CONSOLIDATED ANNUAL REPORT

FOR THE FINANCIAL YEAR ENDING

31 DECEMBER 2017

Holding SA

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Dear Shareholders

It has been the fifth year in a row that Wirtualna Polska Holding S.A. continued its steady growth. 2017 brought a sudden emergence of „ad viewability" as the new advertising currency. Apocalyptic to some, it has been but a new motivation to us.

In those turbulent times for online advertising, we have shifted out focus even further towards e-commerce. We have done it by allocating existing media resources, reinforcing the synergies and by evangelising clients.

The entire Holding has achieved a double-digit income growth thanks to the extraordinary dynamics across all our e-commerce activity.

In 2018 it will have been 5 years since we have formulated our mission to help Poles make their choices, especially those concerning consumption. It will also be the first year that our e-commerce based EBITDA will exceed 50 per cent. I am not afraid to say we are writing the history of the Polish Internet by redefining one of its main players.

We have dedicated almost PLN 13 M out of our PLN 151 M EBITDA profit to build new TV channel. With no previous television experience, we have struggled with this uneasy start. But as on so many other occasions we have proved that hardships only make us stronger and we have closed the year as the leader among our competitors. Our current TV division performance lets us believe we will see the first profit before the end of the year.

Not only did we overcome the problems with TV, but we have also used this experience to build yet another product – WP Pilot, and once again the effects were spectacular. Already over one million Poles use this legal online TV streaming service.

2017 was a year of trial. Some doubted our ability to fight and win against the difficult market of Facebook and Google duopoly. We parted ways with those who did not want to achieve the impossible, and once again due to the extraordinary motivation and efficiency of all the citizens of Wirtualna Polska – we succeeded.

We have set the direction for the entire market: ad viewability is now a market standard, our e-commerce mission is more and more often quoted by our competitors as their own.

Our unstoppable desire to increase media revenue after not satisfying 2017 may enable an even stronger growth of our EBITDA core in 2018. Strong e-commerce dynamics, despite the long-term trend, will remain for many quarters an important driver of profit for the shareholders of the oldest yet the most resilient Polish internet company – Wirtualna Polska.

Yours sincerely,

Jacek Świderski
CEO

Warsaw, March 15, 2018

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

Tomasz Machała

VP Editor-in-Chief

Artur Miernik

VP HR

Adam Plona

VP Media Product

Joanna Pawlak

VP Sales

Jerzy Dąbrówka

VP Communication Product

Grzegorz Kruk

VP Corporate Development

MANAGEMENT'S REPORT ON THE ACTIVITIES OF THE COMPANY AND IT'S CAPITAL GROUP FOR THE YEAR ENDED 31 DECEMBER 2017

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1. SELECTED FINANCIAL DATA

The following tables set out selected consolidated financial data for the 3 and 12-month period ending 31 December 2017 and 2016. 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 year ending 31 December 2017 as well as the information included in point 3 of this report.

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Segment ONLINE				
Sales	457 482	414 694	107 782	94 772
Cash sales	424 502	376 873	100 012	86 129
Adjusted EBITDA	150 580	135 884	35 476	31 054
EBITDA	142 192	126 672	33 500	28 949

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Segment TV				
Sales	8 131	450	1 916	103
Cash sales	8 131	450	1 916	103
Adjusted EBITDA	(12 195)	(3 729)	(2 873)	(852)
EBITDA	(12 556)	(3 727)	(2 958)	(852)

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Segments total				
Sales	465 613	415 144	109 698	94 875
Cash sales	432 633	377 323	101 928	86 231
Adjusted EBITDA	138 385	132 155	32 603	30 202
EBITDA	129 636	122 945	30 542	28 097
Amortization and depreciation of fixed assets and intangibles	(51 007)	(42 082)	(12 017)	(9 617)
Operating profit	78 629	80 863	18 525	18 480
Result on financial activities	(24 340)	(65 463)	(5 734)	(14 961)
Profit before tax	54 289	15 400	12 790	3 519
Net profit	40 032	53 848	9 431	12 306

	Three months ending 31 December 2017	Three months ending 31 December 2016	Three months ending 31 December 2017	Three months ending 31 December 2016
	in PLN'000		in EUR'000	
Segment ONLINE				
Sales	134 112	122 505	31 811	27 891
Cash sales	124 661	110 415	29 569	25 138
Adjusted EBITDA	45 740	39 721	10 845	9 043
EBITDA	41 553	40 962	9 856	9 330

	Three months ending 31 December 2017	Three months ending 31 December 2016	Three months ending 31 December 2017	Three months ending 31 December 2016
	in PLN'000		in EUR'000	
Segment TV				
Sales	3 456	450	818	103
Cash sales	3 456	450	818	103
Adjusted EBITDA	(1 549)	(2 832)	(372)	(647)
EBITDA	(1 581)	(2 830)	(380)	(647)

	Three months ending 31 December 2017	Three months ending 31 December 2016	Three months ending 31 December 2017	Three months ending 31 December 2016
	in PLN'000		in EUR'000	
Segments total				
Sales	137 568	122 955	32 629	23 686
Cash sales	128 117	110 865	30 387	21 825
Adjusted EBITDA	44 191	36 889	10 474	7 775
EBITDA	39 972	38 132	9 477	6 451
Amortization and depreciation of fixed assets and intangibles	(13 661)	(11 292)	(3 243)	(2 492)
Operating profit	26 311	26 840	6 234	3 959
Result on financial activities	(11 529)	(51 694)	(2 724)	(1 022)
Profit before tax	14 782	(24 854)	3 508	2 937
Net profit	9 679	23 123	2 300	2 240

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
	in PLN'000		in EUR'000	
Total assets	893 906	852 196	214 320	192 630
Non-current assets	752 229	729 742	180 352	164 951
Current assets	141 677	122 454	33 968	27 679
Long-term liabilities	307 292	330 132	73 675	74 623
Short-term liabilities	166 686	113 339	39 964	25 619
Equity	419 928	408 725	100 680	92 388
Share capital	1 443	1 434	346	324
Non-controlling interests	19 479	16 467	4 670	3 722

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Net cash flows from operating activities	113 639	113 591	26 773	25 960
Net cash flows from investing activities	(67 795)	(92 613)	(15 972)	(21 165)
Net cash flows from financing activities	(43 757)	(24 789)	(10 309)	(5 665)
Total net cash flows	***2 087***	***(3 811)***	***492***	***(871)***
Total change in cash and cash equivalents as per balance sheet	***1 292***	***(3 811)***	***304***	***(871)***

Conversion into euro was performed based on the following principles:

- amounts presented in zloty as of 31 December 2017 were converted into euro at the exchange rate of 4.1709 (the NBP exchange rate as of 31 December 2017),

- 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 for the period of twelve months ending 31 December 2017 were converted into euro at the exchange rate of 4.2445 (the arithmetic mean of the NBP exchange rates as of the last day of each month of 2017),
- amounts presented in zloty for the period of twelve months 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).

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.

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 Group's operations

The Group pursues a mission to be the partner of first choice for the Poles by delivering engaging news, entertainment and services, and inspiring the Poles in their everyday decisions. The Group strives to be a reliable and trustworthy brand in terms of content and offer, for the users and business partners alike.

The Group owns one of the two most popular horizontal internet portals in Poland, Wirtualna Polska. It also maintains a website which responds to infotainment needs of young internet users, o2.pl, and dedicated vertical portals, such as Money.pl, WP SportoweFakty, Dobreprogramy.pl, WP Parenting or WP Tech. The portals receive 6.9 million hits every day*. The Group's brands include radio stations and internet television Telewizja WP, as well as e-commerce websites teeming with attractive offers.

The Group engages in advertising activity by offering i.a. lead generation to online stores within marketplaces of various categories. Domodi, Allani and Homebook offer fashion products and home decorations. TotalMoney.pl and FinansowySupermarket.pl are advanced platforms and tools making it possible to purchase and sell financial products and services, save money and manage private budgets. Wakacje.pl, Nocowanie.pl and eHoliday websites provide offers for travellers and those looking for accommodation. WP abcZdrowie provides a medical knowledge and healthy lifestyle database. The users can ask experts in various fields directly and can quickly make an appointment with a physician without having to register. E-commerce from WP Group comprises comprehensive solutions, a guarantee that the recipient will be reached effectively, as well as provides the users with information about trends and shopping recommendations.

Wirtualna Polska has the biggest number of active email users in Poland, 9.7 million in January 2018 (Gemius/PBI data), and continues to launch new functionalities in WP Poczta and Poczta o2 services. Both services are characterized by a high level of security, offering a number of solutions to business, such as the option to send authorized emails or adaptation of advertising services to the users' profiles and interests, with respect for their right to privacy protection. According to the Group's internal data, as at January 2018, the Group had 11.1 million active email accounts (including 7.3 million active WP accounts and 3.8 million active o2 accounts).

WP Group operates on the Polish online advertising market by offering its customers a wide range of advertising products: modern display advertising, such as video online advertising, email advertising, advertisements for mobile devices and advertisements based on the advertising effectiveness model (i.e. settled for visiting the website, completing the form, registration, purchase of goods or services, lead generation, performance marketing). In 2018, WP has replaced the standard CPM settlement with a much more reliable vCPM (cost per viewed mille) model. It is available in page view/impression campaigns and in programmatic campaigns on platforms which support these solutions. According to the IAB definition, an ad is viewable if at least half of its graphic creation stays in the browser for at least one second. The introduction of the vCPM index is a response to market needs. As a result, the customers obtain even more reliable results of their campaigns. Great popularity of WP Group's websites and services makes it possible to reach a broad group of users with the advertising message. According to the latest Gemius/PBI Survey for January 2018, Wirtualna Polska Group portals were visited by 21.7 million real users who generated 4.1 billion page views. Altogether, they spent 130 million on the websites. The Group's reach amounts to 77.43%.**

* Gemius/PBI Survey, averaged daily data, January 2018
** total for desktop and mobile

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

No	Name	Real Users (mln)	Page views (bln)	Time spent (mln h)
1	Google Group	26.9	8.5	282
2	facebook.com	23.1	5.1	162
3	Onet – RASP Group	21.8	3.3	95
4	Wirtualna Polska Group	21.7	4.1	130
5	youtube.com	21.1	1.6	62
6	Interia.pl Group	19.7	1.4	63
7	Allegro Group	17.6	2.1	36
8	OLX Group	16.8	1.8	34
9	Gazeta.pl Group	16.8	0.7	17
10	Polska Press Group	16.3	0.6	4

Source: Gemius/ PBI research, January 2018

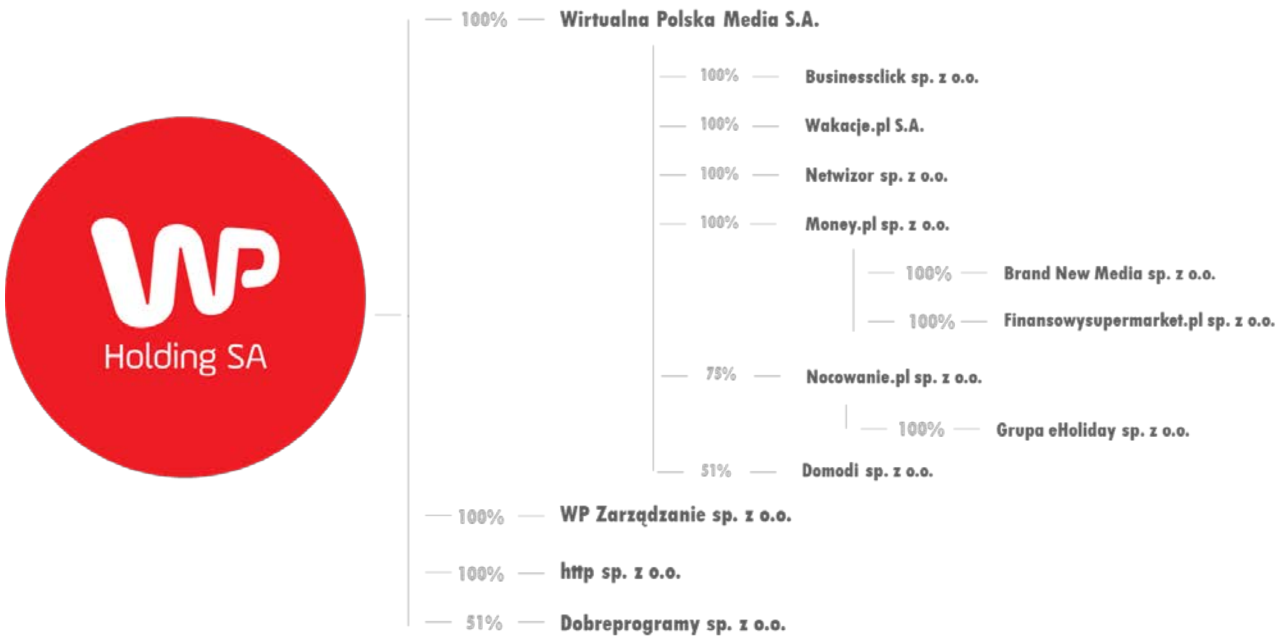
The table below presents the Group's position in various categories, according to published Megapanel PBI/Gemius data of January 2018:

Category	Real Users (RU)	Place
Business, finance, law	7 894 901	1
Children, family	3 498 315	1
New Technologies	7 637 642	1
Email services	9 724 892	1
Lifestyle	13 137 823	1
Tourism	5 574 381	1
Health and medicine	7 817 649	1
Motorization	3 941 531	2
Sport	7 560 145	2
Information and journalism	9 064 407	3
E-commerce	5 751 261	4
Culture and Entertainment	8 136 565	5

Source: Gemius/ PBI research, January 2018

2.3. Structure of the Wirtualna Polska Holding S.A. Capital Group

The following diagram presents the structure of the Group as of 31 December 2017, including the percentage of voting rights at the General Shareholders' Meeting to which the shareholder is entitled



Changes in the Group's structure in 2017

In 2017 the following mergers pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code took place:

- On 2 January 2017, Business Ad Network Sp. z o.o. and Wirtualna Polska Media S.A. merged by transferring all assets of Business Ad Network Sp. z o.o. to Wirtualna Polska Media S.A.;
- On 2 January 2017, Totalmoney.pl Sp. z o.o. and Money.pl Sp. z o.o. merged 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 Wirtualna Polska Media S.A. merged by transferring all assets of Blomedia.pl Sp. z o.o. to Wirtualna Polska Media S.A.;
- On 31 May 2017, Allani Sp. z o.o. and Domodi Sp. z o.o. merged by transferring all assets of Allani Sp. z o.o. to Domodi Sp. z o.o.;
- On 2 November 2017 WP1 Sp. z o.o. and Wirtualna Polska Media S.A. merged by transferring all assets of WP1 Sp. z o.o. to Wirtualna Polska Media S.A.;

On 3 August 2017 Grupa Wirtualna Polska S.A. changed its name to Wirtualna Polska Media S.A. and on 23 August 2017 Enovatis S.A. changed its name to Wakacje.pl S.A.

On 18 November 2017 Nocowanie.pl Sp. z o.o. purchased 100% shares in Grupa eHoliday.pl Sp. z o.o.

On 29 December 2017 new company WP Zarządzanie Sp. z o.o. was incorporated.

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

On 6 February 2018 Money.pl Sp. z o.o. and Brand New Media Sp. z o.o. merged by transferring all assets of Brand New Media Sp. z o.o. to Money.pl Sp. z o.o.

There were no other changes to the Group's structure other than those mentioned above.

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 and development of logistics infrastructure- in particular deliveries in less than 2 hours (food, local purchases) and 48 hours (for traditional e-commerce), as well as pick-ups in parcel machines and kiosks.
- Increase in sales due to an improvement in the effectiveness of advertising by using the Group's current resources (information on user behaviour and big data analyses) for improved matching of advertising content to user profiles as well as presenting to the clients ready general or individually targeted consumer segments;
- The more intensive use of a real-time automated purchase model of advertising space on the Polish online market, which is currently having a positive effect on the Group's revenues;
- Raising conversions on Group's e-commerce websites due to development of recommendation and personalization mechanisms (big data, machine learning). The scale of the Group's activity in individual vortals allows to increase investments in solutions, the cost of which is prohibitive for small and medium-sized players. The development of these tools is also one of the synergies in the Group.
- The positive effect of the revenue and cost synergies expected by the Group as a result of its acquisitions;
- 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 WIRTUALNA POLSKA HOLDING CAPITAL GROUP

The financial data for the twelve months ending 31 December 2017 and 31 December 2016 was audited by an independent auditor, whereas the financial information for the fourth quarter of 2017 and 2016 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 year ending 2017 and 2016.

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Change PLN'000	Change %
Segment ONLINE				
Sales	457 482	414 694	42 788	10,3%
Cash sales	424 502	376 873	47 629	12,6%
Adjusted EBITDA	150 580	135 884	14 696	10,8%
EBITDA	142 192	126 672	15 520	12,3%
TV segment				
Sales	8 131	450	7 681	1 706,9%
Cash sales	8 131	450	7 681	1 706,9%
Adjusted EBITDA	(12 195)	(3 729)	(8 466)	227,0%
EBITDA	(12 556)	(3 727)	(8 829)	236,9%
Segments total				
Sales	465 613	415 144	50 469	12,2%
Cash sales	432 633	377 323	55 310	14,7%
Adjusted EBITDA	138 385	132 155	6 230	4,7%
EBITDA	129 636	122 945	6 691	5,4%
Amortization and depreciation of fixed assets and intangibles	(51 007)	(42 082)	(8 925)	21,2%
Operating profit	78 629	80 863	(2 234)	(2,8%)
Result on financial activities	(24 340)	(65 463)	41 123	(62,8%)
Profit before tax	54 289	15 400	38 889	252,5%
Net profit	40 032	53 848	(13 816)	(25,7%)

The following table presents the main positions of the income statement for the third quarter of 2017 and 2016:

in PLN'000	Three months ending 31 December 2017	Three months ending 31 December 2016	Change PLN'000	Change %
Segment ONLINE				
Sales	134 112	122 505	11 607	9,5%
Cash sales	124 661	110 415	14 246	12,9%
Adjusted EBITDA	45 740	39 721	6 019	15,2%
EBITDA	41 553	40 962	591	1,4%
TV segment				
Sales	3 456	450	3 006	668,0%
Cash sales	3 456	450	3 006	668,0%
Adjusted EBITDA	(1 549)	(2 832)	1 283	(45,3%)
EBITDA	(1 581)	(2 830)	1 249	(44,1%)
Segments total				
Sales	137 568	122 955	14 613	11,9%
Cash sales	128 117	110 865	17 252	15,6%
Adjusted EBITDA	44 191	36 889	7 302	19,8%
EBITDA	39 972	38 132	1 840	4,8%
Amortization and depreciation of fixed assets and intangibles	(13 661)	(11 292)	(2 369)	21,0%
Operating profit	26 311	26 840	(529)	(2,0%)
Result on financial activities	(11 529)	(51 694)	40 165	(77,7%)
Profit before tax	14 782	(24 854)	39 636	(159,5%)
Net profit	9 679	23 123	(13 444)	(58,1%)

The consolidated results of the Group for the years and 2016 included the results of the following subsidiaries

No.	Name of subsidiary	Date of taking control	% of shares held	Period covered by consolidation	
				31 December 2017	31 December 2016
1	Wirtualna Polska Media S.A. (former Grupa Wirtualna Polska S.A.) [(1)]	22 December 2010	100%	full period	full period
2	WP Shopping Sp. z o.o. (former Wirtualna Polska S.A.)	13 February 2014	100%	-	full period
3	http Sp. z o.o.	23 March 2009	100%	full period	full period
4	Money.pl Sp. z o.o.	1 December 2014	100%	full period	full period
5	Business Ad Network sp. z o.o. [(2)]	1 December 2014	100%	-	full period
6	Businessclick Sp. z o.o.	1 December 2014	100%	full period	full period
7	Legalsupport Sp. z o.o.	1 December 2014	100%	-	until 21 July 2016
8	Brand New Media Sp. z o.o.	1 December 2014	100%	full period	full period
9	dobreprogramy Sp. z o.o.	14 November 2013	51%	full period	full period
10	Domodi Sp. z o.o.	12 September 2014	51%	full period	full period
11	Blomedia.pl Sp. z o.o. [(3)]	3 June 2015	100%	-	full period
12	WP1 Sp. z o.o.	21 August 2015	100%	full period	full period
13	Finansowysupermarket.pl Sp. z o.o.	16 September 2015	100%	full period	full period
14	Web Broker Sp. z o.o. [(4)]	16 September 2015	100%	-	until 30 June 2016
15	Allani Sp. z o.o. [(5)]	6 October 2015	51%	-	full period
16	Wakacje.pl S.A. (former Enovatis S.A.)	23 December 2015	100%	full period	full period
17	TotalMoney.pl Sp. z o.o. [(6)]	16 March 2016	100%	-	from 16 March 2016
18	Nocowanie.pl Sp. z o.o.	7 June 2016	75%	full period	from 7 June 2016
19	Netwizor Sp.z o.o.	13 December 2016	100%	full period	not consolidated
20	Grupa eHoliday Sp. z o.o.	18 October 2017	100%	from 18 October 2017	not consolidated
21	WP Zarządzanie Sp. z o.o.	29 December 2017	100%	from 29 December 2017	not consolidated

(1) On 3 August 2017 Grupa Wirtualna Polska S.A. changed its name to Wirtualna Polska Media S.A.
(2) On 2 January 2017 Business Ad Network Sp. z o.o. and Grupa Wirtualna Polska S.A merged.
(3) On 31 January 2017 Blomedia.pl Sp. z o.o. and Grupa Wirtualna Polska S.A. merged. Results of Blomedia.pl Sp. z o.o. for first month of 2017 is included in results of Grupa Wirtualna Polska S.A.
(4) On 1 July 2016 Web Broker Sp. z o.o. merged with Finansowysupermarket.pl Sp. z o.o.
(5) On 31 May 2017 Allani Sp. z o.o. merged with Domodi Sp. z o.o. Results of Allani Sp. z o.o. for first five months of 2017 is included in results of Domodi Sp. z o.o.
(6) On 2 January 2017 TotalMoney.pl Sp. z o.o. merged with Money.pl Sp. z o.o.
(7) On 31 October 2017 Wirtualna Polska Media S.A. merged with WP1 Sp. z o.o.

