific nature of its operations, mainly operating internet portals, the Group is exposed to lawsuits in cases related to protection of personal rights. As of 31 December 2016, a several dozen such cases were in progress. The Group recorded a provision for pending litigation based on the actual status of cases and cost estimates prepared by the Legal Department conducting the cases. The provisions were recorded to the amount of the claims and court fees, whose adjudgment 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 2016 the Capital Group paid the total amount of PLN 149 thousand as compensation in cases concerning the protection of personal rights. Additionally, in the analysed period, the provision for court proceedings increased by PLN 337 thousand.

37. FAIR VALUE ESTIMATION

The table below presents financial instruments held by the Group and measured at fair value, by particular valuation methods. Particular levels were defined as follows:

- Input data other than level 1 identifiable or observable quotations for assets or liabilities, directly (i.e. in the form of prices) or indirectly (i.e. on the basis of price-based calculations) (level 2);
- Input data for the valuation of assets or liabilities which are not based on observable market data (i.e. unobservable data) (level 3).

The following table presents the Group's financial liabilities measured at fair value as of 31 December 2016:

in PLN'000	Level 1	Level 2	Level 3	Total
Assets and liabilities measured at fair value through profit or loss				
Financial assets available for sale	2 470	-	-	***2 470***
Contingent liabilities related to business combinations	-	-	(6 075)	***(6 075)***
Interest rate contracts	-	(1 216)	-	***(1 216)***
Total liabilities	***2 470***	***(1 216)***	***(6 075)***	***(4 821)***

Level 1 financial Instruments

The fair value of financial instruments traded on an active market is determined by the use of market prices of similar assets or liabilites as at the balance sheet date.

Level 2 financial Instruments

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. Such valuation techniques optimise the use of observable market data where they are available and rely to the smallest extent on specific unit estimates. If all input data necessary to measure an instrument at fair value are indeed observable the instrument is classified to level 2.

If one or a larger number of input data is not based on observable market data, the instrument is classified to level 3.

In measuring the fair value of interest rate swaps, the Group uses the present value of future cash flow based on observable income curves. Analyses of discounted cash flow are used to determine fair value for the remaining financial instruments.

Level 3 financial Instruments

The following table presents changes in level 3 instruments for the year ending 31 December 2016.

in PLN'000	Contingent consideration under business combinations	
	As of 31 December 2016	As of 31 December 2015
At the beginning of the period	***15 590***	***4 380***
Acquisition of NextWeb Media Sp. z o.o.	-	12 069
Acquisition of Allani Sp. z o.o.	-	1 752
Acquisition of Netwizor Sp. z o.o.	1 699	-
Calculation of consideration paid as earn-out	5 218	457
Repayment of liability related to acquisition of Sportowefakty	(336)	(1 344)
Revaluation of liability related to acquisition of Sportowefakty	56	224
Revaluation of earn-out Domodi Sp. z o.o.	-	720
Repayment of liability related to acquisition of Domodi Sp. z o.o.	-	(4 000)
Repayment of earn-out NextWeb Media Sp. z o.o.	(15 500)	-
Repayment of earn-out Allani Sp. z o.o.	(3 277)	-
Gains and losses recognized in financial result	2 625	1 332
At the end of the period	***6 075***	***15 590***

The table below presents the fair and carrying values of financial instruments:

in PLN'000	Carrying amount	Fair value
Bank loans	212 945	216 599
Finance leases liabilities	829	829
Total	***213 774***	***217 428***

38. OBJECTIVES AND PRINCIPLES OF FINANCIAL RISK MANAGEMENT

The Group is exposed to credit risk and liquidity risk and also to cash flow and fair value risks as a result of interest rate fluctuations. As of 31 December 2016 the Group's operations were not subject to significant currency risk due to an insignificant share of currency transactions in the Group's total transactions. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group utilises derivative financial instruments to hedge against some risks. Since 2014, The Group has swap instruments to economically hedge against interest rate risk arising from loan agreements concluded.