ONLINE SEGMENT

The sales of services in the online segment increased in the twelve months of 2017 by PLN 42,788 thousand i.e. by 10.3% compared to the sales for the corresponding period of the previous year, whereas the cash sales increased by PLN 47,629 thousand, i.e. by 12.6%.

The revenue growth in the fourth quarter alone amounted to PLN 11,607 thousand, i.e. 9.5% compared to sales for the corresponding period of 2016. At the same time cash sales increased by PLN 14,246 thousand, i.e. 12.9%

In both periods, cash-settled transactions represented the majority of the Group's sales and amounted to 92.8% of the Group's sales in 2017 and 90.9% in 2016.

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

In the period of twelve months of 2017 the adjusted EBITDA of the online segment amounted to PLN 150,580 thousand which was by PLN 14,696 thousand (i.e. by 10.8%) higher compared to the value of this ratio in the previous year.

In the analyzed period, the total costs normalizing the Group's EBITDA of the online segment amounted to PLN 8.4 million and was by PLN 0.8 million lower than in the same period of the previous year. The Group's EBITDA of the online segment in 2017 was adjusted by, among other things, restructuring and integration costs (PLN 3.7 million), non-cash employee option scheme costs (PLN 1.3 million) and costs of revaluation and liquidation of non-financial assets (PLN 3.1 million).

Moreover, EBITDA for the period was adjusted by temporary result on barter transactions (PLN 0.3 million). Due to the equivalence of mutual benefits arising from barter transactions, such transactions are offset over a longer period, although temporarily a positive or a negative result might be recorded.

TV SEGMENT

In the period of twelve months of 2017, the total results of the Group were significantly affected by costs connected with the WP Television, launched in December 2016. The TV segment is at an early stage of development, therefore the costs incurred in the current period on the development of this segment are higher than the revenues generated. In the Management Board's opinion in long-term perspective, the expenditures currently incurred should result in the market share increase, and consequently in revenue and profitability increase of this segment.

In the analyzed period, total sales of TV segment of PLN 8,131 thousand comprised of cash sales out of which PLN 3,456 thousand (i.e. 42.5%) was generated in the last quarter of 2017.

This segment generated a negative EBITDA of PLN 12,556 thousand in 2017. After the introduction of programming and organizational changes the Group reduced the negative EBITDA of this segment to PLN (1,581) thousand in the fourth quarter of 2017.

JOINT PERFORMANCE OF SEGMENTS

Despite the negative operating results of the TV segment, both the total Group's adjusted and unadjusted EBITDA increased by PLN 6,230 thousand and PLN 6,691 thousand respectively.

Despite this increase in EBITDA, the total Group's operating profit decreased by PLN 2,234 due to increase in depreciation and amortization by PLN 8,925 thousand. Additional amortization and depreciation is mainly due to the Group's investment expenditure incurred during the last quarter of 2016 and at the beginning of 2017 (including the construction of a new TV studio and adaptation works in offices), as well as additional depreciation and amortization of fixed and intangible assets (including customer relations and trademarks) of entities which joined the Group during the year 2016 and 2017 (a total of PLN 1,459 thousand of additional depreciation).

3.2. Explanations regarding the consolidated sales and results of the entities acquired in 2017

The following table presents the financial results of Grupa eHoliday Sp. z o.o. – the sole acquisition of 2017 for the period from the beginning of the year to the acquisition date (not included in the consolidated financial results for 2017) and from the acquisition date till 31 December 2017 (included in the consolidated financial results for 2017).

in PLN'000	From 01.01.2017 till the acquisition date	From the acquisition date till 31.12.2017	Twelve moths ending 31 December 2017
Sales	5 624	729	6 352
Cash Sales	5 574	719	6 292
EBITDA	1 645	(140)	1 505
Adjusted EBITDA	1 645	(140)	1 505
Net profit	886	(199)	687

3.3. Financial position of the Group

The following table presents the consolidated statement of the Group's financial position as of the end of December 2017 and 2016

in PLN'000	As of 31 December 2017	As of 31 December 2016	Change PLN'000	Change %
Non-current assets	752 229	729 742	22 487	3,1%
Current assets	141 677	122 454	19 223	15,7%
Long-term liabilities	307 292	330 132	(22 840)	(6,9%)
Short-term liabilities	166 686	113 339	53 347	47,1%
Equity attributable to equity holders of the Parent Company	400 449	392 258	8 191	2,1%
Share capital	1 443	1 434	9	0,6%
Non-controlling interests	19 479	16 467	3 012	18,3%

The analysis of changes in the Group's balance sheet has been prepared as of 31 December 2017 compared to 31 December 2016. The only change in the Group's structure in the analysed period was due to the acquisition of 100% of the shares in Grupa eHoliday Sp. z o.o.

Changes in the individual balance sheet items are discussed below.

Non-current assets

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

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change PLN'000	Change %
Property, plant and equipment	63 013	8,4%	57 899	7,9%	5 114	8,8%
Goodwill	259 594	34,5%	246 472	33,8%	13 122	5,3%
Other intangible assets	380 051	50,5%	388 268	53,2%	(8 217)	(2,1%)
Non-current programming assets	8 463	1,1%	5 358	0,7%	3 105	58,0%
Long-term receivables	155	0,0%	-	0,0%	155	n/a
Other financial assets	16 031	2,1%	2 470	0,3%	13 561	549,0%
Deferred tax assets	24 922	3,3%	29 275	4,0%	(4 353)	(14,9%)
Non-current assets	***752 229***	***100,0%***	***729 742***	***100,0%***	***22 487***	***3,1%***

In the analyzed period, the net value of the property, plant and equipment increased by PLN 5,114 thousand. The capital expenditure for the period amounted to PLN 23,986 thousand and were related mainly to equipment for the development of mail and portals infrastructure (PLN 12,404 thousand), equipment for employees (PLN 1.927 thousand) and expenses incurred for adaptation of office space (PLN 6,680 thousand). At the same time Group entered into new lease agreement for fixed assets worth PLN 3,058 thousand. The depreciation costs amounted to PLN 15,899 thousand. In 2017 the unused fixed asstes of PLN 2,971 thousand were written-off.

In the analyzed period, the Group recorded a decrease in other intangible assets mainly due to depreciation and liquidation costs (PLN 35,108 thousand) higher than capital expenditure (PLN 21,286 thousand). In the twelve months of 2017 the Group mainly incurred expenditures on capitalized development projects (PLN 18,262 thousand) and the purchase of licenses (PLN 1.094 thousand). The Group also recognized new trademarks and client's relations of PLN 5,753 thousand as a result of the acquisition of Grupa eHoliday.pl Sp. z o.o.

The value of goodwill as at 31 December 2017 increased by PLN 13,122 thousand compared to the end of the proceeding year, mainly due to the recognition of PLN 9,764 thousand of new provisional goodwill on the acquisition of Grupa eHoliday.pl Sp. z o.o. In 2017 the Group adjusted the goodwill on the acquisition of Wakacje.pl S.A by PLN 3,358 thousand due to error detected in the previous calculation.

Non-current programming assets increased by PLN 3,105 thousand due to expenditure incurred in the period of PLN 6,019 thousand and the amortization and depreciation costs of PLN 2,883 thousand, as well as impairment of PLN 31 thousand.

Other long term assets increased by PLN 13,561 thousand, mainly due to the acquisition of 625,000 shares of eSky.pl S.A. by Wirtualna Polska Media S.A. (former Grupa Wirtualna Polska S.A.) on 19 September 2017 for the acquisition price of PLN

15,625 thousand. At the same time, the Group booked decrease of PLN 2,381 thousand in the fair value of the shares of Fachowcy Ventures S.A. owned by Wirtualna Polska Media S.A.

Current assets

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

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change PLN'000	Change %
Cash trade receivables	78 665	55,5%	65 944	53,9%	12 721	19,3%
Barter receivables	1 515	1,1%	724	0,6%	791	109,3%
State receivables	6 371	4,5%	5 585	4,6%	786	14,1%
Other current assets	8 684	6,1%	5 051	4,1%	3 633	71,9%
Cash and cash equivalents	46 442	32,8%	45 150	36,9%	1 292	2,9%
Current assets	***141 677***	***100,0%***	***122 454***	***100,0%***	***19 223***	***15,7%***

The increase in current assets was mainly caused by a higher level of cash trade receivables due to higher level of sales in the fourth quarter of 2017.

The barter receivables remained at the level comparable to previous year, what is typical for such barter settlements. The balances of barter receivables and payables during the year are usually higher than at the end of the year when most of the barter agreements are settled on an annual basis and balances are offset at the end of the year.

The state receivables and other current assets also remained at the level comparable to prior year.

The detailed analysis of changes in cash level is given in the cash flow part of the report.

Long-term liabilities

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change PLN'000	Change %
Loans and leases	203 507	66,2%	174 572	52,9%	28 935	16,6%
Contingent liabilities related to business combinations	3 618	1,2%	6 075	1,8%	(2 457)	(40,4%)
Interest rate swaps - cash flow hedges	-	0,0%	522	0,2%	(522)	(100,0%)
Liabilities with respect to the put option for non-controlling interests	78 763	25,6%	125 890	38,1%	(47 127)	(37,4%)
Liabilities in respect of purchase of property, plant and equipment and intangible assets	10 141	3,3%	11 201	3,4%	(1 060)	(9,5%)
Deferred tax liability	10 879	3,5%	10 993	3,3%	(114)	(1,0%)
Deferred income	384	0,1%	879	0,3%	(495)	(56,3%)
Long-term liabilities	***307 292***	***100,0%***	***330 132***	***100,0%***	***(22 840)***	***(6,9%)***

In the analyzed period, long-term liabilities decreased by PLN (22,840) thousand mainly due to the transfer of first put option of Domodi's liability (calculated based on company's 2017 results) to short term part of the balance sheet in the amount of PLN 58,616 thousand. As at the balance sheet date the long-term liabilities with respect to the put option for non-controlling interests comprises of Nocowanie.pl's put options and second put option for minority stake in Domodi (valued at 2019 results). The reversal of discount on these liabilities in the analysed period amounted to PLN 652 thousand in case of Nocowanie.pl and PLN 5,518 thousand in case of Domodi. Furthermore, due to the acquisition of Grupa eHoliday.pl Sp. z o.o. by Nocowanie.pl Sp. z o.o. and changes in the calculation of the value of option on non-controlling stake in Nocowanie.pl the Group adjusted its estimations and increased its liability towards non-controlling shareholder by PLN 6,636 thousand. In December 2017 the Group also updated its forecasts on Domodi 2019 results and, consequently, decreased the value of the second option liability by PLN 1.316 thousand.

Long-term contingent liabilities related to business combinations decreased by PLN 2,457 thousand because of the reclassification to the short-term part of the balance sheet of the first part of earn-out liability due to the previous shareholder of Allani Sp. z o.o.

The only part of long-term liabilities that increased in the analysed period is long-term debt, which increased in 2017 by PLN 28,935 thousand. The bank debt increased in 2017 by PLN 25,156 thousand and it was caused by two reasons – additional refinancing of its investment expenditures of PLN 19,949 through the use of the CAPEX facility available under the credit agreement and by the restructuring of debt as result of signing of new bank loan agreement giving the Group e.g. one year grace period. The details of the new bank agreement are presented in 7.3 part of this report,
In the fourth quarter of 2017 a loan in the amount of PLN 2,162 thousand was granted by the non-controlling shareholder to Nocowanie.pl Sp. z o.o. for the purchase of shares in Grupa eHoliday.pl Sp. z o.o. In addition, during 2017, the Group also signed new long-term financial lease contracts, total value of which amounted to PLN 3,058 thousand

In March 2017, the Group also paid the second installment of the liability on the television broadcasting license. In January 2016 the Group recognized in its balance sheet the liability on the television broadcasting license, which is effective from 14 January 2016 to 13 January 2026. The total fee for the license amounted to PLN 13,545 thousand and is paid in 10 annual installments of PLN 1,355 thousand each. As of 31 December 2017, after the repayment of the two installments, the Group's liability valued at the amortized cost amounted to PLN 11,604 thousand, out of which PLN 10,141 thousand is presented as long-term.

Short-term liabilities

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change PLN'000	Change %
Loans and leases	13 341	8,0%	39 202	34,6%	(25 861)	(66,0%)
Interest rate swaps - cash flow hedges	-	0,0%	694	0,6%	(694)	(100,0%)
Cash trade and other payables	37 799	22,7%	34 778	30,7%	3 021	8,7%
Barter trade and other payables	1 935	1,2%	875	0,8%	1 060	121,1%
State liabilities	6 028	3,6%	4 821	4,3%	1 207	25,0%
Wages and salaries payables	6 649	4,0%	5 947	5,2%	702	11,8%
Deferred income	8 323	5,0%	4 567	4,0%	3 756	82,2%
Liabilities in respect of purchase of property, plant and equipment and intangible assets	13 300	8,0%	12 436	11,0%	864	6,9%
Other short term payables	4 882	2,9%	4 727	4,2%	155	3,3%
Provision for employee benefits	3 244	1,9%	3 276	2,9%	(32)	(1,0%)
Other provisions	1 845	1,1%	1 511	1,3%	334	22,1%
Contingent liabilities related to business combinations	4 771	2,9%	-	0,0%	4 771	n/a
Liabilities related to business combinations (other than earn-out)	58 616	35,2%	-	0,0%	58 616	n/a
Current income tax liabilities	5 953	3,6%	505	0,4%	5 448	1 078,8%
Short-term liabilities	***166 686***	***100,0%***	***113 339***	***100,0%***	***53 347***	***47,07%***

In the analyzed period, short-term liabilities increased by PLN 53,437 thousand. The increase results mainly from the transfer of first put option of Domodi's liability as well as earn-out liability on the Allani Sp. z o.o. acquisition to the short-term part of liabilities.

The increase in short-term liabilities was also due to the increase in trade payables by PLN 4,081 thousand, out of which PLN 1,060 thousand was on barter trade payables due to a temporary result on barter settlements. It also results from increase in deferred income by PLN 3,756 thousand (including PLN 1,793 thousand od deferred income acquired along with Grupa eHoliday.pl Sp. z o.o.). Significant increase was also noted in state liabilities, especially in current income tax liability which increased by PLN 5,448 thousand compared to prior year.

Simultaneously, short-term loans and leases decreased by PLN 25,861 thousand manly due to the changes in the repayment schedule in new loan agreement, described in the long-term liabilities part of this report. Additionally, debt refinancing forced early termination of transactions securing the existing financing , therefore as at the date of this report Group has no liabilities on cash flow hedges.

Equity

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change PLN'000	Change %
Equity attributable to equity holders of the Parent Company, including:	400 449	95,4%	392 258	96,0%	8 191	2,1%
Share capital	1 443	0,3%	1 434	0,4%	9	0,6%
Supplementary capital	318 759	75,9%	315 830	77,3%	2 929	0,9%
Revaluation reserve	(546)	-0,1%	(839)	(0,2%)	293	-
Other reserves	(36 984)	(8,8%)	(38 310)	(9,4%)	1 326	(3,5%)
Retained earnings	117 777	28,0%	114 143	27,9%	3 634	3,2%
Non-controlling interests	19 479	4,6%	16 467	4,0%	3 012	18,3%
Equity	***419 928***	***100,0%***	***408 725***	***100,0%***	***11 203***	***2,7%***

In 2017, the equity attributable to the parent company's shareholders increased by PLN 8,191 thousand in total. The change in equity attributable to the parent company's shareholders resulted from the following events:

- increase by PLN 2,937 thousand in relation to admission to the deposit of the securities, introduction to trading and entering into the accounts of the entitled within the existing stock option plan, out of which PLN 9 thousand increased share capital and the remaining part - PLN 2,929 thousand was booked as supplementary capital;
- decrease by PLN 293 thousand mainly due to the the valuation of interest rate swap liability, hedging the interest payments to the bank increased the capital by PLN 296 thousand;
- the increase in other reserves of PLN 1,326 thousand due to vesting of the rights to the consecutive tranche of share options under the existing incentive scheme;
- the net profit attributable to the parent company's shareholders for 2017 of PLN 35,325 thousand;
- decrease by PLN 31,691 thousand in connection to dividend paid to the shareholders on 20 July 2017.

In 2017, the non-controlling interests increased by PLN 3,012 thousand. As a result of acquiring shares of Grupa eHoliday.pl sp. z o.o. by Nocowanie.pl sp. z o.o. non-controlling interest increased by PLN 896 thousand. The allocation to the non-controlling shareholders of an appropriate part of the result for the period earned by Domodi Sp. z o.o., Dobreprogramy Sp. z o.o. ,Nocowanie.pl Sp. z o.o. and Grupa eHoliday.pl Sp. z o.o. amounted to PLN 4,707 thousand. At the same time, the dividend assigned to those shareholders amounted to PLN 2,591 thousand.

3.4. Cash flows of the Group

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Net cash flows from operating activities	113 639	113 591
Net cash flows from investing activities	(67 795)	(92 613)
Net cash flows from financing activities	(43 757)	(24 789)
Total net cash flows	***2 087***	***(3 811)***
Cas in cash and cash equivalents as per balance sheet	***1 292***	***(3 811)***

During twelve months of 2017, the EBITDA generated by the Group of PLN 129,636 thousand contributed to generating a positive cash flow of PLN 113,639 thousand from operating activities.

Cash flows from investing activities were negative and amounted to PLN (67,795) thousand in the analyzed period which was mainly due to expenditure incurred (CAPEX) on the purchase of intangibles and fixed assets (PLN 41,983 thousand) and acquisition of 6,31% shares of eSky S.A. (PLN 15,625 thousand). At the same time negative cash flow of PLN 10,403 thousand was generated on acquisition of Grupa eHoliday Sp. z o.o.

Cash flows from financing activities in twelve months of 2017 amounted to PLN (43,757) thousand mainly due to the dividend payment to the shareholders of the parent company in the amount of PLN 31,691 thousand and to non-controlling shareholders in the amount of PLN 2,591 thousand.

During the period the Group refinanced part of its investment expenditure in the total amount of PLN 19,949 thousand by the use of the CAPEX facility available under the credit agreement. At the same time, the Group repaid its loan principal (PLN 20,176 thousand), interest and bank commissions (PLN 11,936 thousand). As part of financing activities the Group recognized repayment fo IRS instrument of PLN (1,496) thousand, financial lease repayment of PLN (893) thousand and PLN 2,938 thousand paid for the share capital increase by the participants of the employee option scheme.

3.5. *Selected financial ratios of the online segment*

Financial ratios ONLINE SEGMENT	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Sales (PLN'000)	457 482	414 694
Sales (YoY increase)	10,3%	-
Cash sales	424 502	376 873
Cash sales (YoY increase)	12,6%	-
Adjusted EBITDA margin (on cash sales)	35%	36%
Financial leverage ratio (Net debt//Adjusted Ebitda LTM)	1,13	1,3

The main financial ratios analyzed by the Group's Management Board comprise cash proceeds from sales and their growth, the adjusted EBITDA margin and adjusted gross margin. The cash sales for the 2017 were 12,6% higher than the sales calculated on the basis of the financial data for the corresponding period of the previous year.

In the analyzed period, the adjusted EBITDA margin of the online segment remained at comparable level to the corresponding period of the 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 complying with the requirements concerning their value as defined in the loan agreement.

The Group does not present and analyse the financial ratios of the TV segment. Due to the early stage of its development, the ratios of the segment would be difficult to analyse and would be prone to high volatility.

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 2017 and 31 December 2016 was audited by an independent auditor, whereas the financial information for the fourth quarter of 2017 and 2016 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 2017 and 2016.

in PLN'000	For the year ending 31 December 2017	For the year ending 31 December 2016	Change	Change %
Sales	6 907	7 163	(256)	(3,6%)
Dividends received	238	360	(122)	(33,9%)
Operating loss	(2 430)	(2 937)	507	(17,3%)
Finance income	12 032	12 177	(145)	(1,2%)
Finance costs	(1)	(2 399)	2 398	(100,0%)
Profit/(loss) before tax	9 601	6 841	2 760	40,3%
Net profit/(loss)	7 577	4 609	2 968	64,4%

The following table presents the main positions of the standalone income statement for the fourth quarter of 2017 and 2016

in PLN'000	3 months ending 31 December 2017	3 months ending 31 December 2016	Change	Change %
Sales	1 250	428	822	192,1%
Operating loss	(1 550)	(2 687)	1 137	(42,3%)
Finance income	2 927	3 094	(167)	(5,4%)
Finance costs	-	(1 085)	1 085	(100,0%)
Profit/(loss) before tax	1 377	(678)	2 055	(303,1%)
Net profit/(loss)	1 060	(1 279)	2 339	(182,9%)

Sales proceeds increased in 2017 by 3,6% compared to 2016. In the sole fourth quarter of 2017 the sales increase by 192,1% - in December 2016 adjustment of the management fee proceeds was booked for the total year of 2016 . In 2017 the management fees were calculated based on up-dated budgets, resulting in more even distribution of revenues throughout the year. Therefore, no significant adjustments were necessary.

In 2017 the operating loss was about PLN 507 thousand lower than in the corresponding period of the previous year. The improvement of the operating result was due to a decrease in remuneration costs (PLN 315 thousand), decrease in the cost of the share-based payment program of PLN 500 thousand and in the external services (PLN 101 thousand). At the same time, the dividend lower by PLN 122 thousand and other operating costs higher by PLN 31 thousand had negative impact on the operating results of the Company.

In 2017 the financial income of the Company remained at the level comparable to 2016 and amounted to PLN 12,032 thousand. However, thanks to lower financial cost and no reversal on discount in 2017, the total result on financial activity in 2017 was by PLN 2,253 higher than in previous year.

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 2017 and 2016.