Risk is managed by the centralised Cash Flow Management Department of the Group which executes the policy approved by the Management Board. The Group's Cash Flow Management Department identifies and evaluates financial risks and safeguards the Group against them in strict cooperation with operating units. The Management Board sets in writing the general principles for risk management and the policy concerning the specific areas such as currency risk, interest rate risk, credit risk, application of derivatives and other non-derivative financial instruments and investing of liquidity surpluses.

Credit risk

The credit risk to which the Group is exposed arises mainly from trade receivables and cash in the bank:

- ***Trade receivables***

The Group concludes transactions with firms having a good reputation on the market and with a long relationship history which so far had no problems with the settlement of liabilities to the Group. All clients who wish to use trade credit are subjected to initial verification procedures. Moreover, due to the on-going monitoring of the balances of receivables, the Group's exposure to bad debt risk is insignificant. Due to a specific nature of the market on which the Group operates, receivables overdue up to 180 days are not considered irregular (unless the Group has information of a given client's financial difficulties). This results from the fact that the Group's clients are mainly agents (media houses, etc.) acting on behalf of the end clients. Therefore, it is frequently the case that the Group's clients suspend payment until funds from the end client are transferred to their account. There is no significant concentration of credit risk in the Group, and receivables are usually paid up within 60 days.

- ***Cash in the bank***

The Group places its cash solely in financial institutions with the best reputation

in PLN'000	As of 31 December 2016	As of 31 December 2015
Banks with high rating	45 150	48 961
Total cash at banks	***45 150***	***48 961***

The maximum exposure to credit risk corresponds to the carrying amount of the above financial assets.

Cash flow and fair value risk resulting from interest rate fluctuations

In the Group's case, interest rate risk is related to long-term loans and borrowing. Loans and borrowing with floating interest rates expose the Group to the risk of cash flow fluctuations as a result of changes in interest rates.

The Group actively analyses its exposure to interest rate fluctuations. Simulations of various scenarios are conducted, taking into account refinancing, renewal of the existing positions, alternative financing and hedges. Based on these scenarios, the Group calculates the effect of specific interest rate fluctuations on the financial result. These scenarios are only created for liabilities which constitute the largest interest-bearing items. Based on various scenarios, the Group manages its cash flow risk relating to interest rate fluctuations – using interest swaps under which floating interest rates are swapped for fixed. The economic result of applying such swaps is that loans and advances with floating interest rates are transformed into instruments bearing fixed interest rates. Based on the agreements relating to interest rate swaps, the Group undertakes, together with the other parties, to swap at specific intervals (usually on a quarterly basis) the difference between the fixed and floating interest rates established based on the agreed basis principal. As of 31 December 2016, the Group was a party in four swap agreements converting floating interest rates into fixed, which in total hedged PLN 107 million of debt, which was 50% of the nominal value of the Group's bank loan. The Management estimates that a change of interest rate by 1 p.p. would result in additional PLN 1.7 million of financial interest costs.

In 2016 and 2015, all Group's loans and borrowings were denominated in PLN.

Liquidity risk

The Group monitors liquidity risk using a periodic liquidity planning tool. The tool takes into account the maturities of investments and financial assets (e.g. receivables, other financial assets), as well as expected cash flows from operating activities.

in PLN'000	up to 3 months	from 3 to 12 months	from 1 to 5 years	> 5 years	Total
As of 31 December 2016					
Interest-bearing bank loans	8 797	30 130	174 018	-	***212 945***
Finance leases	82	193	554	-	***829***
Interest rate swaps	185	509	522	-	***1 216***
Trade payables and other financial liabilities	62 701	2 956	141 514	5 024	***212 195***
As of 31 December 2015					
Interest-bearing bank loans	8 905	26 292	145 977	78 059	***259 233***
Finance leases	114	244	283	-	***641***
Interest rate swaps	201	753	1 365	(43)	***2 276***
Trade payables and other financial liabilities	45 879	4 899	77 406	14	***128 198***

Capital management

The principal objective of the capital management within the Group is to maintain a sound credit rating and safe capital ratios to support the Group's operating activity and to increase shareholder value.

The Group manages the capital structure and introduces changes to it based on changes in economic circumstances. In order to maintain or adjust the capital structure, the Group may change the payment of a dividend to the shareholders, return capital to shareholders or issue new shares.

The Group controls its capital balances using the leverage ratio, which is calculated as the ratio of net debt to total equity plus net debt. The Group's net debt includes interest-bearing loans and borrowings, less cash and cash equivalents. The capital management ratios presented below are on a level consistent with the Management Board's expectations.

in PLN'000	As of 31 December 2016	As of 31 December 2015
Interest-bearing loans	213 774	231 081
Less cash and cash equivalents	(45 150)	(48 961)
Net debt	***168 624***	***182 120***
Equity	408 725	357 579
Equity and net debt	577 349	539 699
Leverage ratio I	***29%***	***34%***
Adjusted EBITDA for the last 12 months	132 155	107 825
Leverage ratio II [Adjusted EBITDA/Net debt)	***1,28***	***1,69***

39. RELATED PARTY DISCLOSURES

As of 31 December 2016 no individual entity can control the Group independently. Nevertheless, in view of the share of the overall number of votes at the General Meeting, the Founders (i.e. Jacek Świderski, Michał Brański and Krzysztof Sierota) and Companies controlled by them (acting in concert on the basis of a cooperation agreement regarding the joint exercise of ownership rights based on holding shares in the Company after the Admission Date) are able to exercise a decisive influence over the decisions regarding the most important corporate issues such as the appointment and dismissal of the President of the Management Board, the appointment and dismissal of the members of the Supervisory Board, the amendment of the Articles of Association, the issuance of new shares in the Company, a decrease of the share capital of the Company, the issuance of convertible bonds, dividend payments and other actions which, pursuant to the Commercial Companies Code, require an ordinary or a qualified majority of votes at the General Meeting.

The ultimate parent of the Capital Group is Wirtualna Polska Holding SA.

The following transactions were concluded with related entities:

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Purchases:		
Shareholders of the Company	-	1
Subsidiary of a member of the Management Board of the Parent Company	113	155
Total	***113***	***156***
Sales:		
Subsidiary of a member of the Management Board of the Parent Company	-	5
Total	***-***	***5***

Balances of receivables and payables as of the balance sheet date arising from sale/purchase of goods/services

in PLN'000	As of 31 December 2016	As of 31 December 2015
Liabilities:		
Subsidiary of a member of the Management Board of the Parent Company	14	13
Total	***14***	***13***
Receivables:		

Subsidiary of a member of the Management Board of the Parent Company	6	6
Total	***6***	***6***

The benefits payable or paid to the Parent Company's Management and Supervisory Board Members in the period of current year and previous year are presented in the following table.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Short-term employee costs (salaries and related benefits)	6 254	5 258
Incentive scheme – share-based payments	1 092	955
Total	***7 346***	***6 213***

40. INFORMATION ON GUARANTEES AND WARRANTIES GRATNED IN RESPECT OF LOANS

Guarantees granted to non-Group entities

In the period under analysis none of the Group's 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 Group's equity.

Inter-company guarantees

After the refinancing in April 2015 the following companies are guarantors of the loan agreement by and between Grupa Wirtualna Polska Sp. z o.o. (currently Grupa Wirtualna Polska SA) and mBank and ING Bank Śląski: Wirtualna Polska Holding SA, Business Ad Network Sp. z o.o. and Money.pl Sp. z o.o., Blomedia.pl Sp. z o.o., WP1 Sp. z o.o. and Nocowanie.pl Sp. z o.o.