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change	Change %
Non-current assets	465 940	99,5%	484 211	96,0%	(18 271)	(3,8%)
Current assets	2 204	0,5%	2 084	4,0%	120	5,8%
Long-term liabilities	-	0,0%	3 449	2,0%	(3 449)	(100,0%)
Short-term liabilities	7 049	1,5%	1 901	1,0%	5 148	270,8%
Equity	461 095	98,5%	480 945	97,0%	(19 850)	(4,1%)

When compared to the end of 2016, the main events affecting the Company's balance sheet were the dividend payment to shareholders and partial repayment of interest and capital part of loan granted to Wirtualna Polska Media S.A. 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 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change	Change %
Other intangible assets	32	0,0%	46	0%	(14)	(30,4%)
Investments in subsidiaries	203 402	43,7%	203 230	42%	172	0,1%
Loans granted	262 202	56,3%	280 935	58%	(18 733)	(6,7%)
Deferred tax asset	304	0,1%	-	0%	304	n/a
Non-current assets	***465 940***	***100%***	***484 211***	***100%***	***(18 271)***	***(3,8%)***

The value of non-current assets of the Company decreased mostly due to the repayment of PLN 24,658 thousand of capital part and PLN 16,149 thousand of interest on loan granted to Wirtualna Polska Media S.A. At the same time, the Company booked additional PLN 10.801 thousand of interests on loans granted and WP1 Sp. z o.o. used subsequent tranches of the financing amounting to a total of PLN 11,273 thousand. After the merger of Wirtualna Polska Media S.A. ad WP1 Sp. z o.o. in fourth quarter of 2017, the debt was transferred to Wirtualna Polska Media S.A. Moreover, in the year ending 31 December 2017 the value of shares held in Grupa Wirtualna Polska S.A. and http Sp. z o.o. increased by PLN 172 thousand as result of the additonal share-based payment settlements.

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 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change	Change %
Trade receivables net	702	31,9%	800	38%	(98)	(12,3%)
Other current assets	11	0,5%	11	1%	-	0,0%
Cash and cash equivalents	1 491	67,6%	1 273	61%	218	17,1%
Current assets	***2 204***	***100,0%***	***2 084***	***100%***	***120***	***5,8%***

There were no significant changes in the value of standalone currents assets.

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

Standalone long-term liabilities

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

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change	Change %
Deferred tax liability	-	-	3 449	100%	(3 449)	(100%)
Long-term liabilities	***-***	***-***	***3 449***	***100%***	***(3 449)***	***(100%)***

The decrease in long-term liabilities was due to lower level of deferred tax liability on interests accrued.

In 2017 the value of interests repaid to the Company amounted to PLN 16,402 thousand and was by PLN 5,598 thousand higher than the value of interests due for the period of twelve months ending 31 December 2017.

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 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change	Change %
Trade payables	218	3%	284	15%	(66)	(23%)
Liabilities due to contingent consideration	7	-	-	0%	7	-
State liabilities	277	4%	277	15%	-	0%
Wages and salaries payables	880	12%	932	48%	(52)	(6%)
Provision for employment benefits	-	-	17	1%	(17)	(100%)
Income tax liability	5 667	80%	391	21%	5 276	1349%
Short-term liabilities	***7 049***	***100%***	***1 901***	***100%***	***5 148***	***271%***

The increase in short-term liabilities results mainly from the increase in the value of the current income tax liability. During 2017, the Company was making advance income tax payments on the basis of 2015 tax result. Therefore, after the 2017 income tax calculation, the Company is obliged to pay extra PLN 5,667 thousand of income tax.

Other short-term liabilities did not change significantly compared to prior year's level.

Standalone equity

in PLN'000	As of 31 December 2017	Structure 2017	As of 31 December 2016	Structure 2016	Change	Change %
Share capital	1 443	0,0%	1 434	0%	9	1,0%
Supplementary capital	318 759	69,0%	315 830	66%	2 929	1,0%
Other reserves	6 439	1,0%	5 113	1%	1 326	26,0%
Retained earnings	134 454	29,0%	158 568	33%	(24 114)	(15,0%)
Equity	***461 095***	***100,0%***	***480 945***	***100%***	***(19 850)***	***(4,0%)***

During the twelve months of 2017, the Company's equity decreased by PLN 19,850 thousand in total and this increase consisted of:

- an increase in the Company's equity of PLN 2,937 thousand due to the issue of D and F series shares, out of which PLN 9 thousand increased the share capital and the remaining part (PLN 2,929 thousand) was transferred to supplementary capital,
- an increase in other reserves of PLN 1,326 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 2017 of PLN 7,577 thousand,
- decrease by PLN 31,691 thousand in connection to dividend paid to the shareholders on 20 July 2017.

4.3. STANDALONE CASH FLOW STATEMENT ANALYSIS OF THE COMPANY IN 2017

in PLN'000	For the year ended 31 December 2017	For the year ended 31 December 2016	Change	Change %
Net cash flows from operating activities	(2 031)	(1 493)	(538)	36,0%
Net cash flows from investing activities	30 996	(20 870)	51 866	(249,0%)
Net cash flows from financing activities	(28 747)	5 492	(34 239)	(623,0%)
Total net cash flows	***218***	***(16 871)***	***17 089***	***(101,0%)***

Cash flows from operating activities in 2017 were negative and amounted to PLN (2,031) thousand.

Cash flows from investing activities were positive and amounted to PLN 30,996 thousand in the analysed period, out of which PLN 40,807 thousand related to the loans and interests repaid by Wirtualna Polska Media S.A. It also resulted from the payment received for the loan guarantee provided by the Company to the subsidiary Wirtualna Polska Media S.A.

Cash flows from financing activities in 2017 amounted to PLN (28,747) thousand which was caused by dividend payment of PLN (31,691) thousand. At the same time, the Company received additional PLN 2,938 of cash as an increase in equity resulting from the share option scheme.

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

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

- 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;
- launch of activities in the TV sector.

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

In 2014-2017 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.pl Sp. z o.o., Finansowysupermarket.pl Sp. z o.o., Web Broker Sp. z o.o., Allani Sp. z o.o. and Wakacje.pl S.A. In 2016, the Group's purchased Totalmoney.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Netwizor Sp. z o.o. and in 2017 the Group was joined by Grupa eHoliday.pl Sp. z o.o. The acquisitions of 2016 and 2017 mentioned above had a significant impact on the increase in revenues and EBITDA compared with the same period of the previous year. They also had a significant impact on the amount of depreciation in the consolidated financial statements of the Group, as in the process of purchase price allocation of these entities a number of trademarks and customer relations have been identified which are currently depreciated and the cots are included in the consolidated financial results of the Group.

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

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 S.A., purchase price of the shares in Money.pl Sp. z o.o. (PLN 47 million), part of the purchase price of the shares in Wakacje.pl S.A. (PLN 50 million), part of the purchase price of the shares in Nocowanie.pl Sp. z o.o. (PLN 12 million) and refinancing part of the investment expenditure to purchase fixed and intangible assets (PLN 20 million).

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

As of 31 December 2017 the balance of the Group's liability resulting from loan agreement amounted to PLN 211,5 million.

During the twelve months of 2017, the Group's interest and commissions expenses, the bulk of which resulted from interest on the bank loan, amounted to PLN 9,556 thousand. The amount of these costs in consecutive periods will depend on WIBOR 3M which amounted to 1.72% as at 31 December 2017.

5.4. THE LAUNCH OF ACTIVITIES IN THE TELEVISION ADVERTISING MARKET

In 2017, the results of the Capital Group were significantly influenced by costs connected to the development of the WP Television launched in December 2016. This project is at an early stage of development, therefore the expenditures incurred in the current period on the development of this activity are higher than the revenue generated. In the opinion of the Management Board, the expenditures currently incurred should result in the increase in market share in the long-term perspective, and consequently into the increase in the value of revenues and the increase in profitability of this segment.

In the analyzed period television advertising revenue amounted to PLN 8,131 thousand. At the same time, this segment generated a negative EBITDA of PLN 12,556 thousand.

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

In the analysed period there were no extraordinary events that had significantly affected the standalone financial and operating results of the Company.

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

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;
- continuing the activity in 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 THE POLISH MARKET

Both globally and in Poland, the internet advertising market is characterized by fierce competition. The Group's direct competition includes entities which own domestic portals and websites, in particular onet.pl, interia.pl or gazeta.pl. Moreover, the Group competes with entities which own international portals and websites, especially in the area of electronic mail (e.g. Yahoo!, Gmail, Hotmail, AOL) and website services (e.g. Google, Facebook, Twitter).

Moreover, although not directly, the Group's competition also includes other entities operating on the widely defined advertising market, including in particular television stations, newspapers and radio. These entities compete with one another in terms of product and service prices, especially advertising rates, the ability to reach potential customers with a profile sought by the advertisers, attractiveness and quality of published materials, shaping of trends on the market or ability to quickly adapt to such trends, and in terms of brand strength.

As of the date of publication of the report the Group is one of the two leading entities among domestic portals and websites. In line with its strategy, the Group will strive to strengthen its leading position among the portals and website services present on the Polish market. Holding the leading position is important due to the so-called leadership premium, i.e. the advertisers' tendency to prefer placing advertisements on portals and website services holding the leading position on the market in terms of the offered reach, which has a significant effect on the income generated.

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 popularization 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 Wakacje.pl S.A., Nocowanie.pl Sp. z o.o., Domodi 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. CONTINUING THE ACTIVITY IN 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. Advertising revenue is obtained through an advertising broker – i.e. TVN Media.

7. SIGNIFICANT CONTRACTS AND EVENTS WHICH TOOK PLACE IN 2017

7.1. ACQUISITION OF MINORITY STAKE IN ESKY S.A.

On 9 June 2017 Wirtualna Polska Media S.A. concluded a conditional share purchase agreement regarding acquisition of 625,000 ordinary series B bearer shares in a company eSky.pl S.A. The acquired shares represent 6.31% of the share capital of the company and entitle to 6.31% of votes on the General Meeting of the Company. The purchase price for the shares amounts to PLN 15,625 thousand. On 19 June 2017, the suspending condition specified in the agreement has been fulfilled and the transaction has been finalized

The agreement contains provisions relating to the level of guaranteed return on investment (IRR) for the Wirtualna Polska Media S.A. in the form of irrevocable bids for the acquired shares submitted to the Wirtualna Polska Media S.A. by the sellers, which may be executed by the Group in the periods indicated in the agreement or upon the fulfillment of the specified (the put option). The put option payment is secured by a registered pledge established on pledged shares. In addition, the agreement includes provisions for the conduct of a possible transaction involving the sale of a controlling interest in the Company's shares in the future and the terms of the Wirtualna Polska Media S.A. participation in such a process and sets a doubled return on investment (IRR) for Wirtualna Polska Media S.A. if such transaction has not taken place within a certain period of time (as an execution of the put option).

7.2. UTILISATION OF CAPEX LOAN TRANCHE

On 22 May 2017 , on 4 July 2017 and on 4 October 2017 Wirtualna Polska Media S.A. refinanced investment expenditures of approximately PLN 13 million, PLN 2 million and PLN 5 million accordingly, through the use of the CAPEX facility available under the credit agreement concluded on March 24, 2015 by Wirtualna Polska Media S.A. and mBank S.A. / ING Bank Śląski S.A.

7.3. *ANNEX TO THE SHAREHOLDERS' AGREEMENT REGARDING THE PURCHASE OF NON-CONTROLLING INTEREST IN NOCOWANIE.PL SP. Z O.O. AS A RESULT OF THE ACQUISITION OF GRUPA EHOLIDAY.PL SP. Z O.O.*

On 11 October 2017 an annex was concluded to the agreement between the subsidiaries Wirtualna Polska Media S.A. and Nocowanie.pl Sp. z o.o. and the non-controlling shareholder of Nocowanie.pl Sp. z o.o. redefining the terms of the put and call options on the minority interest in Nocowanie.pl Sp. z o.o.

Annex to the Shareholders Agreement stated the principles of the planned acquisition of Nocowanie.pl of 100% of shares in the Grupa eHoliday.pl Sp. z o.o. The purchase price of 100% of shares amounted to PLN 11,250 thousand and was financed partially from Nocowanie.pl Sp. z o.o. own cash and partially from loans granted to the company by Wirtualna Polska Media S.A. (PLN 6,488 thousand) and the minority shareholder (PLN 2,162thousand).

Detailed information on the purchase price paid and the fair value of assets and liabilities acquired is given in note 20 to the consolidated financial statements of the Group.

The Parties to the Shareholder Agreement decided that following the acquisition, the terms of the put and call options calculation shell be changed in the following way:

- The timing of the call and put option will be changed, i.e. Wirtualna Polska Media S.A. will have the right to purchase half of the minority interest, and the non-controlling sherholder will be required to sell ("Call Option 1") after the end of the 2019 financial year (the original agreement stated 2018) and Wirtualna Polska Media S.A. will have the right to purchase the remaining minority shares after the end of the financial year 2020 (the original agreement stated 2019)
- The basis for calculating the value of remaining shares to be purchase by the Group will be changed in such a way that the price of the option will be calculated as the product of (i) the normalized consolidated EBITDA of Nocowanie.pl and the company whose shares are the subject of the investment respectively for first option for 2019 and for the second option for the financial year 2020 (ii) 12.5%, and (iii) the multiplier dependent on the average growth of standardized EBITDA for first option in the years 2017 - 2019 and for second option in the financial years 2017 - 2020 in relation to the consolidated normalized EBITDA for the financial year 2016, defined in the Shareholder Agreement.

At the same time, due to the change in the rules of settlements related to the option calculation, on 11 October 2017 the Issuer's Management Board made a conditional resolution indicating the necessity for updating of the valuation of the put option liability on non-controlling interest in Nocowanie.pl Sp. z o.o.

The acquisition was concluded on 18 October 2017. At the same day, the Issuer's Management Board made a resolution updating the discounted value of the put option liability on non-controlling interest in Nocowanie.pl Sp. z o.o. by PLN 6.6 million. The revaluation of the liability was booked in the finance costs of the Group in the fourth quarter of 2017.

7.4. *SIGNINIFANT MODIFICATION OF DEBT – NEW CREDIT AGREEMENT*

On 12 December 2017, Wirtualna Polska Media S.A. terminated the previous loan agreement concluded with mBank S.A. and ING Bank Śląski on 24 March 2015.

The repaymeny of the whole debt under the previous loan agreement and its refinancing took place 20 December 2017.

On 12 December 2017, Wirtualna Polska Media S.A. and mBank SA, Bank Polska Kasa Oszczędności S.A. and ING Bank Śląski SA concluded a loan agreement to refinance the current debt, finance capital expenditure and acquisitions, and a bank overdraft, on the basis of which they granted a loan to Wirtualna Polska Media S.A. to the total amount of up to PLN 500 million to be used for:

- Refinancing of the current debt in respect of the loan agreement concluded by and between Wirtualna Polska Media S.A., mBank S.A. and ING Bank Śląski in the total amount of PLN 214,200 thousand and coverting it to PLN 86,750 thousand (the A tranche of the loan) and to PLN 127,450 thousand (the B tranche of the loan);
- financing capital expenditure and acquisitions specified in the agreement up to PLN 265,500 thousand divided into two loan tranches (Capex 1 of PLN 113,230 thousand and Capex 2 of PLN 152, 570 thousand) and
- •overdraft facility of PLN 20 million.

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.

Wirtualna Polska Media 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 the lapse of 12 months of concluding the new loan agreement;
- tranche B should be repaid on the final maturity date which will be the 7th anniversary of the conclusion of the new loan agreement;
- tranche CAPEX 1 should be repaid in twelve equal quarterly instalments commencing on the fourth quarter of 2021;
- tranche CAPEX 2 should be repaid on the final maturity date which will be the 7th anniversary of the conclusion of 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 Wirtualna Polska Media S.A., Wakacje.pl S.A., Money.pl Sp. z o.o., Domodi Sp. z o.o. and Nocowanie.pl Sp. z o.o.;
- registered pledges on items and rights of Wirtualna Polska Holding SA, Wirtualna Polska Media SA, Money.pl Sp. z o.o. and Wakacje.pl S.A.;
- ordinary and registered pledges on the rights to trademarks of Wirtualna Polska Media S.A.and Wakacje.pl S.A.;
- financial and registered pledges on bank accounts maintained for Wirtualna Polska Holding S.A., Wirtualna Polska Media S.A., Money.pl Sp. z o.o. and Wakacje.pl S.A. together with powers of attorney to those bank accounts;
- financial pledges on bank accounts maintained for Nocowanie.pl Sp. zo.o. 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 Wirtualna Polska Media S.A., Money.pl Sp. z o.o. and Wakacje.pl S.A.
- declarations on submission to enforcement procedures by Wirtualna Polska Holding S.A. and Wirtualna Polska Media S.A., Money.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Wakacje.pl S.A. and
- subordination agreement for the repayment of indicated existing and future dues in respect of Wirtualna Polska Media S.A. to the dues of new borrowers.

The new loan agreement includes a mandatory early termination clause which obliged the Group to terminate existing interest swap agreements. Consequently, on 20 December 2017 Wirtualna Polska Media S.A. terminated its hedging facilities with mBank and ING Bank Śląski and paid to the banks PLN 1,496 thousand. The new loan agreement does not have provioisons forcing the Group to enter into new interest rate swap transactions.

The new loan agreement ensures a comparable margin along with significantly increased available credit line giving the Group enhanced flexibility of funding future acquisitions.

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 2017, 81.9% of households (an increase of 1.5 p.p. compared with 2016) and 94.8% of enterprises in Poland had access to the Internet (source: Społeczeństwo Informacyjne 2017 – 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. It can be assumed that the development shell be more related to broadband, mobile as well as other advanced internet access technologies. The weakening of the Internet growth rate in the future may negatively impact the outlook for the Group's development and the execution of its strategy.

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 (both the both entrepreneurs cooperating with the Group and the users of the Group's services). Therefore, the Group's operations are affected by macroeconomic factors which determine the economic situation on the Polish market, which in turn is significantly affected by the economic situation in the region, the European Union and the global economy. Changes in macroeconomic factors such as, e.g. the GDP growth rate, the unemployment rate, salary levels, consumption or interest rate levels – which are beyond the Group's control – affect the purchasing power of the Group's clients and the consumers of the Group's products and services, as well as their propensity to spend or save, 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. It should also be noted that there are emerging initiatives (also involving significant market participants), which aim to set new standards for online advertising . They may result in restrictions on available content and advertising forms and consequently influence the revenues from advertising activities.

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.

The achievement of the expected audience and market share also depends on the coverage of the WP TV, i.e. from the actual number of potential viewers who can receive the WP TV signal. This circumstance does not depend on the Group, but to a large extent on other entities - including owners of digital TV platforms, cable networks, entities responsible for the technical service of terrestrial television broadcasting, as well as the adaptation of viewers' antennas to the reception of the WP TV signal.

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 as well as possible changes in the labour law may have a material adverse effect on the business conducted by the Group. The volatility of the legal system and regulatory environment increases the risk of incurring material, additional and unexpected expenses as well as the costs of the adjustment of business to the changing legal environment.

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.

Changes in the personal data protection rules

Starting from 25 May 2018, the EU Regulation no. 2016/679 of the European Parliament and the Council dated 27 April 2016 on the protection of individuals with regard to the processing and free movement of personal data) must be applied directly in the national legislation and at the same time the Directive 95/46 / WE (general data protection regulation, RODO) shell be repealed. In connection with the RODO, supplementary national provisions will be issued, however, as at the date of this report, the final wording of the Polish legislation is not yet known.

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

The Group has taken appropriate measures to prepare for the new regulations, however - due to the reasons set out above - the risk of negative impact of the new regulations on the Group's operations can not be completely ruled out.

Risk involved in executing agreements with related parties

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

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 is Tv broadcaster and video on demand services (VoD) provider through its Internet services and portals. Additionally, in connection with the collection of data regarding Internet users through Internet services and portals (thanks to the use of cookies) and, to a certain extent, in connection with the rendering of telecommunication services (providing access to text gates and providing the Group Companies with access to telecommunication and data lines), the Group is also subject to the supervision of the UKE. Any cash penalty imposed on the Group Companies by national antimonopoly authorities or by the European Commission, as well as the refusal of consent for the Company or the Subsidiaries to effect a concentration could adversely affect the Group's business, its financial position and results of operations, as well as the price of the shares.

The 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. Composition and changes to the bodies of Wirtualna Polska Holding S.A.

As of 31 December 2017 and as of the date of preparing this report 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, CFO

During the period covered in this report, there were no changes to the composition of the Company's Management Board. On 26 April 2017, the Management Board's term of office ended. On the same day, on the Ordinary Shareholders' Meeting, Jacek Świderski was appointed President of the Management Board for the second term. The remaining part of the Board was re-appointed for the second term of office on 16 May 2017.

As of 31 December 2017 the composition of 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
Mariusz Jarzębowski	- Member of the Supervisory Board
Piotr Walter	- Member of the Supervisory Board
Aleksander Wilewski	- Member of the Supervisory Board

On 26 April 2017, due to the end of the term of office, Magdalena Magnuszewska and Krzysztof Rozen ceased to be members of the Supervisory Board. On the same day new members were appointed to the Supervisory Board i.e. Piotr Walter and Aleksander Wilewski. Moreover, Jarosław Mikos, Krzysztof Krawczyk, Beata Barwińska-Piotrowska and Mariusz Jarzębowski were appointed for the next term of office.

9.2. Structure of share capital

As of 31 December 2017 the share capital of the Company amounted PLN 1,442,761,20 and consisted of 28,855,224 shares with a par value of PLN 0.05 each, entitling 40,144,933 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;
- 551,805 D series ordinary bearer shares;
- 3,339,744 E series ordinary bearer shares;
- 50,637 F series ordinary bearer shares.

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

9.3. 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.