41. EXPLANATIONS TO THE CASH FLOW STATEMENT

in PLN'000	As of 31 December 2016	As of 31 December 2015
Change in receivables and other short-term assets arises from the following items:	***(12 434)***	***712***
Change in receivables and other short-term assets per balance sheet	(14 581)	(9 013)
Sale of subsidiary	(1 082)	(167)
Receivables and other assets of companies as of the date of obtaining control	(266)	14 665
Accruals recognized in connection with public offering	-	(966)
Change in income tax receivables	3 498	(3 627)
Income tax receivables of companies as at the date of obtaining control	-	(189)
Other	(3)	9
Change in short-term liabilities arises from the following items:	***5 932***	***(5 661)***
Change in short-term liabilities per balance sheet	14 177	2 019
Sale of subsidiary	203	138
Adjustment for a change in the liability in respect of swap instruments	260	1 283
Adjustment for a change in investment liabilities	(4 592)	(2 287)
Revaluation of investment liabilities recognized in operating activities	56	1 401
Operating liabilities taken over as a result of obtaining control	(4 026)	(9 179)
Adjustment for offsetting of income tax receivables and VAT liability	368	-
Change in long-term deferred income	(315)	-
Change in liabilities in respect of financing activities	(206)	-
Repayment of financial liabilities related to costs capitalized under public offering	-	966
Other	7	(2)
Change in provisions arises from the following items:	***469***	***(353)***
Change in short-term provisions per balance sheet	235	341
Sale of subsidiary	157	-
Actuarial valuation recognized in other comprehensive income	122	(22)
Provisions taken over as a result of obtaining control	(46)	(672)
Other	1	-
Purchase of shares in a subsidiary	***36 385***	***123 171***
Nominal purchase price	37 006	124 126
Advance payment on contingent consideration	-	1 219
Repayment of liabilities related to acquisitions of shares in previous periods	2 243	-
Cash and cash equivalents in subsidiaries as of the date of the acquisition's settlement	(2 864)	(2 174)
Repayment of loan to previous shareholder	-	200

As of all balance sheet dates above, cash and cash equivalents comprised solely the cash in the bank and in the hands of the Group's companies.

42. EVENTS AFTER THE BALANCE SHEET DATE

Until the date of preparation of this report, the only significant event after the balance sheet date were changes in the Group's structure described in detail in Note 7 and changes in the share capital structure described in detail in Note 26. In addition to this change until the date of preparation of this report, there were no other significant events.

43. INFORMATION ABOUT THE ENTITY AUTHORISED TO PERFORM AN AUDIT OF THE FINANCIAL STATEMENTS

On 25 November 2016, the Company concluded an agreement on the audit of financial statements of the Company for 2016-2018 financial years and the audit of the consolidated financial statements of Capital Group for 2016-2018 financial years with PricewaterhouseCoopers Sp. z o.o. with its registered office in Warsaw, Al. Armii Ludowej 14.

The following table includes the list of services provided for the Wirtualna Polska Holding Capital Group by the entity authorised to audit financial statements or the company from its group, as well as remuneration for these services (in PLN thousand) for the period of 12 months ended 31 December 2016 and 31 December 2015.

in PLN'000	For the year ending 31 December 2016	For the year ending 31 December 2015
Audit of the annual financial statements	387	331
Tax advisory	28	56
Other services	8	39
Review of interim financial statements	77	95
Audit services related to IPO	-	927
Due dilligance services	351	1 192
Total	***851***	***2 639***

44. SELECTED CONSOLIDATED FINANCIAL DATA CONVERTED INTO EURO

Consolidated income statement and other comprehensive income

	For the year ending 31 December 2016	For the year ending 31 December 2015	For the year ending 31 December 2016	For the year ending 31 December 2015
	in PLN'000		in EUR'000	
Sales	415 144	325 583	94 875	77 801
Cash sales	377 323	285 998	86 231	68 342
Operating profit	80 863	63 951	18 480	15 282
Profit before tax	15 400	15 400	3 519	3 680
Net profit	53 848	5 686	12 306	1 359
EBITDA	122 945	94 393	28 097	22 556
Adjusted EBITDA	132 155	107 825	30 202	25 766