9.4. Shareholders with at least 5% of the total voting rights

In accordance with notifications received by the Company Wirtualna Polska Holding S.A. and to the best of its knowledge, as of 31 December 2017 the structure of shareholders who hold, directly or indirectly by their subsidiaries, at least 5% of the total voting rights at the General Shareholders' Meetings of the Company is as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świderski through subsidiaries including among others:	3 777 164	13,09%	7 540 401	18,78%
Orfe S.A.	3 763 237	13,04%	7 526 472	18,75%
Michał Brański through subsidiaries including among others:	3 777 164	13,09%	7 540 400	18,78%
10X S.A.	3 763 236	13,04%	7 526 472	18,75%
Krzysztof Sierota through subsidiaries including among others:	3 777 164	13,09%	7 540 400	18,78%
Albemuth Inwestycje S.A.	3 763 236	13,04%	7 526 472	18,75%
Founders together*	11 331 492	39,27%	22 621 201	56,35%
Other	17 523 732	60,73%	17 523 732	43,65%
Total	***28 855 224***	***100,00%***	***40 144 933***	***100,00%***

* Founders (i.e. Jacek Świderski, Michał Brański and Krzysztof Sierota) 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.

On March 9th, 2019 the Management Board obtained a notification from AVIVA Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. concerning a change in shareholding of the Companies' shares by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK. As a result of a transaction of aquring shares of the Company concluded on 2 March 2018, Aviva OFE holds 2,033,159 shares of the Company which constituted 5.06% of the total number of votes.

As at the date of this report the structure of shareholders who hold, directly or indirectly by their subsidiaries, at least 5% of the total voting rights at the General Shareholders' Meetings of the Company is as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świderski through subsidiaries including among others:	3 777 164	13,09%	7 540 401	18,78%
Orfe S.A.	3 763 237	13,04%	7 526 472	18,75%
Michał Brański through subsidiaries including among others:	3 777 164	13,09%	7 540 400	18,78%
10X S.A.	3 763 236	13,04%	7 526 472	18,75%
Krzysztof Sierota through subsidiaries including among others:	3 777 164	13,09%	7 540 400	18,78%
Albemuth Inwestycje S.A.	3 763 236	13,04%	7 526 472	18,75%
Founders together*	11 331 492	39,27%	22 621 201	56,35%
Aviva OFE	2 033 159	7,05%	2 033 159	5,06%
Other	15 490 573	53,68%	15 490 573	38,59%
Total	***28 855 224***	***100,00%***	***40 144 933***	***100,00%***

9.5. 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 S.A. 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, held by Orfe S.A., having preferential rights as to voting, so that one share entitles two votes at the general meeting and 13,927 ordinary bearer shares held by Bridge20 Enterprises Limited, which constitute a 13.09% interest in the Company's share capital, representing 7,540,401 votes at the general shareholders meeting of the Company and constituting 18.78% of the overall number of votes;
- Krzysztof Sierota is indirectly entitled to exercise voting rights attached to 3,763,236 series A registered shares in the Company, held by Albemuth Inwestycje S.A., having preferential rights as to voting, so that one share entitles two votes at the general meeting and 13,928 ordinary bearer shares held by Highcastle Sp. z o.o., which constitute a 13.09% interest in the Company's share capital, representing 7,540,000 votes at the general shareholders meeting of the Company and constituting 18.78% 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, held by 10X S.A., having preferential rights as to voting, so that one share entitles two votes at the general meeting and 13,928 ordinary bearer shares held by Now2 Sp. z o.o., which constitute a 13.09% interest in

the Company's share capital, representing 7,540,000 votes at the general shareholders meeting of the Company and constituting 18.78% 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. In the next phase of the implementation of the incentive plan Elżbieta Bujniewicz-Belka acquired 83,466 D series ordinary bearer shares issued based on the resolution approving the issue of D series shares. 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 Mr. Jarosław Mikos, Chairman of Supervisory Board of the Company – notification of the sale of 324,052 shares of the Company concluded on 1 December 2017.

On 15 September 2017, the Company received from Mr. Jarosław Mikos, Chairman of Supervisory Board of the Company – notification of the sale of 43,628 shares of the Company concluded on 14 September 2017

On 26 and 27 September 2017, the Company received from Mr. Jarosław Mikos, Chairman of Supervisory Board of the Company, notification of transactions on financial instruments related to the shares of the Company: concluded on 25 September 2017 - the sale of 28,144 shares of the Company, concluded on 26 September 2017 - the sale of 13,928 shares of the Company and concluded on 27 September 2017 - the sale of 13,928 shares of the Company.

On 26 and 27 September 2017, the Company received from person performing managerial responsibilities notification of transactions on financial instruments related to the shares of the Company during the period between 25-27 September 2017: the purchase of 13,927 shares of the Company by Bridge20 Enterprise Limited (controlled by Jacek Świderski), the purchase of 564 shares of the Company by Elżbieta Bujniewicz-Belka, the purchase of 13,928 shares of the Company by Highcastle Sp. z o.o. (controlled by Krzysztof Sierota) and , the purchase of 13,928 shares of the Company by Now2 Sp. z o.o.(controlled by Michał Brański).

Additional information on the structure and changes in equity and voting rights are described in note 26 to the consolidated financial statements.

9.6. 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 S.A. 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 S.A. and Orfe SA, respectively, in relation to the transfer of the shares in the Company.

Grupa Wirtualna Polska S.A. and Wirtualna Polska Holding S.A. 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 2017 the process of exit of EMH from the investment in the shares of the company was finalized 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 period of twelve months ending 31 December 2017.

Second incentive scheme

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

Detailed information on the second incentive scheme is described in note 27 to the consolidated financial statements of the Group for the period of twelve months ending 31 December 2017.

9.7. Purchase of own shares

As of the date of preparing this report, neither Wirtualna Polska Holding nor any other any other company belonging to the Group does not hold any own shares.

9.8. USE OF THE PROCEEDS FROM THE PUBLIC OFFERING

In 2016 the Group consumed all the remaining IPO proceeds on the acqusition of Totalmoney.pl Sp. z o.o. which was partially financed from this source (PLN 9.96 millon). Therefore, from the beginning of 2017 no listing proceeds were available to the Group.

9.9. 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/

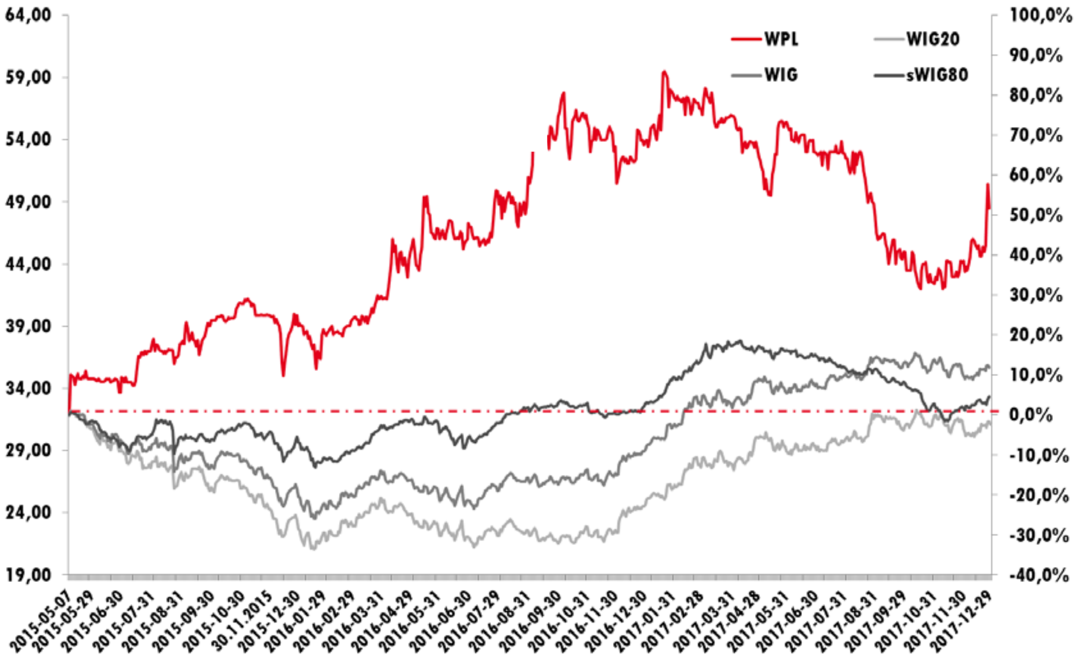
Małgorzata Żelazko, PKO BP S.A., http://www.pkobp.pl/

9.10. 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 shows the development of the share price of the Wirtualna Polska Holding SA from the day of its IPO to 31 December 2017 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 2017.

in PLN'000	Salaries and related benefits	Incentive scheme – share-based payments
Jacek Świderski	1 495	-
Krzysztof Sierota	1 002	-
Michał Brański	1 002	-
Elżbieta Bujniewicz - Belka	833	108
Total	***4 332***	***108***

Remuneration of the Members of the Supervisory Board

The table below presents the remuneration payable or paid to the Supervisory Board members in 2017.

in PLN'000	Salaries and related benefits	Incentive scheme – share-based payments
Jarosław Mikos	755	-
Krzysztof Krawczyk	32	-
Beata Barwińska-Piotrowska	40	-
Aleksander Wilewski	32	-
Piotr Walter	32	-
Mariusz Jarzębowski	40	-
Krzysztof Rozen	8	-
Total	***939***	***-***

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 post- balance sheet events is provided in note 42 to the consolidated financial statements for the period of 12 months ending 31 December 2017.

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

The Group did not publish any forecasts of results for the year 2017.

10.4. PRODUCTS PROVIDED BY THE WIRTUALNA POLSKA HOLDING CAPITAL GROUP

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

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

in PLN'000	For the year ending 31 December 2017		
	Online Advertising	TV Advertising	Total
Sales of services settled in cash	424 502	8 131	***432 633***
Sales of services settled in barter	32 980	-	***32 980***
Total	***457 482***	***8 131***	***465 613***

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***

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.

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

10.5. SALES MARKETS AND SOURCES OF SUPPLY

About 78% 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 2017	Share %	For the year ending 31 December 2016	Share %
Domestic sales	364 071	78%	330 885	80%
Export sales	101 542	22%	84 259	20%
European Union	89 762	19%	75 664	18%
Outside European Union	11 780	3%	8 595	2%
Total	***465 613***	***100%***	***415 144***	***100%***

The Group manages a well-diversified portfolio of customers and suppliers. In both 2016 and 2017 there was one customer whose turnover exceeded 10% of the Group's consolidated revenue and amounted to 11% in both years. 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.

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 95%.

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

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

During 2017 the Capital Group paid the total amount of PLN 201 thousand as compensation in cases concerning the protection of personal rights. Additionally, in the analysed period, the provision for court proceedings increased by PLN 394 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 2017.

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 38 of the consolidated financial statements for the 12 months ending 31 December 2017 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, borrowings 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 borrowings or guarantees – in aggregate to one company or an entity related to that company – the total value of which would constitute at least 10% of the equity of Wirtualna Polska Holding S.A.

Inter-company guarantees

The companies: Wirtualna Polska Holding S.A., Money.pl Sp. z o.o., Wakacje.pl S.A. and Nocowanie.pl Sp. z o.o. are guarantors of the bank loan agreement concluded by and between Wirtualna Polska Media S.A. mBank S.A., PKO BP and ING Bank Śląski.

The total guarantee amount corresponds to the current balance of the debt of Wirtualna Polska Media S.A. of the credit agreement.

Loans granted

As of 31 December 2017 Wirtualna Polska Holding S.A. and Grupa Wirtualna Polska S.A. have granted loans to other Group members in order to finance their acquisitions and current operations. The Parent Company does not have any loans granted by non-related companies.

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 Wirtualna Polska Media S.A. 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 shareholder

On 11 October the non-controlling shareholders granted a loan in the amount of PLN 2,162 thousand to finance the acquisition of Grupa eHoliday.pl Sp. z o.o. shares. The loan bears interest at the WIBOR rate for 3-month deposits plus a margin set in the contract. The principal may be repaid at any time, no later than 16 October 2020, but interest on the loan is repaid on a quarterly basis.

Inter-company loans

As of 31 December 2017 Wirtualna Polska Holding S.A. and Wirtualna Polska Media S.A. have granted loans to other Group members in order to finance their acquisitions and current operations. The Parent Company does not have 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 2017 was mainly financed with the own resources and partially with the loan granted by the minority shareholder to Nocowanie.pl Sp. z o.o.

In 2017, 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 2017, 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

Jacek Świderski, Michał Brański, Krzysztof Sierota and Elżbieta Bujniewicz – Belka constiute also the Managemnet Board of Wirtualna Polska Media S.A. – a 100% subsidiary. The appointment to the Management Board of Wirtualna Polska Media S.A. entitles them to remuneration, based on Sharehoders Meeting resolution. The resolution entitle them to b asic pay, bonuses and severance pay.

Members of the Management 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-month 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 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 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.
Furthermore, non-competition restrictions are in force in case of Jacek Świderski, Michał Brański, Krzysztof Sierota and Elżbieta Bujniewicz – Belka also in reference to their activities in Wirtualna Polska Media S.A. Management Board. They are entitled to compensation for the non-compete clause as stated in the Shareholders' resolution.

On 21 September an amendment was signed to Jarosław Mikos's agreement with the Company regarding his function of the President of the Supervisory Board. As of that date, the President of the Management Board is no longer entitled to any compensation on dismissal nor is he bound by the non-compete clause.

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 reaserch 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 2017. 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 22 of the standalone financial statement for the year ending 31 December 2017.

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

Apart from the events described in this document and in the condensed interim 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 S.A. 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.

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, 15 March 2018

MANAGEMENT'S REPRESENTATION ON CORPORATE GOVERNANCE

31 DECEMBER 2017

CORPORATE GOVERNANCE STATEMENT REGARDING THE YEAR 2017

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 2017

In 2017 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.

2. 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.

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

PricewaterhouseCoopers sp. z o.o., with its registered seat in Warsaw (00-683 Warsaw, ul. Lecha Kaczyńskiego 14) ("PWC") is an entity authorised to review the financial statements of the Company for the year 2015. Moreover, PWC carried out in 2017 an interim review of financial report and consolidated financial report of the Company for the 6 months ending 30 June 2017.

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.

3. SHARE CAPITAL AND SHAREHOLDERS

3.1. STRUCTURE OF THE SHARE CAPITAL

As of 31 December 2017, the share capital of the Company amounted to PLN 1,442,761.20 and consisted of 28,855,224 shares with a par value of PLN 0.05 each, entitling 40,144,933 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;
- 551,805 D series ordinary bearer shares;
- 3,339,744 E series ordinary bearer shares;
- 50,637 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 21 November 2016

On 24 February 2017 the Company's share capital was increased from the amount of 1,433,826.05 PLN to 1,434,931.20 PLN, ie. by amount of 1,105.15 PLN. The share capital increase took pleace in relation to admission to the deposit of the securities and of the National Depository of Securities ("KDPW") of 22,103 ordinary bearer shares of the Company with a nominal value of 0.05 zł (five groszy) each, and their introduction to trading on the primary market by WSE, as a part of employee stock ownership plan.

On 31 May 2017 the Company's share capital was increased from the amount of 1,434,931.20 PLN to 1,440,487.60 PLN, ie. by amount of 5,556.40 PLN. The share capital increase took pleace in relation to admission to the deposit of the securities and of the National Depository of Securities ("KDPW") of 111.128 ordinary bearer shares of the Company with a nominal value of 0.05 zł (five groszy) each, and their introduction to trading on the primary market by WSE as a part of employee stock ownership plan.

On 31 August 2017 the Company's share capital was increased from the amount of 1,440,487.60 PLN to 1,441,786.35 PLN , ie. by amount of 1,298.75 PLN. The share capital increase took pleace in relation to admission to the deposit of the securities and of the National Depository of Securities ("KDPW") of 25,975 ordinary bearer shares of the Company with a nominal value of 0.05 zł (five groszy) each, and their introduction to trading on the primary market by WSE as a part of employee stock ownership plan.

On 15 December 2017 the Company's share capital was increased from the amount of 1,441,786.35 PLN to 1,442,761.20, ie. by amount of 974.85 PLN. The share capital increase took pleace in relation to admission to the deposit of the securities and of the National Depository of Securities ("KDPW") of 19,497 ordinary bearer shares of the Company with a nominal value of 0.05 zł (five groszy) each, and their introduction to trading on the primary market by WSE as a part of employee stock ownership plan.

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.

3.2. 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
Jacek Świderski via subsidiares:	3 777 164	13,09%	7 540 401	18,78%
Orfe S.A.	3 763 237	13,04%	7 526 472	18,75%
Michał Brański via subsidiares:	3 777 164	13,09%	7 540 400	18,78%
10X S.A.	3 763 236	13,04%	7 526 472	18,75%
Krzysztof Sierota via subsidiares:	3 777 164	13,09%	7 540 400	18,78%
Albemuth Inwestycje S.A.	3 763 236	13,04%	7 526 472	18,75%
Founders altogether	11 331 492	39,27%	22 621 201	56,35%
Others	17 523 732	60,73%	17 523 732	43,65%
Total	***28 855 224***	***100,00%***	***40 144 933***	***100,00%***

On March 9th, 2019 the Management Board obtained a notification from AVIVA Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A. concerning a change in shareholding of the Companies' shares by Aviva Otwarty Fundusz Emerytalny Aviva BZ WBK. As a result of a transaction of aquring shares of the Company concluded on 2 March 2018, Aviva OFE holds 2,033,159 shares of the Company which constituted 5.06% of the total number of votes.

As at the date of this report the structure of shareholders who hold, directly or indirectly by their subsidiaries, at least 5% of the total voting rights at the General Shareholders' Meetings of the Company is as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świderski through subsidiaries including among others:	3 777 164	13,09%	7 540 401	18,78%
Orfe S.A.	3 763 237	13,04%	7 526 472	18,75%
Michał Brański through subsidiaries including among others:	3 777 164	13,09%	7 540 400	18,78%
10X S.A.	3 763 236	13,04%	7 526 472	18,75%
Krzysztof Sierota through subsidiaries including among others:	3 777 164	13,09%	7 540 400	18,78%
Albemuth Inwestycje S.A.	3 763 236	13,04%	7 526 472	18,75%
Founders together*	11 331 492	39,27%	22 621 201	56,35%
Aviva OFE	2 033 159	7,05%	2 033 159	5,06%
Other	15 490 573	53,68%	15 490 573	38,59%
Total	***28 855 224***	***100,00%***	***40 144 933***	***100,00%***

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 held by Orfe S.A. and 13,927 ordinary bearer shares held by Bridge20 Enterprise Limited which constitutes a 13.09% interest in the Company's share capital, representing 7,540,401 votes at the general shareholders meeting of the Company and constituting 18.78% 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 held by Albemuth Inwestycje S.A. and 13,928 ordinary bearer shares held by Highcastle sp. z o.o.which constitutes a 13.09% interest in the Company's share capital, representing 7,540,400 votes at the general shareholders meeting of the Company and constituting 18.78% 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 held by 10X S.A. and 13.928 ordinary bearer shares held by Now2 sp. z o.o. which constitutes a 13.11% interest in the Company's share capital, representing 7,540.400 votes at the general shareholders meeting of the Company and constituting 18.78% 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. Moreover in the next phase of the implementation of the incentive plan Elżbieta Bujniewicz - Belka acquired 83.466 D series ordinary bearer shares issued based on the resolution approving the issue of D series shares. Elżbieta Bujniewicz-Belka is also 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.

On 15 September 2017 the Company received from Mr Jarosław Mikos, Chairman of Supervisory Board of the Company – notification of transactions on Company's shares concluded on 14 September 2016, i.e. the sale of 43,628 shares of the Company.

On 26 and 27 September 2017 the Company received from persons performing managerial responsibilities in the Company and persons closely related to person performing managerial responsibilities notifications of transactions on Company's shares concluded on 25 and 26 September 2017:

1) Mr Jarosław Mikos, Chairman of Supervisory Board of the Company – notification of sale of 28,144 shares of the Company on 25 September 2017, notification of sale of 13,928 shares of the Company on 26 September 2017 and notification of sale of 13,928 shares of the Company on 27 September 2017,
2) Mrs Elżbieta Bujniewicz – Belka – notification of purchase of 564 shares of the Company,
3) Bridge20 Enterprises Limited (person closely related to person performing managerial responsabilities i.e. Jacek Świderski – notification of purchase of 13,927 shares of the Company,
4) Highcastle sp. z o.o. (person closely related to person performing managerial responsabilities i.e. Krzysztof Sierota) -,
5) Now2 sp. z o.o. (person closely related to person performing managerial responsabilities i.e. Michał Brański) - notification of purchase of 13,928 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 11,331,492 shares of the Company which constitute 39,27% of the shares in the share capital of the Company and the right to exercise 22,621,201 votes at the general meeting of shareholders of the Company (which constitute 56,35% 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.

3.4. 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 (via Orfe S.A.) 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 (;

- Krzysztof Sierota is indirectly (via Albemuth Inwestycje S.A.) 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; and

- Michał Brański is indirectly (via 10X S.A.) 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

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.

3.5. LIMITATION CONCERNING THE SHARES

The Company's Articles of Association provides that granting the right to vote to a pledgee or a user of shares requires the consent of the General Meeting.

All registered shares held by Orfe S.A., Albemuth Inwestycje S.A. and 10X S.A. were covered by an agreement on the establishment of a registered pledge and financial pledges on shares of December 12, 2017 between the aforementioned companies as pledgee and mBank S.A. with its registered office in Warsaw as the Pledgee and Administrator of the Pledge and Powszechna Kasa Oszczędności Bank Polski S.A. with its registered office in Warsaw as the Pledgee (Pledge Agreement).

After the occurrence of the Case of Infringement as defined in the Pledge Agreements and delivery of the Notification on the Exercise of the Voice Right (as defined in the Pledge Agreement), mBank S.A. is authorized to exercise the voting right from pledged shares on the terms specified in the Pledge Agreements.

4. 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.

4.1. 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.

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

5.1. MANAGEMENT BOARD OF THE COMPANY

5.1.1. 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.

5.1.2. 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 2018.

As of 31 December 2017 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: Wirtualna Polska Media SA. 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. (since 2015) . 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), Wakacje.pl SA (since 2015) and eSky.pl S.A. (since 2017).

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 Wirtualna Polska Media 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).

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 Wirtualna Polska Media 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).

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 Wirtualna Polska Media SA.