Consolidated statement of financial position

	As of 31 December 2016	As of 31 December 2015	As of 31 December 2016	As of 31 December 2015
	in PLN'000		in EUR'000	
Total assets	852 196	749 879	192 630	175 966
Non-current assets	729 742	638 195	164 951	149 758
Current assets	122 454	111 684	27 679	26 208
Long-term liabilities	330 132	293 426	74 623	68 855
Short-term liabilities	113 339	98 874	25 619	23 202
Equity	408 725	357 579	92 388	83 909
Share capital	1 434	1 413	324	332
Non-controlling interests	16 467	15 676	3 722	3 679

Consolidated cash flow statement:

	For the year ending 31 December 2016	For the year ending 31 December 2015	For the year ending 31 December 2016	For the year ending 31 December 2015
	in PLN'000		in EUR'000	
Net cash flows from operating activities	113 591	88 000	25 960	21 028
Net cash flows from investing activities	(92 613)	(160 755)	(21 165)	(38 414)
Net cash flows from financing activities	(24 789)	90 568	(5 665)	21 642
Total net cash flows	***(3 811)***	***17 813***	***(871)***	***4 257***

Conversion into euro was performed based on the following principles:

- amounts presented in zloty as of 31 December 2016 were converted into euro at the exchange rate of 4.4240 (the NBP exchange rate as of 31 December 2016),
- amounts presented in zloty as of 31 December 2015 were converted into euro at the exchange rate of 4.2615 (the NBP exchange rate as of 31 December 2015),
- amounts presented in zloty for the year ending 31 December 2016 were converted into euro at the exchange rate of 4.3757 (the arithmetic mean of the NBP exchange rates as of the last day of each month of 2016),
- amounts presented in zloty for the year ending 31 December 2015 were converted into euro at the exchange rate of 4.1848 (the arithmetic mean of the NBP exchange rates as of the last day of each month of 2015).

45. ADDITIONAL INFORMATION ON THE RESULTS OF THE FOURTH QUARTER OF 2016

in PLN'000	For three months ending 31 December 2016	For three months ending 31 December 2015
Sales	***122 955***	***102 063***
Amortization and depreciation of fixed assets and intangibles	(11 292)	(8 432)
Amortization and depreciation of acquired programming rights	(295)	-
Materials and energy used	(1 456)	(1 363)
Costs related to public offering, acquisitions of subsidiaries and restructuring	(2 820)	(3 641)
Costs of the employee option scheme	(204)	(348)
Other external services	(42 703)	(34 542)
Other salary and employee benefit expenses	(35 842)	(27 662)
Other operating expenses	(2 728)	(3 277)
Other operating income/gains	560	144
Gain/loss on disposal of other financial assets	665	-
Operating profit	***27 135***	***22 942***
Finance income	318	282
Finance costs	(5 147)	(3 785)
Revaluation of commitments to purchase non-controlling interests	(46 865)	(16 565)
Profit before tax	***(24 559)***	***2 874***
Income tax	47 977	(3 523)
Net profit	***23 418***	***(649)***
Other comprehensive income/(losses)	1 075	375
Comprehensive income	***24 493***	***(274)***
Net profit attributable to:		
Equity holders of the Parent Company	23 447	(1 078)
Non-controlling interests	(324)	429
Comprehensive income attributable to:		
Equity holders of the Parent Company	24 522	(703)
Non-controlling interests	(324)	429

46. OTHER INFORMATION THE GROUP CONSIDERS MATERIAL TO THE ASSESSMENT OF THE GROUP'S HUMAN RESOURCES, ASSETS AND FINANCIAL POSITION, ITS RESULTS 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 Management's commentary, until the day 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 describes exhaustively the human resources, assets 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.

Jacek Świderski
President of the Management Board

Michał Brański
Member of the Management Board

Krzysztof Sierota
Member of the Management Board

Elżbieta Bujniewicz-Belka
Member of the Management Board

Warsaw, 13 March 2017