Elżbieta Bujniewicz-Belka also is the member of the management board of Orfe SA, 10X SA, Albemuth Inwestycje SA.

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

5.1.3. 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.

5.1.4. 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.

5.2. SUPERVISORY BOARD

5.2.1. 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.

5.2.2. MEMBERS OF THE SUPERVISORY BOARD

Currently the Supervisory Board consists of six 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
Mariusz Jarzębowski	- Member of the Supervisory Board
Piotr Walter	- Member of the Supervisory Board
Aleksander Wilewski	- Member of the Supervisory Board

During 2017 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.

On 26 April 2017, the Ordinary General Meeting of the Company adopted resolutions on the appointment of:

- Mr Jarosław Mikos as a member of the Supervisory Board of the Company,

- Mr. Krzysztof Krawczyk as a member of the Supervisory Board of the Company,

- Mrs Beata Barwińska - Piotrowska as a member of the Supervisory Board of the Company,

- Mr Mariusz Jarzębowski as a member of the Company's Supervisory Board who satisfy the criteria of independence from the Company and entities with significant connections with the Company,

- Mr Piotr Walter as a member of the Company's Supervisory Board who satisfy the criteria of independence from the Company and entities with significant connections with the Company,

- Mr Aleksander Wilewski as a member of the Supervisory Board of the Company who satisfy the criteria of independence from the Company and entities with significant connections with the Company.

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 isChairman of the Supervisory Board of the Wirtualna Polska Holding S.A.. Since December 2017 he has been a President of the Management Board of Polskie e-Płatności S.A..

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 20-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 and 2017 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 was an Of Counsel at the Warsaw office of the law firm of CMS Cameron McKenna. Since November 2017 r. she has been a Partner at Jedwabny & Brzozowska law firm.

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.

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 of a venture assistance firm in Warsaw. He holds MS and MBA degrees from the Warsaw University of Technology Business School in partnership with London Business School.

Piotr Walter – Member of the Supervisory Board

Piotr Walter graduated from the Columbia College in Chicago and the International Institute for Management Development (PED) in Lausanne. He studied journalism at the Warsaw University and directing at the Lodz Film School. He started his professional career as a producer of television commercials in ITI Film Studio. And in TVN S.A., as program promotion director and TVN S.A. management board member.

Then, as director general and president of the management board of TVN S.A., he developed the nationwide TV channel and a portfolio of 13 thematic channels, creating the strongest television brand in Poland. As the vice-president of the TVN Group management board, he implemented the Group's Internet and Over-The-Top (TVN Player) strategy. In 2013-2015, he discharged the function of vice-president of the ITI Group, Supervisory Board Member and Chairman of the Strategy and Content Committee of TVN S.A. Recently he is involved as a co-producer engaged in the production of feature films and co-owner of CIA Content Impact Agency operating in the field of production and distribution of video content and services related to the development of content marketing strategies.

Aleksander Wilewski – Member of the Supervisory Board

Aleksander Wilewski is a Swedish/Polish entrepreneur who has launched a wide range of pioneering companies, including Explorica, Clickad, Guldbrev, Streetcom and Total Fitness. Aleksander Wilewski has broad and significant experience across a diverse range of businesses, driving them to be operationally efficient and financially successful. At the forefront of digital marketing, he founded Clickad, later sold it to the private equity firm 3TS, and then served on the board of directors. During his time as Head of Marketing and Operations for Explorica in the US and prior to serving on its board, his strategic and operational initiatives generated a business turnover of $80 million. Most recently, Aleksander Wilewski co-founded Guldbrev in Sweden, a fast growing e-commerce company. Aleksander Wilewski studied in Stockholm School of Economics with a major in accounting and finance. He is fluent in Swedish, Polish and English. Currently, Aleksander Wilewski is a board member for Guldbrev, Total Fitness and Egain Systems.

5.2.3. 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. 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 four members of the Supervisory Board who satisfy the independence criteria, i.e.:

- Mr Krzysztof Krawczyk– Member of the Supervisory Board
- Mr Mariusz Jarzębowski – Member of the Supervisory Board,
- Mr Piotr Walter – Member of the Supervisory Board,
- Mr Aleksander Wilewski – Member of the Supervisory Board

5.2.4. 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.

5.2.5. 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.

5.2.6. 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.

5.2.6.1. THE AUDIT COMMITTEE

In accordance with § 22 of the Articles of Association, the Supervisory Board appointed an Audit Committee consisting of at least three members, including at least two members (including the Chairman of the Committee) who meet the independence criteria, at least one member who has knowledge and skills of accounting or auditing financial statements and at least one member who has knowledge and skills of the Companies' branch of business, therefore the composition of the Audit Committee meets the criteria stated in the provisions of the Auditors Act.

The tasks of the Audit Committee are specified in the relevant provisions of law and internal regulations of the Company and include, in particular: 1) monitoring: a) the financial reporting process, b) effectiveness of the internal control system, as well as risk management and internal audit systems, also with regard to financial reporting, c) performance of financial auditing activities, in particular auditing by the audit firm, taking into consideration any applications and determinations of the Audit Oversight Commission resulting from the control carried out in the audit firm; 2) control and monitoring of independence of the statutory auditor and the audit firm, especially, if the audit firm provides to the public interest entity services other than auditing; 3) informing the supervisory board or other supervisory body of the public interest entity about audit results and explanation of how this audit contributed to reliability of financial reporting in the public interest entity, as well as what was the role of the audit committee in the audit process; 4) assessment of independence of the statutory auditor and expressing consent to for his/her provision of acceptable services other than audits in the public interest entities; 5) preparation of the policy of selecting the audit firm to conduct the audit; 6) preparation of the policy of providing acceptable services other than auditing by the audit firm conducting the audit, its affiliates and by a member of the audit firm's network; 7) determination of procedures of selecting the audit firm by the public interest entity; 8) presentation of the recommendations referred to in Article 16, passage 2 of the Regulation No 537/2014 to the supervisory board or to any other supervisory body, or the body referred to in Article 66, passage 4 of the Act of 29 September 1994 on Accounting, in accordance with the policies referred to in item 5 and 6; 9) submission of recommendations aimed at ensuring reliability of the financial reporting process in the public interest entities.

The Supervisory Board may also appoint other committees, in particular the nomination and remuneration committee. Specific tasks and manners of appointing and functioning of the committees are stated in the Supervisory Board By-laws. 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 Krawczyk - Chairman of the Audit Committee, Member of the Supervisory Board meeting the independence criteria
- Jarosław Mikos - 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.

On 15 May 2017, the Audit Committee of the new term was composed of: Krzysztof Krawczyk, Jarosław Mikos, and Mariusz Jarzębowski.

6. 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, 15 March 2018

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, 15 March 2018

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDING 31 DECEMBER 2017

CONSOLIDATED INCOME STATEMENT AND OTHER COMPREHENSIVE INCOME

PLN'000	Note	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Sales	8	***465 613***	***415 144***
Amortization and depreciation		(51 007)	(42 082)
Amortization and depreciation of acquired programming rights		(2 883)	(295)
Materials and energy used		(5 877)	(5 574)
Costs related to public offering, acquisitions of subsidiaries and restructuring, including:	9, 10	(4 053)	(7 894)
External services	9, 10	(1 184)	(1 287)
Salary and employee benefit expense	9, 10	(2 639)	(6 030)
Other operating expenses	9, 10	(230)	(577)
Costs of the employee option scheme	27	(1 326)	(1 767)
Other external services		(176 545)	(146 157)
Other salary and employee benefit expenses		(134 248)	(124 404)
Other operating expenses	13	(12 033)	(8 093)
Other operating income/gains	12	988	1 644
Gain/loss on disposal of other financial assets		-	341
Operating profit		***78 629***	***80 863***
Finance income	14	620	649
Finance costs	15	(19 641)	(17 986)
Revaluation of commitments to purchase non-controlling interests		(5 319)	(48 126)
Profit before tax		***54 289***	***15 400***
Income tax	16	(14 257)	38 448
Net profit		***40 032***	***53 848***
Other comprehensive income/(losses)	28	293	1 005
Comprehensive income		***40 325***	***54 853***
Net profit attributable to:			
Equity holders of the Parent Company		35 325	53 756
Non-controlling interests		4 707	92
Comprehensive income attributable to:			
Equity holders of the Parent Company		35 618	54 761
Non-controlling interests		4 707	92
Net profit attributable to equity holders of the Parent Company per share (in PLN)			
Basic	17	1,23	1,90
Diluted	17	1,22	1,88

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

in PLN'000	Note	As of 31 December 2017	As of 31 December 2016
Non-current assets			
Property, plants and equipment	18	63 013	57 899
Goodwill	19, 20	259 594	246 472
Trademarks	19	157 073	157 971
Homepage and WP mail	19	127 445	133 929
Other intangible assets	19	95 533	96 368
Non-current programming assets	23	8 463	5 358
Long-term receivables		155	-
Other financial assets	24	16 031	2 470
Deferred tax assets	30	24 922	29 275
		752 229	***729 742***
Current assets			
Trade and other receivables	25	95 235	77 304
Cash and cash equivalents		46 442	45 150
		141 677	***122 454***
TOTAL ASSETS		***893 906***	***852 196***
Equity			
Equity attributable to equity holders of the Parent Company			
Share capital	26	1 443	1 434
Supplementary capital		318 759	315 830
Revaluation reserve	28	(546)	(839)
Other reserves		(36 984)	(38 310)
Retained earnings		117 777	114 143
		400 449	***392 258***
Non-controlling interests	29	***19 479***	***16 467***
		419 928	***408 725***
Long-term liabilities			
Loans and leases	31	203 507	174 572
Other long-term liabilities	33	92 906	144 567
Deferred tax liability	30	10 879	10 993
		307 292	***330 132***
Short-term liabilities			
Loans and leases	31	13 341	39 202
Trade and other payables	33	142 303	68 845
Provisions for employee benefits	32	3 244	3 276
Other provisions	32	1 845	1 511
Current income tax liabilities		5 953	505
		166 686	***113 339***
TOTAL EQUITY AND LIABILITIES		***893 906***	***852 196***

Holding SA

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 2017		***1 434***	***315 830***	***(839)***	***(38 310)***	***114 143***	***392 258***	***16 467***	***408 725***
Net profit/ (loss)		-	-	-	-	35 325	35 325	4 707	40 032
Other comprehensive income	28	-	-	293	-	-	293	-	293
Total comprehensive income		***-***	***-***	***293***	***-***	***35 325***	***35 618***	***4 707***	***40 325***
Option scheme	27	9	2 929	-	1 326	-	4 264	-	4 264
Acquisition of a subsidiary	20	-	-	-	-	-	-	896	896
Payment of dividend	26	-	-	-	-	(31 691)	(31 691)	(2 591)	(34 282)
Equity as of 31 December 2017		***1 443***	***318 759***	***(546)***	***(36 984)***	***117 777***	***400 449***	***19 479***	***419 928***

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		-	-	1 005	-	-	1 005	-	1 005
Total comprehensive income		***-***	***-***	***1 005***	***-***	***53 756***	***54 761***	***92***	***54 853***
Option scheme		21	5 377	-	1 767	-	7 165	-	7 165
Payment of dividend		-	-	-	-	-	-	(1 022)	(1 022)
Acquisition of a subsidiary		-	-	-	(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***

WP Holding SA

CONSOLIDATED CASH FLOW STATEMENT

in PLN'000	Note	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Cash flows from operating activities			
Profit before tax		***54 289***	***15 400***
Adjustments for:		***76 596***	***113 372***
Amortization and depreciation		51 007	42 082
Amortization and depreciation of acquired programming rights		2 883	295
Payments for programming rights		(6 850)	(2 130)
Losses on the sale /liquidation/revaluation of property, plant and equipment and intangible assets		3 179	463
Finance income and costs		19 641	17 986
Gain/loss on disposal of other financial assets		-	(341)
Revaluation of contingent liabilities arising from business combinations		342	5 218
Revaluation of commitments to purchase non-controlling interests		5 319	48 126
Costs of the employee option scheme		1 326	1 767
Other adjustments		(251)	(94)
Changes in working capital		***(10 848)***	***(6 033)***
Change in trade and other receivables	41	(18 330)	(12 434)
Change in trade and other payables	41	7 139	5 932
Change in provisions	41	343	469
Income tax paid		(8 412)	(9 403)
Income tax refunded		2 014	255
Net cash flows from operating activities		***113 639***	***113 591***
Cash flows from investing activities			
Sale of intangible assets and property, plant and equipment		216	105
Sale of other financial assets and subsidiaries		-	1
Purchase of intangible assets and property, plant and equipment		(41 983)	(37 221)
Repayment of contingent liabilities arising from business combinations		-	(19 113)
Acquisition of subsidiary (less cash acquired)	41	(10 403)	(36 385)
Acquisition of financial assets classified as available for sale		(15 625)	-
Net cash flows from investing activities		***(67 795)***	***(92 613)***
Net cash flows from financing activities			
Payments due to share capital increase		2 938	5 398
Loans received		22 111	12 000
Repayment of finance leases		(893)	(430)
Repayment of bank commissions		(4 335)	(1 601)
Repayment of IRS derivative		(1 496)	-
Interest paid		(7 601)	(9 434)
Repayment of loans received		(20 199)	(29 700)
Dividends paid to the shareholders of the parent company		(31 691)	-
Dividends to non-controlling shareholders		(2 591)	(1 022)
Net cash flows from financing activities		***(43 757)***	***(24 789)***
Total net cash flows		***2 087***	***(3 811)***
Cash and cash equivalents at the beginning of the period		***45 150***	***48 961***
Impact of exchange differences on cash and cash equivalents		(795)	-
Cash and cash equivalents at the end of the period		***46 442***	***45 150***

Notes to consolidated financial statements

1. GENERAL INFORMATION

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

As of 31 December 2017 Wirtualna Polska Holding Capital Group composed of the Parent Company and 13 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 2017 (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

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 2017.

In these consolidated financial statements, the following standards, which came into force on January 1, 2017, were applied for the first time:

Amendments to IAS 7: Information Disclosure Initiative

The amendment to IAS 7 is effective for annual periods beginning on January 1, 2017 and introduces an obligation to disclose the reconciliation of changes in liabilities arising from financing activities.

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 intends to apply IFRS 9 from 1 January 2018 in accordance with the relevant transitional provisions. The Group decided to implement the standard without transforming the comparative data, therefore the data for 2017 and 2018 will not be comparable, and the changes resulting from the application of IFRS 9 for the first time will be recognized on 1 January 2018 as retained earnings.

The Group analysed the impact of the application of the above standard on the financial statements and identified the following areas which it will affect:

- ***Impairment allowances determined by the expected loss method - trade receivables***

IFRS 9 requires the estimation of the expected loss, regardless of whether or not there were any implications of impairment. The standard provides 3-level classification of non-financial assets in terms of their impairment:

(i) the first level of risk, i.e. balances for which there has been no significant increase in credit risk since the initial recognition and for which the expected loss is determined based on the probability of default within 12 months;

(ii) second level of risk - balances for which there has been a significant increase in credit risk since the initial recognition and for which the expected loss is determined based on the probability of default throughout the entire loan term;

(iii) third level of risk - balances with identified impairment.

With respect to trade receivables that do not contain a significant funding factor, the standard requires a simplified approach and valuation of an allowance based on expected credit losses for the entire life of the instrument. The Group has no trade receivables that would have an important financing factor, therefore classified its trade receivables only to the second risk group and receivables with identified impairment to the third risk group.

A portfolio analysis of receivables was carried out, based on the credit classification of contractors existing in the Group, and a simplified matrix of write-downs was applied on the basis of expected losses over the entire lifetime of receivables for individual receivables portfolios. The analysis was made based on the indicators of expected non-performance of liabilities determined based on historical data.

As at 1 January 2018, the Group recalculated its allowances for trade receivables, which resulted in an increase in the impairment loss by PLN 348 thousand. The amount of this adjustment will be applied to the retained earnings as at 1 January 2018.

- ***Revaluation write-offs determined by the expected loss method – cash and cash equivalents***

The Group estimated cash write-offs, based on the probability of banks' default, on whose accounts cash is allocated as at 31 December 2017. This probability was established on the basis of the external ratings of these banks and the publicly available information of rating agencies regarding the probability of default.

The Management Board refrained from creating a revaluation write-off due to immateriality.

- ***Valuation of a financial liability due to a change in the terms of the loan agreement in 2017***

The effects of changing the terms of the loan agreement (Note 31), which are recognized in the financial statements for the year 2017 by adjusting the effective interest rate on the liability in order to settle the difference between the carrying amount and the discounted value of modified future payments over the expected financing period, under IFRS 9 are recognized in profit or loss .

As of 1 January 2018, a recalculation was made using the effective interest rate before the change in the terms of the contract, which resulted in an increase in loan liabilities from PLN 211,650 thousand up to PLN 218,615 thousand. Adjustement of PLN 6,940 thousand will be recognised in the retained earnings as at 1 January 2018.

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 Group has analysed its main revenue streams, namely:

- Revenue from the sale of online advertising in the inefficient model;
- Revenue from the sale of online advertising in the efficiency model;
- Revenues from the sale of special shares;
- Revenues from intermediation in the sale of tourist services;
- Revenue from the sale of TV advertising;
- Revenues from the sale of subscriptions

The Group analysed the structure and characteristics of transactions that are carried out within the above mentioned revenue streams. No material aspects have been identified in which the method of recognizing revenues, valuation or presentation used by the Group would be different from the one permitted by IFRS 15. As a result of the conducted analysis, no need to introduce adjustments in connection with the application of IFRS 15 from January 1, 2018 has been identified.

Explanations to IFRS 15 "Revenue from contracts with customers"

Explanations to IFRS 15 "Revenues from contracts with customers" were published on 12 April 2016 and apply to financial statements prepared after 1 January 2018.

The explanations provide additional information and explanations regarding the main assumptions adopted in IFRS 15, including on the identification of separate duties, determining whether the entity acts as an intermediary (agent), or is the main supplier of goods and services (principal) and the method of recording revenue from licenses.

In addition to the additional explanations, exemptions and simplifications were introduced for units applying the new standard for the first time.

The Group will apply the Notes to IFRS 15 from 1 January 2018.

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 from 1 January 2019. 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 5-20 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.

If the decrease in the fair value of a financial asset available for sale is recognized directly in equity and there is objective evidence that the asset has been impaired, accumulated losses recognized in other comprehensive income are derecognised from equity and recognized in the statement of comprehensive income, even if the financial asset was not excluded from the statement of financial position. The amount of accumulated losses, which is transferred from equity to profit or loss, is the difference between the cost of acquisition (less any principal repayments and depreciation) and the current fair value, less any impairment losses on that asset previously reported in the statement total income. Losses due to impairment of investments in an equity instrument classified as available for sale are not reversed through the statement of comprehensive income. If, in the subsequent period, the fair value of a debt instrument available for sale increases and the increase can be objectively combined with an event occurring after the impairment loss is recognized in the statement of comprehensive income, the amount of the reversed write-down is recognized in the statement of comprehensive income.

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 does not have any active 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 Group.

On each balance sheet date the effective and ineffective part of hedge according to rules of IAS 39.95 is calculated 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 S.A. on 15 March 2018.

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 2016.

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 Wirtualna Polska Media S.A. (formerly Grupa Wirtualna Polska S.A.). 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 2017 amounted to PLN 16,855 thousand (PLN 21,207 thousand as of 31 December 2016).

b) Asset arising on the loss realised on the sale of WP Shopping shares

As part of Group's plan to locate all of its editorial and advertising activity in Wirtualna Polska Media S.A. (formerly 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 S.A.) to Wirtualna Polska Media S.A. (formerly Grupa Wirtualna Polska S.A.) (the so-called spin-off). As a result of the demerger, the Editorial and Advertising Division was transferred to Wirtualna Polska Media S.A. (formerly Grupa Wirtualna Polska S.A.) (GWP) and the operations of the e-Commerce Centre were continued at WP Shopping Sp. z o.o. (former Wirtualna Polska S.A.). Moreover, all assets and liabilities which were not clearly designated as remaining with WP Shopping Sp. z o.o. (former Wirtualna Polska S.A.), shall transfer to Wirtualna Polska Media S.A. (formerly Grupa Wirtualna Polska S.A.)
As a result of the merger, the majority of WP Shopping Sp. z o.o.'s (former Wirtualna Polska S.A.) assets and liabilities were transferred to Wirtualna Polska Media S.A. (formerly Grupa Wirtualna Polska S.A.)The transaction did not result in changing the tax value of the investment in this subsidiary.

In December 2016, Wirtualna Polska Media S.A. (formerly 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 Wirtualna Polska Media S.A. (formerly Grupa Wirtualna Polska S.A.) 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 recognize in 2016 an additional asset on the tax loss in GWP of PLN 54,996 thousand. The total value of deferred tax asset recognized on tax losses as of 31 December 2017 amounted to PLN 51,234 thousand.

c) Recovery of the deferred tax asset

The Group recognizes a deferred tax asset based on the assumption that a tax profit will be generated in the future enabling its utilization. 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 utilization 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 amortization 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 recognizes 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

If the Group is a defendant in a litigation case, a provision is booked for the case based on its actual status and the cost estimation prepared by the Legal Department. The provisions were recorded to the amount of claims and court fees the adjudgement of which is probable in the Group's opinion.

4.5. Valuation on the 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: forecasted EBITDA, which constitutes the options exercise price, revenue and the discount rate. A change in the forecasted growth dynamics of revenues by 1 p.p. per annum in the years 2018–2019 increases the value of liabilities by 0.4%. A change in the forecasted EBITDA margin by 1 p.p. per annum in the years 2018-2019 increases the value of the liabilities by 2.0%. An increase in the discount rate of 1 p.p. decreases the liability by 1.2%.

The commitment was initially estimated at PLN 31,853 thousand. As of 31 December 2017 the value of these commitments amounted to PLN 118,233 thousand and as of 31 December 2016 amounted to PLN 113,983 thousand. Details concerning changes of value of these commitments during 2017 are described in note 33 to the consolidated financial statements for the year 2017.

Nocowanie.pl Sp. z o.o.

The basic assumptions being the basis for the options' valuation are as follows: forecasted 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 2018–2020 increases the value of liabilities by 2.3%. An increase in the forecasted EBITDA margin by 1 p.p. per annum in the years 2018-2020 increases the value of the liabilities by 2.3%. An increase in the discount rate of 1 p.p. decreases the liability by 2.6%.

The commitment was initially estimated at PLN 11,571 thousand. As of 31 December 2017 the value of these commitments amounted to PLN 19,194 thousand and as of 31 December 2016 amounted to PLN 11,906 thousand.

Details concerning changes of value of these commitments during 2017 are described in note 33 to the consolidated financial statements for the year 2017.

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 recognized 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.

4.7. Impairment tests

Goodwill and intangible assets were subject to an impairment test as of 31 December 2017. Details of the test are discussed in Note 19.

4.8. The existence of control over subsidiaries – Domodi Sp. z o.o.

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 the annual rebates liability

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 recognizes 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 recognized 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 Wakacje.pl S.A., Nocowanie.pl Sp. z o.o. and Grupa eHoliday.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 after the launch of the television program in Multiplex 8, the Management Board re-segmented its activities and analyzes Capital Group's activity regarding revenue streams and the EBITDA operating result, divided 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 the TV segment did not meet the requirements of IFRS 8 as to its separation in 2016 and 2017, however, due to the significant difference in its character and perspective, the Management Board decided to present information regarding this segment from 2016.

Twelve months ending 31 December 2017 (PLN'000)	Online Segment	TV Segment	Total
Sales	***457 482***	***8 131***	***465 613***
including non-barter sales	424 502	8 131	432 633
EBITDA (Note 9)	***142 192***	(12 556)	129 636
Adjusted EBITDA (Note 9)	***150 580***	***(12 195)***	***138 385***

Twelve months ending 31 December 2016 (PLN'000)	Online Segment	TV Segment	Total
Sales	***414 694***	***450***	***415 144***
including non-barter sales	376 873	450	377 323
EBITDA	***126 672***	***-3 727***	***122 945***
Adjusted EBITDA	***135 884***	***-3 729***	***132 155***

The Management Board does not analyze 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 2017 the Capital Group represented: the parent company Wirtualna Polska Holding S.A. and 13 subsidiaries.

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

No.	Name of subsidiary	Location	% of shares	
			31 December 2017	31 grudnia 2016 roku
1	Wirtualna Polska Media S.A. (former Grupa Wirtualna Polska S.A.)	Polska, Warszawa	100%	100%
2	http Sp. z o.o.	Polska, Warszawa	100%	100%
3	Money.pl Sp. z o.o.	Polska, Wrocław	100%	100%
4	Business Ad Network sp. z o.o. (1)	Polska, Warszawa	-	100%
5	Businessclick Sp. z o.o.	Polska, Warszawa	100%	100%
6	Brand New Media Sp. z o.o.	Polska, Wrocław	100%	100%
7	dobreprogramy Sp. z o.o.	Polska, Wrocław	51%	51%
8	Domodi Sp. z o.o.	Polska, Wrocław	51%	51%
9	Blomedia.pl Sp. z o.o. (2)	Polska, Warszawa	-	100%
10	WP1 Sp. z o.o. (3)	Polska, Warszawa	-	100%
11	Finansowysupermarket.pl Sp. z o.o.	Polska, Warszawa	-	100%
12	Allani Sp. z o.o. (4)	Polska, Warszawa	-	51%
13	Wakacje.pl S.A. (formerj Enovatis S.A.)	Polska, Gdańsk	100%	100%
14	TotalMoney.pl Sp. z o.o. (5)	Polska, Warszawa	-	100%
15	Nocowanie.pl Sp. z o.o.	Polska, Lublin	75%	75%
16	Netwizor Sp.z o.o.	Polska, Warszawa	100%	100%
17	Grupa eHoliday Sp. z o.o.	Polska, Warszawa	75%	-
18	WP Zarządzanie Sp. z o.o.	Polska, Warszawa	100%	-

(2) On 2 January 2017 Business Ad Network Sp. z o.o. and Grupa Wirtualna Polska S.A merged.
(3) On 31 January 2017 Blomedia.pl Sp. z o.o. and Grupa Wirtualna Polska S.A. merged. Results of Blomedia.pl Sp. z o.o. for first month of 2017 is included in results of Grupa Wirtualna Polska S.A.
(4) On 31 May 2017 Allani Sp. z o.o. merged with Domodi Sp. z o.o. Results of Allani Sp. z o.o. for first five months of 2017 is included in results of Domodi Sp. z o.o.
(5) On 2 January 2017 TotalMoney.pl Sp. z o.o. merged with Money.pl Sp. z o.o.
(6) On 31 October 2017 Wirtualna Polska Media S.A. merged with WP1 Sp. z o.o.

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 Wakacje.pl S.A. which operate on the tourism sector, Netwizor Sp. z o.o., which runs internet services connected with the distribution of television channels on the Internet and WP1 which runs its television channel.

In 2017 the following mergers pursuant to article 492 section 1 item 1 of the Polish Commercial Companies Code took place:

- On 2 January 2017, Business Ad Network Sp. z o.o. and Wirtualna Polska Media S.A. merged by transferring all assets of Business Ad Network Sp. z o.o. to Wirtualna Polska Media S.A.;
- On 2 January 2017, Totalmoney.pl Sp. z o.o. and Money.pl Sp. z o.o. merged 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 Wirtualna Polska Media S.A. merged by transferring all assets of Blomedia.pl Sp. z o.o. to Wirtualna Polska Media S.A.;
- On 31 May 2017, Allani Sp. z o.o. and Domodi Sp. z o.o. merged by transferring all assets of Allani Sp. z o.o. to Domodi Sp. z o.o.;
- On 2 November 2017 WP1 Sp. z o.o. and Wirtualna Polska Media S.A. merged by transferring all assets of WP1 Sp. z o.o. to Wirtualna Polska Media S.A.;

On 3 August 2017 Grupa Wirtualna Polska S.A. changed its name to Wirtualna Polska Media S.A. and on 23 August 2017 Enovatis S.A. changed its name to Wakacje.pl S.A.

On 18 November 2017 Nocowanie.pl Sp. z o.o. purchased 100% shares in Grupa eHoliday.pl Sp. z o.o.

On 29 December 2017 WP Zarządzanie Sp. z o.o. was incorporated.

Changes in the Group structure after the balance sheet date

On 6 February 2018, Money.pl Sp. z o.o. and Brand New Media 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 Brand New Media Sp. z o.o.to Money.pl Sp. z o.o.

8. SALES

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Sales of services settled in cash	432 633	377 323
Sales of services settled in barter	32 980	37 821
Total	***465 613***	***415 144***

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Domestic sales	364 071	330 885
Export sales	101 542	84 259
European Union	89 762	75 664
Outside European Union	11 780	8 595
Total	***465 613***	***415 144***

9. EBITDA AND ADJUSTED EBITDA

The Group's EBITDA is calculated as operating profit plus depreciation and amortization (except for amortization of programming rights), and the Group's adjusted EBITDA is calculated as EBITDA adjusted for events, including: transaction costs related to 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	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Profit before tax	***54 289***	***15 400***
Finance costs	19 641	17 986
Finance income	(620)	(649)
Revaluation of commitments to purchase non-controlling interests	5 319	48 126
Operating profit	***78 629***	***80 863***
Amortization and depreciation of fixed assets and intangibles	51 007	42 082
EBITDA	***129 636***	***122 945***
Adjustments including:		
Restructuring and transaction costs - external services	1 184	1 287
Restructuring and transaction costs – salary and employee benefit expenses	2 639	6 030
Restructuring and transaction costs -other operating expenses and gains	230	577
Costs of the employee option scheme	1 326	1 767
Gain/loss on disposal of other financial assets	-	(341)
Net result on barter transactions settlement	267	(317)
Revaluation and liquidation of non-financial assets	3 140	207
Other	(37)	-
Adjusted EBITDA	***138 385***	***132 155***

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 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 recognized 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	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Profit before tax	***54 289***	***15 400***
Adjustments including:		
Restructuring and transaction costs - external services	1 184	1 287
Restructuring and transaction costs – salary and employee benefit expenses	2 639	6 030
Restructuring and transaction costs -other operating expenses and gains	230	577
Costs of the employee option scheme	1 326	1 767
Gain/loss on disposal of other financial assets	-	(341)
Net result on barter transactions settlement	267	(317)
Revaluation and liquidation of non-financial assets	3 140	207
Revaluation of commitments to purchase non-controlling interests	5 319	48 126
Other	(37)	
Total adjustments	***14 068***	***57 336***
Adjusted profit before tax	***68 357***	***72 736***

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	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Sales	32 980	37 821
External services	(32 966)	(37 640)
Other operating expenses	(281)	136
Net result on barter transactions settlement	***(267)***	***317***

12. OTHER OPERATING INCOME/GAINS

The following table presents other operating income/gains:

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Revenues from grants	530	700
Liabilities expired and forgiven	190	597
Repayment of receivables previously written off	37	
Other	231	347
Total	***988***	***1 644***

13. OTHER OPERATING EXPENSES

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Representation and other costs by type, including:	3 629	4 273
Representation	1 600	1 708
Other costs by type	2 029	2 565
Write-downs of receivables	898	252
Taxes and charges	2 365	1 921
Revaluation of provisions	535	425
Revaluation and liquidation of non-financial assets	3 140	463
Loss on disposal of non-financial assets	39	1
Other	1 427	758
Costs related to acquisitions of subsidiaries and restructuring	230	577
Total	***12 263***	***8 670***
including:		
Restructuring related costs	230	684
Other operating expenses	12 033	5 470

14. FINANCE INCOME

The following table presents the financial income incurred by the Group in the years 2017 and 2016:

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Interest income	301	419
Other	319	230
Total	***620***	***649***

15. FINANCE EXPENSES

The following table presents the financial expenses incurred by the Group in the years 2017 and 2016:

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Interest and commissions	9 556	10 963
Reversal of discount on investment liabilities	6 948	6 056
Revaluation of financial assets	2 324	-
Other	813	967
Total	***19 641***	***17 986***

16. CURRENT AND DEFERRED INCOME TAX

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Current income tax	***11 334***	***4 707***
For the financial year	11 334	4 707
Deferred tax	***2 923***	***(43 155)***
Temporary differences arising and reversed	2 923	(43 155)
Total income tax	***14 257***	***(38 448)***

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	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Profit before tax	***54 289***	***15 400***
Corporate income tax at the statutory rate of 19%	***10 315***	***2 926***
Tax effects of the following items:		
Revenues and costs non-taxable permanent differences	937	1 705
Revaluation of commitments to purchase non-controlling interests	1 011	9 144
The reversal of the discount on commitments to purchase non-controlling interest	1 172	652
Unrecognized tax assets	537	2 080
Other	285	41
Total income tax	***14 257***	***(38 448)***

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 2017 there were no premises to record a provision against identifiable and measurable tax risk.

As a result of the General Anti-Avoidance Rule (GAAR), effective July 15, 2016, which aims to prevent the creation and use of artificial legal structures created to avoid taxation in Poland, the Parent Entity's Management has carried out a comprehensive analysis of the tax situation of the Group's entities, identified and evaluated transactions and operations that could potentially be covered by GAAR and considered their impact on deferred tax, tax value of assets, and tax risk. In the opinion of the Management Board, the analysis did not indicate the need to adjust the current and deferred income tax items. Nevertheless, in the opinion of the Management Board, in case of GAAR there is an inherent uncertainty as to the interpretation of the tax law adopted by the Company that may affect the ability to realize deferred tax assets in future periods and the payment of additional tax for past periods.

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	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Net profit attributable to equity holders of the Parent Company	***35 325***	***53 756***
Weighted average number of shares shown for the purpose of calculating basic earnings per share (no. of units)	28 770 241	28 339 622
Effect of diluting the number of ordinary shares	212 857	251 121
Weighted average number of ordinary shares shown for the purpose of calculating diluted earnings per share (no. of units)	28 983 098	28 590 743
Basic (in PLN)	1,23	1,90
Diluted (in PLN)	*1,22*	*1,88*

Holding SA

18. PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

Description	Buildings, structures and leasehold improvements	Servers, machines and other devices	Vehicles	Other property, pland and equipment items	Fixed assets under construction	Total
Gross carrying amount as of 1 January 2017	***13 100***	***74 330***	***1 862***	***4 038***	***6 896***	***100 226***
Additions due to:	***6 282***	***12 798***	***282***	***1 888***	***2 765***	***24 015***
- purchases and transfers	6 282	12 798	276	1 865	2 765	23 986
- business combinations (Note 20 and Note 22)	-	-	6	23	-	29
Disposals due to:	***(4 526)***	***(657)***	***(864)***	***(548)***	***(32)***	***(6 627)***
- transfers	-	-	-	-	(32)	(32)
- liquidation	(4 526)	(657)	(864)	(548)	-	(6 595)
Gross carrying amount as of 31 December 2017	***14 856***	***86 471***	***1 280***	***5 378***	***9 629***	***117 614***
Accumulated depreciation as of 1 January 20167	***3 364***	***36 355***	***664***	***1 736***	***-***	***42 119***
Additions due to:	***2 142***	***12 610***	***284***	***863***	***-***	***15 899***
- depreciation	2 142	12 610	284	863	-	15 899
Disposals due to:	***(2 060)***	***(590)***	***(543)***	***(431)***	***-***	***(3 624)***
- liquidation	(2 060)	(590)	(543)	(431)	-	(3 624)
Accumulated depreciation as of 31 December 2017	***3 446***	***48 375***	***405***	***2 168***	***-***	***54 394***
Impairment loss as of 1 January 2017	***-***	***208***	***-***	***-***	***-***	***208***
Disposals due to:	***-***	***(1)***	***-***	***-***	***-***	***(1)***
- liquidation		(1)				(1)
Impairment loss as of 31 December 20167	***-***	***207***	***-***	***-***	***-***	***207***
Net carrying amount as of 31 December 20167	***11 410***	***37 889***	***875***	***3 210***	***9 629***	***63 013***

Description	Buildings, structures and leasehold improvements	Servers, machines and other devices	Vehicles	Other property, pland 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 21 and Note 23)	-	-	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***

As of 31 December 2017 and 31 December 2016 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 2017, the net value of property, plant and equipment under finance leases was PLN 3,388 thousand, including vehicles of PLN 753 thousand and IT equipment of PLN 2,635 thousand.

As of 31 December 2017 bank loans are secured with property, plant and equipment to the carrying amount of PLN 62,072 thousand.

Holding SA

19. INTANGIBLE ASSETS

(w tys. zł)	Goodwill	Trademarks	Other intangible assets: 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 2017	***246 652***	***162 755***	***152 300***	***46 646***	***90 418***	***698 771***
Additions due to:	***13 122***	***2 610***	-	***3 143***	***21 514***	***40 389***
- purchases	-	-	-	-	21 286	21 286
- business combinations (Note 20 and Note 21)	9 764	2 610	-	3 143	228	15 745
- other	3 358	-	-	-	-	3 358
Disposals due to:	-	-	-	-	***(4 853)***	***(4 853)***
- liquidation and sale	-	-	-	-	(4 853)	(4 853)
Gross carrying amount as of 31 December 2017	***259 774***	***165 365***	***152 300***	***49 789***	***107 079***	***734 307***
Accumulated depreciation as of 1 January 2017	-	***4 784***	***18 371***	***11 200***	***29 336***	***63 691***
Additions due to:	-	***3 508***	***6 484***	***7 977***	***17 139***	***35 108***
- depreciation	-	3 508	6 484	7 977	17 139	35 108
Disposals due to:	-	-	-	-	***(4 329)***	***(4 329)***
- liquidation and sale	-	-	-	-	(4 329)	(4 329)
Accumulated depreciation as of 31 December 2017	-	***8 292***	***24 855***	***19 177***	***42 146***	***94 470***
Impairment loss as of 1 January 2017	***180***	-	-	-	***160***	***340***
Disposals due to:	-	-	-	-	***(148)***	***(148)***
- likwidacji lub sprzedaży	-	-	-	-	***(148)***	(148)
Impairment loss as of 31 December 2017	***180***	-	-	-	***12***	***192***
Net carrying amount as of 31 December 2017	***259 594***	***157 073***	***127 445***	***30 612***	***64 921***	***639 645***

WP Holding SA

in PLN'000	Goodwill	Trademarks	Other intangible assets Homepage and WP mail	Client relations	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 21 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***

The Group capitalises salary expense as part of development projects. In the years covered by these financial statements, capitalised salary expense amounted to PLN 18,262 thousand in 2017 and PLN 14,848 thousand in 2016. The main projects completed, whose expenditure was capitalised in 2017 were: the new WP e-mail project, new CRM system for Wakacje.pl SA, content platforms and tv24 services on the wp.pl home page.

As of 31 December 2017 and 31 December 2016, bank loans are secured with intangible assets to the carrying amount of PLN 331,462 thousand in 2017 and PLN 305,794 thousand in 2016.

Goodwill

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

in PLN'000	Cash generating unit	As of 31 December 2017	As of 31 December 2016
Wirtualna Polska Media S.A. (former Grupa Wirtualna Polska S.A.)	Publishing and Advertising activities	92 040	92 040
Grupa Kapitałowa Money.pl Sp. z o.o.	Publishing and Advertising activities	11 550	11 550
Grupa Kapitałowa Money.pl Sp. z o.o.	Financial lead generation	7 808	7 808
NextWeb Media Sp. z o.o.	Publishing and Advertising activities	19 072	19 072
Finansowy supermarket.pl sp. z o.o.	Financial lead generation	6 148	6 148
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
Wakacje.pl S.A. (former Enovatis S.A.)	Wakacje.pl	62 888	59 530
TotalMoney.pl Sp. z o.o.	Financial lead generation	8 820	8 820
Nocowanie.pl Sp. z o.o.	Nocowanie	16 793	16 793
Netwizor.pl Sp. z o.o.	Publishing and Advertising activities	2 272	2 272
Grupa eHoliday Sp. z o.o.	Nocowanie	9 764	-
http Sp. z o.o.	Publishing and Advertising activities	180	180
Wartość firmy (brutto)		***259 774***	***246 652***
Impairment loss:			
http Sp. z o.o.	Publishing and Advertising activities	(180)	(180)
Goodwill (net value)		***259 594***	***246 472***

In the case of the acquisition of Grupa eHoliday.pl Sp. z o.o. the goodwill presented above is based on the provisional settlement of the purchase price as of 31 december 2017.

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;
- Wakacje.pl;
- Nocowanie;
- Lead Generation fashion/interior;
- Financial Lead Generation.

Impairment test were conducted as of 31 December 2017.

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 2018, past results and expectations of the Management Board for the development of the market in 2019-2022, 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	4 years	2,5%	11,7%
Publishing and Advertising activities	4 years	2,5%	11,7%
Lead Generation fashion/interior	4 years	2,5%	11,7%
Financial lead generation	4 years	2,5%	11,7%
Nocowanie	4 years	2,5%	11,7%
Wakacje.pl	4 years	2,5%	11,7%

20. ACQUISITION AND BUSINESS COMBINATIONS in 2017

Grupa eHoliday.pl Sp. z o.o.

On 18 October 2017 Nocowanie.pl Sp. z o.o. acquired 100% of shares in Grupa eHoliday.pl Sp. z o.o. with headquarters in Warsaw. The purchased shares represent 100% of votes at the general meeting of the acquired company. The eHoliday.pl Sp. z o.o. is the owner of the eholiday.pl website - one of the national leaders in the accommodation booking market.

The final, non-adjustable purchase price of 100% shares was PLN 11,250 thousand. Nocowanie.pl financed the investment with its own funds and partly with the loan granted by Wirtualna Polska Media S.A. (in the amount of PLN 6,488 thousand) and by the minority shareholder of Nocowanie.pl Sp. z o.o. (in the amount of PLN 2,162 thousand). The Group is also obliged to pay additional remuneration of PLN 1,200 thousand to some of the previous shareholders.

Goodwill on the acquisition of PLN 9,764 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 305 thousand (including PLN 64 thousand of trade receivables). As of the date of taking control, there were no receivables considered as uncollectible.

Costs related to the purchase transaction in the amount of PLN 131 thousand were recognized in the consolidated statement of profit or loss and other comprehensive income, of which PLN 96 thousand in the statement for the twelve months ended 31 December 2016 and PLN 35 thousand in the statement for the twelve months ended 31 December 2017, in both years as "Costs related to purchases of subsidiaries and restructuring".

The next table lists the remuneration paid and the fair values of the assets and liabilities acquired as at the acquisition date. As at 31 December 2017, the acquisition is settled temporarily.

in PLN'000	Grupa eHoliday Sp. z o.o.
Cash and cash equivalents - payment for the shares	11 250
Long- term contingent consideration	1 200
Total	***12 450***
Non-controlling interests measured at the value of share in net assets	896
Recognized values of identifiable acquired assets and liabilities	
Cash and cash equivalents	847
Property, plant and equipment	29
Trademark	2 610
Client relations	3 143
Copyrights and other intangible assets	228
Trade and other receivables	305
Trade and other payables	(2 481)
Deferred tax	(1 094)
Provisions for employee benefits	(5)
Total identifiable net assets	***3 582***
Goodwill	***9 764***

For information purposes, the next table presents unaudited financial results of eHoliday Sp. z o.o. from January 1, 2017 until the date of taking control and from the date of taking control to 31 December 2017 (data included in these consolidated financial statements). The presented data have not been audited by a certified auditor:

in PLN'000	From 01.01.2017 to the acquisition date	From the acquisition date to 31.12.2017	Twelve months ending 31.12.2017
Sales	5 624	729	6 352
Cash sales	5 574	719	6 292
EBITDA	1 645	(140)	1 505
Adjusted EBITDA	1 645	(140)	1 505
Net profit	886	(199)	687

21. ACQUISITION AND BUSINESS COMBINATIONS in 2016

Acquisitions and business combinations in 2016 – 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".

Acquisitions and business combinations in 2016 – 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.

Acquisitions and business combinations in 2016 – 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
Środki pieniężne - zapłata ceny za udziały	14 500	21 957	549	37 006
Wynagrodzenie warunkowe - część długoterminowa	-	-	1 699	1 699
Razem	***14 500***	***21 957***	***2 248***	***38 705***
Udziały niedające kontroli wycenione w kwocie udziału w aktywach netto	-	1 721	-	1 721
Ujęte wartości możliwych do zidentyfikowania przejętych aktywów i zobowiązań				
Środki pieniężne i ich ekwiwalenty	2 067	743	54	2 864
Rzeczowe aktywa trwałe	-	165	5	170
Znak towarowy	1 588	3 832	103	5 523
Relacje z klientami	2 631	6 108	204	8 943
Prawa autorskie i inne aktywa niematerialne	218	-	-	218
Należności handlowe oraz pozostałe należności	662	425	82	1 169
Kredyty i pożyczki	-	(125)	-	(125)
Zobowiązania handlowe oraz pozostałe zobowiązania	(719)	(3 172)	(414)	(4 305)
Podatek odroczony	(745)	(1 091)	(58)	(1 894)
Rezerwy na świadczenia pracownicze	(22)	-	-	(22)
Razem możliwe do zidentyfikowania aktywa netto	***5 680***	***6 885***	***(24)***	12 541
Wartość firmy	***8 820***	***16 793***	***2 272***	***27 885***

The results of Totalmoney.pl Sp. z o.o. were consolidated from the second quarter of 2016, while Nocowanie.pl Sp. z o.o. is consolidated since June 2016 and Netwizor Sp. z o.o. since first quarter of 2017.

22. CHANGES IN THE SETTLEMENTS OF BUSINESS COMBINATIONS

The financial statements for the financial year ending 31 December 2016 present the disclosures on the acquisition of TotalMoney.pl Sp. z o.o., Nocowanie.pl Sp. z o.o. and Netwizor settled based on provisional amounts. As a result of the final settlement of the acquisition, 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 2016.

During 2017, the Group identified a material error in the settlement of the purchase price of Wakacje.pl S.A. - the fair value of the acquired receivables was overstated. The company's balance sheet at the time of the acquisition comprised receivables of PLN 3,358 thousand that did not actually exist and resulted from erroneously unbooked costs that the company should have incurred in the profit and loss account in relation to operational errors in the company's booking process.

As a result of the adjustment, the recognized goodwill increased by PLN 3,358 thousand.

in PLN'000	As of 31 December 2016	Adjustement	As of 31 December 2017
Purchase price	***83 566***	-	***83 566***
Cash and cash equivalents	1 196	-	1 196
Property, plant and equipment	961	-	961
Trademark	24 256	-	24 256
Client relations	658	-	658
Copyrights and other intangible assets	5 792	-	5 792
Trade and other receivables	8 486	(3 358)	5 128
Loans	(5 037)	-	(5 037)
Finance leases	(82)	-	(82)
Long-term liabilities	(1 194)	-	(1 194)
Trade and other payables	(5 187)	-	(5 187)
Deferred tax	(5 382)	-	(5 382)
Provisions for employee benefits	(242)	-	(242)
Other provisions	(189)	-	(189)
Total identifiable net assets	***24 036***	***(3 358)***	***20 678***
Goodwill	***59 530***	***3 358***	***62 888***

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 2017	As of 31 December 2016
Acquired programming rights	8 463	5 205
Advances	-	153
Total	***8 463***	***5 358***
including:		
current programming assets	-	-
non-current programming assets	8 463	5 358

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Net book value as of 1 January	5 358	-
Additions:	6 019	5 653
- purchase of programming assets	6 019	5 653
Amortization and depreciation of acquired programming rights	(2 883)	(295)
Impairment allowance recognised	(31)	-
Net book value as of 31 December	***8 463***	***5 358***

24. OTHER FINANCIAL ASSETS

Acquisition of eSky S.A.

On 9 June 2017 Wirtualna Polska Media S.A. concluded a conditional share purchase agreement regarding acquisition of 625,000 ordinary series B bearer shares in a company eSky.pl S.A. The acquired shares represent 6.31% of the share capital of the company and entitle to 6.31% of votes on the General Meeting of the Company. On June 19, 2017, the suspending condition specified in the agreement has been fulfilled, the transaction has been finalized

The agreement contains provisions relating to the level of guaranteed return on investment (IRR) for the Wirtualna Polska Media S.A. in the form of irrevocable bids for the acquired shares submitted to the Wirtualna Polska Media S.A. by the sellers, which may be executed by the Group in the periods indicated in the agreement or upon the fulfillment of the specified (the put option). The put option payment is secured by a registered pledge established on pledged shares. In addition, the agreement includes provisions for the conduct of a possible transaction involving the sale of a controlling interest in the Company's shares in the future and the terms of the Wirtualna Polska Media S.A. participation in such a process and sets a doubled return on investment (IRR) for Wirtualna Polska Media S.A. if such transaction has not taken place within a certain period of time (as an execution of the put option).

The total purchase price for the shares and the put option described above amounted to PLN 15,625,000, out of which PLN 14,526 thousand was attributed to the shares and PLN 1,098 thousand to the put option.

The shares were classified as financial assets available for sale and initially recognized at fair value increased by transaction costs. In accordance with the Group's accounting policy effective as at 31 December 2017, after initial recognition, assets should be measured at fair value and the effect of revaluation should be recognized in other comprehensive income. However, due to the fact that eSky S.A. is an unlisted company, the Management Board concluded that the fair value of this financial asset can not be reliably measured and therefore the valuation is made at cost minus impairment.

As at the balance sheet date, the fair value of the put option for shares in eSky S.A. amounted to PLN 1,415 thousand. In addition to the shares and options held in eSky S.A. the Group also holds shares in Fachowcy Ventures S.A., whose fair value as at 31 December 2017 amounted to PLN 88 thousand. In 2017 the impairment in the amount of PLN 2,232 thousand was recognized on those shares.

25. TRADE AND OTHER RECEIVABLES

in PLN'000	As of 31 December 2017	As of 31 December 2016
Trade receivables	79 994	67 773
Impairment allowances	1 329	1 829
Trade receivables net	***78 665***	***65 944***
Barter receivables gross	1 680	831
Impairment allowances	165	107
Barter receivables net	***1 515***	***724***
State receivables	6 371	5 585
Settlements with employees	43	46
Other	8 641	5 005
Total	***95 235***	***77 304***

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. The Group also made the commitment that to secure the loan at any time, 60% of the Group's receivables shall be assigned.

As of 31 December 2017, trade receivables of PLN 1,494 thousand (as of 31 December 2016: PLN 1,936 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 2017	As of 31 December 2016
Impairment allowances for trade receivables at the beginning of the period	***1 936***	***2 580***
Increases, including:	***1 311***	***1 100***
- allowances recorded	1 311	1 100
Decreases, including:	***(1 753)***	***(1 744)***
- utilization of impairment allowances	(1 340)	(896)
- release of allowances due to repayment of receivables	(413)	(848)
Impairment allowances for trade receivables at the end of the period	***1 494***	***1 936***

As of 31 December 2017, overdue receivables without impairment amounted to PLN 21,290 thousand (as of 31 December 2016: PLN 15,289 thousand). The ageing analysis of these receivables was as follows:

in PLN'000	As of 31 December 2017	As of 31 December 2016
Overdue - up to 3 months	19 597	12 385
Overdue - from 3 to 6 months	1 571	624
Overdue- from 6 to 12 months	92	2 113
Overdue - more than 12 months	30	167
Total	***21 290***	***15 289***

26. SHARE CAPITAL

As of 31 December 2017, the share capital was composed of 28,855,224 shares with a par value of PLN 0.05 each, including 11,289,709 preferred voting shares and 17,565,515 ordinary shares. The structure of share capital was as follows:

Shareholder	Number of shares	% of share capital	Number of votes	% of votes
Jacek Świderski through subsidiaries, including:	3 777 164	13,09%	7 540 401	18,78%
Orfe S.A.	3 763 237	13,04%	7 526 474	18,75%
Michał Brański through subsidiaries, including:	3 777 164	13,09%	7 540 400	18,78%
10X S.A.	3 763 236	13,04%	7 526 472	18,75%
Krzysztof Sierota through subsidiaries,including:	3 777 164	13,09%	7 540 400	18,78%
Albemuth Inwestycje S.A.	3 763 236	13,04%	7 526 472	18,75%
Founders together*	***11 331 492***	***39,27%***	***22 621 201***	***56,35%***
Other	***17 523 732***	***60,73%***	***17 523 732***	***43,65%***
Total	***28 855 224***	***100,00%***	***40 144 933***	***100,00%***

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%***

The share capital of the Company was fully paid up as of 31 December 2017 and 2016.

Significant changes of shareholders

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 13.06% interest in the Company's share capital, representing 7,526,474 votes at the general shareholders meeting of the Company and constituting 18.77% 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 13.06% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.77% 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 13.06% interest in the Company's share capital, representing 7,526,472 votes at the general shareholders meeting of the Company and constituting 18.77% of the overall number of votes.

On 18 May 2017 the Management Board obtained from shareholders - Orfe S.A., 10x S.A., Albemuth Inwestycje S.A. and Michał Brański, Krzysztof Sierota and Jacek Świderski (collectively referred to as "Founders"), a notification on the change in general number of votes held by the Shareholders and Founders at the General Meeting of the Company as a result of the following events:

a) as a result of registration on May 16, 2017 by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register:

- art. 492 par. 1 point 1 in conjunction with Art. 516 par. 1, par.5 and par. 6 of the Act of 15 September 2000 - Code of Commercial Companies ("KSH") by transferring to Orfe S.A. a joint-stock company with its registered office in Warsaw as the acquirer of all assets of its one-person Liceia sp. z o.o. with its registered office in Warsaw as the acquired company (merger by takeover),
- art. 492 par. 1 point 1 in conjunction with Art. 516 par. 1, par. 5 and par. 6 of the Code of Commercial Companies by transferring to the company 10x S.A. a joint stock company with its registered office in Warsaw as the acquirer of the entire assets of its one-man Palaja sp. z o.o. with its registered office in Warsaw, as the acquired company (merger by takeover),

b) as a result of registration on May 18, 2017 by the District Court for the Capital City of Warsaw in Warsaw, XII Commercial Division of the National Court Register:

- art. 492 par. 1 point 1 in conjunction with Art. 516 par. 1, par. 5 and par. 6 of the Code of Commercial Companies by transferring to Albemuth Inwestycje S.A. a joint stock company with its registered office in Warsaw as the acquirer of all assets of its one-man Silveira sp. z o.o. with its registered office in Warsaw as the acquired company (merger by takeover);

Additionally, on 26 and 27 September 2017, the Company received from person performing managerial responsibilities notification of transactions on financial instruments related to the shares of the Company during the period between 25-27 September 2017: the purchase of 13,927 shares of the Company by Bridge20 Enterprise Limited (company controlled by Jacek Świderski), the purchase of 564 shares of the Company by Elżbieta Bujniewicz-Belka, the purchase of 13,928 shares of the Company by Highcastle Sp. z o.o. (company controlled by Krzysztof Sierota) and , the purchase of 13,928 shares of the Company by Now2 Sp. z o.o. (company controlled by Michał Brański). All the shares were purchased from Mr. Jarosław Mikos, Chairman of Supervisory Board of the Company

Share capital increase

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.

On 31 May 2017, the share capital was further increased from PLN 1,434,931.20 to PLN 1,440,487.60 i.e. by PLN 5,556.70. The share capital increase took place in connection with the admission to trading and entering on the accounts (issue) of 111,128 shares with a par value of PLN 0.05 each under the option scheme.

On 31 August 2017, the share capital was further increased from PLN 1,440,487.60 to PLN 1,441,786,35 i.e. by PLN 1,298,75. The share capital increase took place in connection with the admission to trading and entering on the accounts (issue) of 25,975 shares with a par value of PLN 0.05 each under the option scheme.

On 15 December 2017, the share capital was further increased from PLN 1,441,786,35 to PLN 1,442,761,20 i.e. by PLN 974.85. The share capital increase took place in connection with the admission to trading and entering on the accounts (issue) of 19,497 shares with a par value of PLN 0.05 each under the option scheme.

Dividend policy and profit distribution

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 shall be first applied for the distribution of consolidated net profit of the Group for the financial year ending 31 December 2017.

On 26 April 2017 the Ordinary General Meeting of Wirtualna Polska Holding S.A adopted a resolution according to which it has decided to allocate the Company's net profit for the financial year 2016 of PLN 4,608 thousand and amount of PLN 27,085 thousand from the Company's profits from previous years, to pay dividends to the Shareholders of the Company. The Ordinary General Meeting of the Company has decided to set a dividend day on 10 July 2017 and the dividend payment date on 20 July 2017. The final dividend payment amounted to PLN 1.10 per share, i.e. the total amount of PLN 31,691 thousand.

The following table shows dividend allocation and payment of the parent company:

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Dividends declared and paid for the curent and previous years	31 691	-
Dividend per 1 share	1,10	-

27. INCENTIVE SCHEMES – SHARE-BASED PAYMENTS

First Incentive Schemes

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 existing incentive scheme includes two phases of the realization of the right to acquire Company shares: (i) acquiring series C shares due to the realization of rights under the management option contract until the end of December 2014 and (ii) acquiring series D shares due to the realization 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 recognized in the financial statements over the following periods of its validity amounted to PLN 1,525 thousand. The total costs recognized in the financial result for the period ending 31 December 2017 in respect of the scheme amounted to PLN 424 thousand and the total cost recognized in the previous periods amounted to PLN 4,821 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 2017	***353 069***
Awarded	74 224
Non executed	(83 389)
Executed	(140 234)
As of 31 December 2017	***203 670***
Including the number of options vested as of the balance sheet date	27 649

The exercise price of the options outstanding as of 31 December 2017 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 recognized in the financial statements over the following periods of its validity amounted to PLN 7,847 thousand. The total costs recognized in the financial result for the period ending 31 December 2017 in respect of the scheme amounted to PLN 899 thousand.

The scheme was classified as equity settled share-based incentive scheme

	Share options (no. of units)
As of 1 January 2017	***130 832***
Awarded	400 000
Non executed	(73 664)
Executed	(38 469)
As of 31 December 2017	***418 699***
Including the number of options vested as of the balance sheet date	27 657

The exercise price of the options outstanding as of 31 December 2017 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

	As of 31 December 2017	As of 31 December 2016
Profit or loss on revaluation of financial assets classified as held for sale:	***(58)***	***58***
- Gains araising during the year	1 235	58
- Losses arising during the year	(3 616)	
- Adjustement due to reclassification to profit or loss for the period	2 323	
The effective part of gains and losses on the cash flow hedges:	***296***	***1 061***
- Gains arising during the year	912	1 901
- Losses arising during the year	(453)	(840)
- reversal of deferred tax asset recognised	(163)	
Actuarial gains and losses on employee benefits provisions:	44	122
- Gains arising during the year	44	122
Income tax related to other comprehensive income/(losses)	***(11)***	***236***
Total comprehensive income	***293***	***1 005***

The following table shows the tax effect of the other comprehensive income:

	As of 31 December 2017		
	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	296		296
Actuarial gains (losses) from defined benefit pension plans	44		44
Total comprehensive income	***282***	***(11)***	***293***

Hedge accounting

As at 31 December 2017 the Group was not a party to active hedging transactions.

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 amortization) were consistent with those deriving from the loan agreement. These financial instruments were treated as hedge accounting and recognized in the financial statements of the Group as cash flow hedge under IAS 39.

The loan agreement concluded by the Group with mBank S.A., PKO BP and ING Bank Śląski on 12 December 2017 forced the Group to close earlier existing hedging instruments. However, as the hedging item (the loan) still exists, the valuation of these terminated hedging transactions is invariably shown in other comprehensive income and is settled with the repayment of interest on the loan.

The valuation of hedging transactions made by the Group as of the date of their dissolution amounted to PLN 865 thousand and this value remained in the revaluation reserve. The surplus of the amount paid for early termination of hedging transactions over the valuation of these instruments as at the settlement date in the amount of PLN 630 thousand is, in the Group's opinion, the cost of arranging additional financing and will be settled over the period of financing.

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. , Grupa eHoliday.pl Sp. z o.o. and other Group companies. As of 31 December 2017, the net asset value attributable to non-controlling interests amounted to PLN 19,584 thousand (as of 31 December 2016 it amounted to PLN 16,467 thousand).

in PLN'000 Selected information from the statement of financial position:	DOMODI Sp. z o.o. As of 31 December 2017	dobreprogramy Sp. z o.o. As of 31 December 2017	Nocowanie.pl Sp. z o.o. As of 31 December 2017	Grupa eHoliday.pl Sp. z o.o. As of 31 December 2017
Current assets	16 714	2 375	1 026	1 543
Short-term liabilities	(8 509)	(139)	(4 624)	(3 176)
Long-term liabilities	(5 173)	-	(8 760)	
Capital from the merger	13 110			
Deferred tax	(1 344)	(533)	(437)	(1 032)
Non-current assets	14 608	3 165	20 433	5 763
Net assets	***29 406***	***4 868***	***7 638***	***3 098***
Accumulated non-controlling interests	***14 409***	***2 385***	***1 910***	***775***

in PLN'000 Selected information from the income statement and other comprehensive income:	DOMODI Sp. z o.o. For the year ending 31 December 2017	dobreprogramy Sp. z o.o. For the year ending 31 December 2017	Nocowanie.pl Sp. z o.o. For the year ending 31 December 2017	Grupa eHoliday.pl Sp. z o.o. For the year ending 31 December 2017
Sales	73 238	2 161	10 050	729
Profit/(loss) before tax	11 903	(250)	1 291	(548)
Net profit /(loss) from continuing operations	9 501	(205)	1 086	(478)
Other comprehensive income	-	-	-	
Comprehensive income	***9 501***	***(205)***	***1 086***	***(478)***
Comprehensive income attributable to non-controlling interests	4 655	(100)	272	(120)
Dividends paid to non-controlling interests	2 168	227	195	

in PLN'000 Selected information from the cash flow statement:	DOMODI Sp. z o.o. For the year ending 31 December 2017	dobreprogramy Sp. z o.o. For the year ending 31 December 2017	Nocowanie.pl Sp. z o.o. For the year ending 31 December 2017	Grupa eHoliday.pl Sp. z o.o. For the year ending 31 December 2017
Net cash and cash equivalents on operating activities from the date of acquisition or prior reporting date	11 082	601	2 954	519
Net cash and cash equivalents on investing activities from the date of acquisition or prior reporting date	(500)	(213)	(11 822)	(104)
Net cash and cash equivalents on financing activities from the date of acquisition or prior reporting date	(4 519)	(466)	7 737	
Net cash and cash equivalents as of the date of acquisition or prior reporting date	5 651	2 095	1 478	847
Net cash and cash equivalents as of 31 December 2017	11 714	2 017	347	1 262
Net change in cash and cash equivalents	***6 063***	***(78)***	***(1 131)***	***415***

30. DEFERRED TAX ASSET AND LIABILITY

The following table presents the components of the deferred tax asset and liability.

in PLN'000	1 January 2017	Financial result	Other comprehensive income	Business combinations	31 December 2017
Deferred tax assets:					
Change in tax values of assets as a result of internal reorganization of the Group	21 207	(4 352)	-	-	16 855
Unutilized tax losses	55 391	(4 347)	-	-	51 044
Write-downs of assets	1 254	(283)	-	-	971
Differences in tax and carrying amounts of liabilities	8 085	3 472	(231)	-	11 326
Other differences	285	492		-	776
Deferred tax assets	***86 222***	***(5 018)***	***(231)***	***-***	***80 972***
Deferred tax liability:					
Differences in carrying and tax amounts of property, plants and equipment	65 960	(3 323)	-	1 094	63 731
Other	1 980	1 228	(10)	-	3 198
Deferred tax liability	***67 940***	***(2 095)***	***(10)***	***1 094***	***66 929***
Deferred tax assets/liability net	***18 282***	***(2 923)***	***(221)***	***(1 094)***	***14 043***

in PLN'000	31 December 2017	31 December 2016
Offsetting of deferred tax liability	(56 050)	(56 947)
Deferred tax assets after offsetting	***24 922***	***29 275***
Deferred tax liabilities after offsetting	***10 879***	***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 2017 amounted to PLN 93,742 thousand (31 December 2016: 96,193 thousand). As of 31 December 2017, tax losses of PLN 168,246 thousand and PLN 1,504 thousand expire in 2021 and 2022 respectively (as of 31 December 2016 tax losses of PLN 167,270 thousand and PLN 167,260 thousand were to expire accordingly in 2020 and 2021).

31. LOANS AND LEASES

in PLN'000	As of 31 December 2017	As of 31 December 2016
Long-term		
Bank loans	199 174	174 018
Other borrowings	2 162	-
Finance lease	2 171	554
	203 507	***174 572***
Short-term		
Loans	12 518	38 927
Finance lease	823	275
	13 341	***39 202***
Total:	***216 848***	***213 774***

Bank loans

On 12 December 2017 Wirtualna Polska Media S.A. and mBank S.A., PKO BP S.A. and ING Bank Śląski S.A. concluded a loan agreement to refinance the current debt, finance capital expenditure and acquisitions, and the bank overdraft. The banks granted to Wirtualna Polska Media S.A. loans in the total amount of up to PLN 500 million.

Refinancing of the current indebtedness resulting from the loan agreement of 24 March 2015 was made on 20 December 2017. From the date of refinancing to the day of preparing these financial statements, no drawdowns or repayment of debt under a new loan agreement took place.

In accordance with IAS 39, the Group classified refinancing as a modification of existing debt, and not its expiration. The Group carried out a test which showed that the discounted present value of cash flows resulting from the provisions of the new loan agreement, including all paid fees, reduced by fees received and discounted using the original effective interest rate, differs by less than 10% from the discounted present value other cash flows due to current financing. As refinancing is not treated as the expiration of an old liability, all costs and charges incurred adjust the carrying amount of the liability and are depreciated in the period remaining until the maturity date of the modified liability.

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.

Wirtualna Polska Media S.A. is obliged to repay the debt as follows:

- tranche A in the amount of PLN 86,750 thousand should be repaid in twenty equal quarterly installments payable over a period of 5 years after a lapse of 12 months from concluding the new loan agreement;
- tranche B in the amount of PLN 127,449 thousand should be repaid on the final maturity date which will fall on the 7th anniversary of the conclusion of the new loan agreement;
- tranche CAPEX should be repaid on the final maturity date which will fall on the 7th anniversary of the conclusion of 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 Wirtualna Polska Media S.A., Money.pl Sp. z o.o., Domodi Sp. z o.o., Nocowanie.pl Sp. z o.o. and Wakacje.pl S.A.;
- registered pledges on items and rights of Wirtualna Polska Holding S.A., Wirtualna Polska Media S.A., Money.pl Sp. z o.o. and Wakacje.pl S.A.;
- ordinary and registered pledges on the rights to the trademarks of Wirtualna Polska Media S.A., Money.pl Sp. z o.o. and Wakacje.pl S.A.;
- financial and registered pledges on bank accounts maintained for Wirtualna Polska Holding S.A., Wirtualna Polska Media S.A., Money.pl Sp. z o.o. and Wakacje.pl S.A together with powers of attorney to those bank accounts;
- financial and registered pledges on bank accounts maintained for Nocowanie.pl Sp. z o.o. 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 Wirtualna Polska Media S.A.; Money.pl Sp. z o.o. and Wakacje.pl S.A.;
- declarations on submission to enforcement procedures by Wirtualna Polska Holding S.A., Wirtualna Polska Media S.A., Money.pl Sp. z o.o. and Wakacje.pl S.A. and
- a subordination agreement for the repayment of indicated existing and future dues in respect of Wirtualna Polska Media 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 2017 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 2017	As of 31 December 2016
Expiring after one year	285 801	48 000
Total	***285 801***	***48 000***

Loans

As of 31 December 2017, the Group had an unpaid loan to a minority shareholder of Nocowanie.pl Sp. z o.o. drawn to finance the acquisition of 100% shares in Grupa eHoliday.pl Sp. z o.o.

The loan bears interest at the WIBOR rate for 3-month deposits plus a margin set in the contract. The principal may be repaid at any time, no later than 16 October 2020 with interest payable on quarterly basis.

As at 31 December 2017, the loan accounted for PLN 2,162 thousand.

Leases

As of 31 December 2017, 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 2017	Na dzień 31 grudnia 2016 roku
Gross finance lease liability (minimum lease payments):		
up to 1 year	834	288
from 1 to 5 years	2 369	621
over 5 years	-	-
Total	***3 203***	***909***
(-) future payments in respect of finance leases	(209)	(80)
Present value of finance lease liabilities	***2 994***	***829***
up to 1 year	823	275
from 1 to 5 years	2 171	554

The following table presents changes in the value of loans and leases during the year:

Description	Bank loans	Other borrowings	Finance leases	Total
Amount as of 1 January 2017	***212 945***	***-***	***829***	***213 774***
Additions due to:	***27 633***	***2 175***	***3 154***	***32 962***
- loans received	19 949	-	-	19 949
- loans received from the non-controlling shareholders	-	2 162	-	2 162
- interest accrued	7 684	13	96	7 793
- new finance lease contracts	-	-	3 058	3 058
Disposals due to:	***(28 886)***	***(13)***	***(989)***	***(29 888)***
- repayment of loan principle	(20 199)	-	(893)	(21 092)
- repayment of interest	(6 886)	(13)	(96)	(6 995)
- payment of bank commissions settled effectively	(1 801)	-	-	(1 801)
Amount as of 31 December 2017	***211 692***	***2 162***	***2 994***	***216 848***

32. PROVISIONS

in PLN'000	As of 31 December 2017	As of 31 December 2016
Provision for employee benefits		
At the beginning of the period	***3 276***	***2 891***
Recorded during the year	93	490
Utilized	(60)	-
Released	(72)	(98)
Business combinations	-	22
Sale of subsidiaries	7	(29)
At the end of the period	***3 244***	***3 276***
Other provisions:		
At the beginning of the period	***1 511***	***1 661***
Recorded during the year	783	794
Utilized	(201)	(460)
Released	(248)	(369)
Business combinations	-	25
Sale of subsidiaries	-	(140)
At the end of the period	***1 845***	***1 511***

in PLN'000	As of 31 December 2017	As of 31 December 2016
Provision for employee benefits	***3 244***	***3 276***
provision for pension benefits	249	249
holiday pay provision	2 995	3 027
Other provisions, including:	***1 845***	***1 511***
Provisions for litigation	1 845	1 451
Other		60
Total	***5 089***	***4 787***

33. TRADE AND OTHER PAYABLES

The following table presents the structure of trade and other payables as of 31 December 2017 and 31 December 2016.

in PLN'000	As of 31 December 2017	As of 31 December 2016
Long-term		
Contingent liabilities related to business combinations	3 618	6 075
Interest rate swaps - cash flow hedges	-	522
Liabilities with respect to the put option for non-controlling interests	78 763	125 890
Liabilities in respect of purchase of property, plant and equipment and intangible assets	10 141	11 201
Deferred income	384	879
	92 906	***144 567***
Short-term:		
Trade payables	37 799	34 778
Contingent remuneration related to business combinations	4 771	-
Liabilities related to business combinations (other than earn-out)	58 616	-
Interest rate swaps - cash flow hedges	-	694
State liabilities	6 028	4 821
Barter liabilities	1 935	875
Wages and salaries payables	6 649	5 947
Liabilities in respect of purchase of property, plant and equipment and intangible assets	13 300	12 436
Deferred income	8 323	4 567
Other	4 882	4 727
Total	***142 303***	***68 845***

Liabilities with respect to the put option for non-controlling interests of Domodi Sp. z o.o.

Short-term liabilities increased mainly due to the presentation in the short-term part of the balance sheet PLN 58.616 thousand of the Group's liabilities towards minority shareholders of Domodi sp. z o.o. to purchase 24.5% of shares in the company at a price determined on the financial results for 2017.

The second option for the remaining 24.5% of shares is shown in long-term liabilities and its discounted value of PLN 59,618 thousand is determined on a valuation based on current Management's estimates regarding the results of Domodi Sp. z o.o. for 2019.

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. In accordance with IAS 39, the Group recognises the change in long-term option liability as the financial costs/income. This cost/incomes 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 125,937 thousand.

Liabilities with respect to the put option for non-controlling interests of Nocowanie.pl Sp. z o.o.

Due to the acquisition of Grupa eHoliday.pl Sp. z o.o, the Parties to the Shareholder Agreement decided that following the acquisition, the terms of the put and call options calculation shell be changed in the following way:

- The timing of the call and put option will be changed, i.e. Wirtualna Polska Media S.A. will have the right to purchase half of the minority interest, and the non-controlling sherholder will be required to sell (first call option) after the end of the 2019 financial year (the original agreement stated 2018) and Wirtualna Polska Media S.A. will have the right to purchase the remaining minority shares (second call option) after the end of the financial year 2020 (the original agreement stated 2019)
- The basis for calculating the value of remaining shares to be purchase by the Group will be changed in such a way that the price of the option will be calculated as the product of (i) the normalized consolidated EBITDA of Nocowanie.pl and the company whose shares are the subject of the investment respectively for first option for 2019 and for the second option for the financial year 2020 (ii) 12.5%, and (iii) the multiplier dependent on the average growth of standardized EBITDA for first option in the years 2017 - 2019 and for second option in the financial years 2017 - 2020 in relation to the consolidated normalized EBITDA for the financial year 2016, defined in the Shareholder Agreement.

At the same time, due to the change in the rules of settlements related to the option calculation, on 11 October 2017 the Issuer's Management Board made a conditional resolution indicating the necessity for updating of the valuation of the put option liability on non-controlling interest in Nocowanie.pl Sp. z o.o.

The acquisition was concluded on 18 October 2017. At the same day, the Issuer's Management Board made a resolution updating the discounted value of the put option liability on non-controlling interest in Nocowanie.pl Sp. z o.o. by PLN 6,636 thousand. The revaluation of the liability was booked in the finance costs of the Group in the fourth quarter of 2017.

34. CONTINGENT REMUNERATION

Contingent liabilities arising from acquisitions of subsidiaries result from the arrangements made with the former owners of Allani Sp. z o.o. and Netwizor Sp. z o.o. and eHoliday.pl Sp. z o.o. As of 31 December 2017, the estimated non-discounted amount of all future payments that the Group may be obliged to make based under the arrangements adopted amounted to PLN 9,811 thousand. The fair value of contingent consideration of PLN 8,389 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 20 and 21.

35. OPERATING LEASE

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:

(w tys. zł)	As of 31 December 2017	As of 31 December 2016
Less than one year	5 700	6 057
From one to five years	14 265	13 322
Over five years	978	1 630
Total	***20 943***	***21 009***

The rental cost recorded in other external services in the years ending 31 December 2017 and 2016 amounted to PLN 6,812 thousand and PLN 6,530 thousand respectively.

36. LITIGATION

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 2017 the Capital Group paid the total amount of PLN 201 thousand as compensation in cases concerning the protection of personal rights. Additionally, in the analysed period, the provision for court proceedings increased by PLN 394 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 2017

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	88	-		***88***
Contingent liabilities related to business combinations	1 200	-	(7 189)	***(8 389)***
Total liabilities	***1 288***	**-**	***(7 189)***	***(8 301)***

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 liabilities 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 optimize 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 liabilities for the year ending 31 December 2017:

in PLN'000	Contingent consideration under business combinations As of 31 December 2017	As of 31 December 2016
At the beginning of the period	***6 075***	***15 590***
Acquisition of Netwizor Sp. z o.o.	-	1 699
Calculation of consideration paid as earn-out	-	5 218
Repayment of liability related to acquisition of Sportowefakty	-	(336)
Revaluation of liability related to acquisition of Sportowefakty	-	56
Repayment of earn-out NextWeb Media Sp. z o.o.	-	(15 500)
Repayment of earn-out Allani Sp. z o.o.	-	(3 277)
Additional earn-out Allani Sp. z o.o.	342	-
Gains and losses recognized in financial result	772	2 625
At the end of the period	***7 189***	***6 075***

The table below presents the fair and carrying values of financial instruments.

in PLN'000	Carrying amount	Fair value
Loans	213 854	214 856
Finance leases liabilities	2 994	2 994
Total	***216 848***	***217 850***

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 2017 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 minimize potential adverse effects on the Group's financial performance. The Group utilizes 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 centralized 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.

The Group manages a well-diversified portfolio of customers and suppliers. In both 2016 and 2017 there was one customer whose turnover exceeded 10% of the Group's consolidated revenue and amounted to 11% in both years. 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.

- ***Cash in the bank***

The Group places its cash solely in financial institutions with the best reputation.

in PLN'000	As of 31 December 2017	As of 31 December 2016
Banks with high rating	46 442	45 150
Total cash at banks	***46 442***	***45 150***

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.

Until 20 December 2017 the Group was a party in four swap agreements converting floating interest rates into fixed. The instruments were terminated after new loan agreement was signed. The Group estimates that a change of interest rate by 1 p.p. would result in additional PLN 2 million of financial interest costs per annum.

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 2017					
Interest-bearing bank loans	2 146	10 372	199 174	-	***211 692***
Interest-bearing other borrowings		2 162			***2 162***
Finance leases	228	595	2 171	-	***2 994***
Trade payables and other financial liabilities	132 290	7 722	91 449	3 748	***235 209***
As of 31 December 2016					
Interest-bearing bank loans	8 797	30 130	174 018	0	***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***

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 2017	As of 31 December 2016
Interest-bearing loans	216 848	213 774
Less cash and cash equivalents	(46 442)	(45 150)
Net debt	***170 406***	***168 624***
Equity	419 928	408 725
Equity and net debt	590 334	577 349
Leverage ratio I	***29%***	***29%***
Adjusted EBITDA for the last 12 months	138 385	132 155
Leverage ratio II [Adjusted EBITDA/Net debt)	***1,23***	***1,28***

39. RELATED PARTY DISCLOSURES

As of 31 December 2017 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 S.A.

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 2017	As of 31 December 2016
Liabilities		
Subsidiary of a member of the Management Board of the Parent Company	3	14
Total	***3***	***14***
Receivables		
Subsidiary of a member of the Supervisory Board of the Parent Company	659	6
Total	***659***	***6***

The following transactions were concluded with related entities

In PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Purchases		
Subsidiary of a member of the Management Board of the Parent Company	9	113
Total	***9***	***113***
Sales		
Subsidiary of a member of the Supervisory Board of the Parent Company	1 114	-
Total	***1 114***	***-***

The benefits payable or paid to the Parent Company's Management and Supervisory Board Members in the analysed period of current year and previous year are presented in the following table.

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Short-term employee costs (salaries and related benefits)	5 271	6 254
Incentive scheme – share-based payments	108	1 092
Total	***5 379***	***7 346***

40. INFORMATION ON GUARANTEES AND WARRANTIES GRANTED 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

The companies: Wirtualna Polska Holding S.A., Money.pl Sp. z o.o., Wakacje.pl S.A. and Nocowanie.pl Sp. z o.o. are guarantors to the new loan agreement concluded by and between Grupa Wirtualna Polska S.A. and mBank, PKO BP and ING Bank Śląski as of the balance sheet date.

41. EXPLANATIONS TO THE CASHFLOW STATEMENT

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
Change in receivables and other short-term assets arises from the following items:	***(18 330)***	***(12 434)***
Change in receivables and other short-term assets per balance sheet	(17 931)	(14 581)
Change in long-term receivables per balance sheet	(155)	-
Change in assets relating to financing activities	2 380	-
Sale of subsidiary	-	(1 082)
Receivables and other assets of companies as of the date of obtaining control	305	(266)
Adjustment to the purchase price allotation of Wakacje.pl	(3 357)	
Change in income tax receivables	428	3 498
Other	-	(3)
Change in short-term liabilities arises from the following items:	***7 139***	***5 932***
Change in short-term liabilities per balance sheet	73 458	14 177
Sale of subsidiary		203
Adjustment for a change in the liability in respect of swap instruments	694	260
Adjustment for a change in investment liabilities	(64 251)	(4 592)
Revaluation of investment liabilities recognized in operating activities	-	56
Operating liabilities taken over as a result of obtaining control	(2 481)	(4 026)
Adjustment for offsetting of income tax receivables and VAT liability	-	368
Change in long-term deferred income	(495)	(315)
Change in liabilities in respect of financing activities	209	(206)
Other	5	7
Change in provisions arises from the following items:	***343***	***469***
Change in short-term provisions per balance sheet	302	235
Sale of subsidiary	-	157
Actuarial valuation recognized in other comprehensive income	46	122
Provisions taken over as a result of obtaining control	(5)	(45)
Other		-
Purchase of shares in a subsidiary	***(10 403)***	***(36 385)***
Nominal purchase price	(11 250)	(37 006)
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	847	2 864

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. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

Annex to the Domodi Shareholders' agreement and purchase of 35% of shares in Domodi

On March 15, 2018, by way of an Annex, the parties to the shareholder agreement decided to change the conditions for the option to purchase a minority stake in Domodi shares, which originally assumed the purchase of shares in two equal tranches of 24.5% each, after the end of the 2017 and 2019 financial years. Before the annex was signed the estimated discounted value of the Group's liabilities on put option amounted to PLN 59.3 million with respect to the first option after the end of 2017 and PLN 60.3 million with respect to the second option after the end of 2019.

The amended Shareholders' Agreement gives Wirtualna Polska Media SA or Wirtualna Polska Holding SA the option to purchase 35% of shares in Domodi in 2018 and the right to exercise options for the remaining 14% of shares for the next ten years, with the first possibility to exercis the option after the end of 2018. Prior to the transaction, Wirtualna Polska Media S.A. had a controlling stake of 51% of shares in Domodi. As a result of the transaction, a total of approximately 86% of Domodi shares entitling to exercise approximately 86% of votes at the Domodi shareholders' meeting are owned by the Group's companies.

The sale price for all the purchased Shares is PLN 85,484 thousand. The transfer of rights to shares will take place upon payment of the price on the terms specified in the agreement.

In connection with the signed annex, the value of the liability due to the modified option for the remaining 14% of shares in Domodi will be subject to estimation by the Management Board, with a preliminary estimate of its discounted value of approximately PLN 36 million. The difference in the discounted valuation of liabilities in the amount of approximately PLN 2 million will be recognized in the Group's result as an additional financial cost in the first quarter of 2018.

The acquisition of shares was financed from a loan granted to Wirtualna Polska Holding S.A. by Wirtualna Polska Media SA with funds from the tranche of the Capex Loan under the loan agreement of 12 December 2017.

There were no other significant post- balance sheet events except for those described above and those regarding the changes in the Group's structure, described in note 7 and changes in share capital described in note 26.

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, ul. Lecha Kaczyńskiego 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 2017 and 31 December 2016.

(w tys. zł)	For the year ending 31 December 2017	For the year ending 31 December 2016
Audit of the annual financial statements	329	387
Tax advisory	-	28
Other services	12	8
Review of interim financial statements	75	77
Due dilligance services	-	351
Total	***416***	***851***

44. SELECTED CONSOLIDATED FINANCIAL DATA CONVERTED INTO EUR

Consolidated income statement and other comprehensive income

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Segment ONLINE				
Sales	457 482	414 694	107 782	94 772
Cash sales	424 502	376 873	100 012	86 129
Adjusted EBITDA	150 580	135 884	35 476	31 054
EBITDA	142 192	126 672	33 500	28 949

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Segment TV				
Sales	8 131	450	1 916	103
Cash sales	8 131	450	1 916	103
Adjusted EBITDA	(12 195)	(3 729)	(2 873)	(852)
EBITDA	(12 556)	(3 727)	(2 958)	(852)

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Segments total				
Sales	465 613	415 144	109 698	94 875
Cash sales	432 633	377 323	101 928	86 231
Adjusted EBITDA	138 385	132 155	32 603	30 202
EBITDA	129 636	122 945	30 542	28 097
Amortization and depreciation of fixed assets and intangibles	(51 007)	(42 082)	(12 017)	(9 617)
Operating profit	78 629	80 863	18 525	18 480
Result on financial activities	(24 340)	(17 337)	(5 734)	(3 962)
Profit before tax	54 289	15 400	12 790	3 519
Net profit	40 032	53 848	9 431	12 306

Consolidated statement of financial position

	As of 31 December 2017	As of 31 December 2016	As of 31 December 2017	As of 31 December 2016
	in PLN'000		in EUR'000	
Total assets	893 906	852 196	214 320	192 630
Non-current assets	752 229	729 742	180 352	164 951
Current assets	141 677	122 454	33 968	27 679
Long-term liabilities	307 292	330 132	73 675	74 623
Short-term liabilities	166 686	113 339	39 964	25 619
Equity	419 928	408 725	100 680	92 388
Share capital	1 443	1 434	346	324
Non-controlling interests	19 479	16 467	4 670	3 722

Consolidated cash flow statement

	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016
	in PLN'000		in EUR'000	
Net cash flows from operating activities	113 639	113 591	26 773	25 960
Net cash flows from investing activities	(67 795)	(92 613)	(15 972)	(21 165)
Net cash flows from financing activities	(43 757)	(24 789)	(10 309)	(5 665)
Total net cash flows	***2 087***	***(3 811)***	***492***	***(871)***

Conversion into euro was performed based on the following principles:

- amounts presented in zloty as of 31 December 2017 were converted into euro at the exchange rate of 4.1709 (the NBP exchange rate as of 31 December 2017),
- 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 for the period of twelve months ending 31 December 2017 were converted into euro at the exchange rate of 4.2445 (the arithmetic mean of the NBP exchange rates as of the last day of each month of the year 2017),
- amounts presented in zloty for the period of twelve months ending 31 December2016 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 the year 2016).

45. ADDITIONAL INFORMATION ON THE RESULTS OF THE FOURTH QUARTER OF 2017

in PLN'000	Three months ending 31 December 2017	Three months ending 31 December 2016
Sales	***137 568***	***122 955***
Amortization and depreciation	(13 661)	(11 292)
Amortization and depreciation of acquired programming rights	(518)	(295)
Materials and energy used	(1 508)	(1 456)
Costs related to public offering, acquisitions of subsidiaries and restructuring	(1 323)	(2 820)
Costs of the employee option scheme	(298)	(204)
Other external services	(49 980)	(42 703)
Other salary and employee benefit expenses	(38 980)	(35 842)
Other operating expenses	(5 143)	(2 728)
Other operating income/gains	154	560
Gain/loss on disposal of other financial assets	-	665
Operating profit	***26 311***	***27 135***
Finance income	372	318
Finance costs	(6 582)	(5 147)
Revaluation of commitments to purchase non-controlling interests	(5 319)	(46 865)
Profit before tax	***14 782***	***(24 559)***
Income tax	(5 103)	47 977
Net profit	***9 679***	***23 418***
Other comprehensive income/(losses)	1 920	1 075
Comprehensive income	***11 599***	***24 493***
Net profit attributable to:		
Equity holders of the Parent Company	8 252	23 447
Non-controlling interests	1 427	(324)
Comprehensive income attributable to:		
Equity holders of the Parent Company	10 172	24 522
Non-controlling interests	1 427	(324)

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, 15 March 2018

Holding SA

MANAGEMENT'S REPRESENTATION ON NON FINANCIAL INFORMATION

31 DECEMBER 2017

DEAR READERS! [G4-1]

I present You our statement on corporate social responsibility and sustainable development of Wirtualna Polska Holding S.A. Capital Group for the year 2017. The statement contains the key information and indices related to our activity in all significant areas.

We feel responsible for reliability and trustworthiness, ethical conduct and top quality of all activities related to providing information and creating the opinions of our users. We co-author, foster and promote the highest ethical standards in such areas of common good as information, education, health, environmental protection and the safety of the children. These areas are of crucial importance to us. We perceive ethical conduct in a broader sense than just a set of principles and practices to be implemented in all organizations of the Group. These are fields where we want to be active and particularly attentive because we trust that in this way, we have a positive impact on our users, customers and competitors alike.

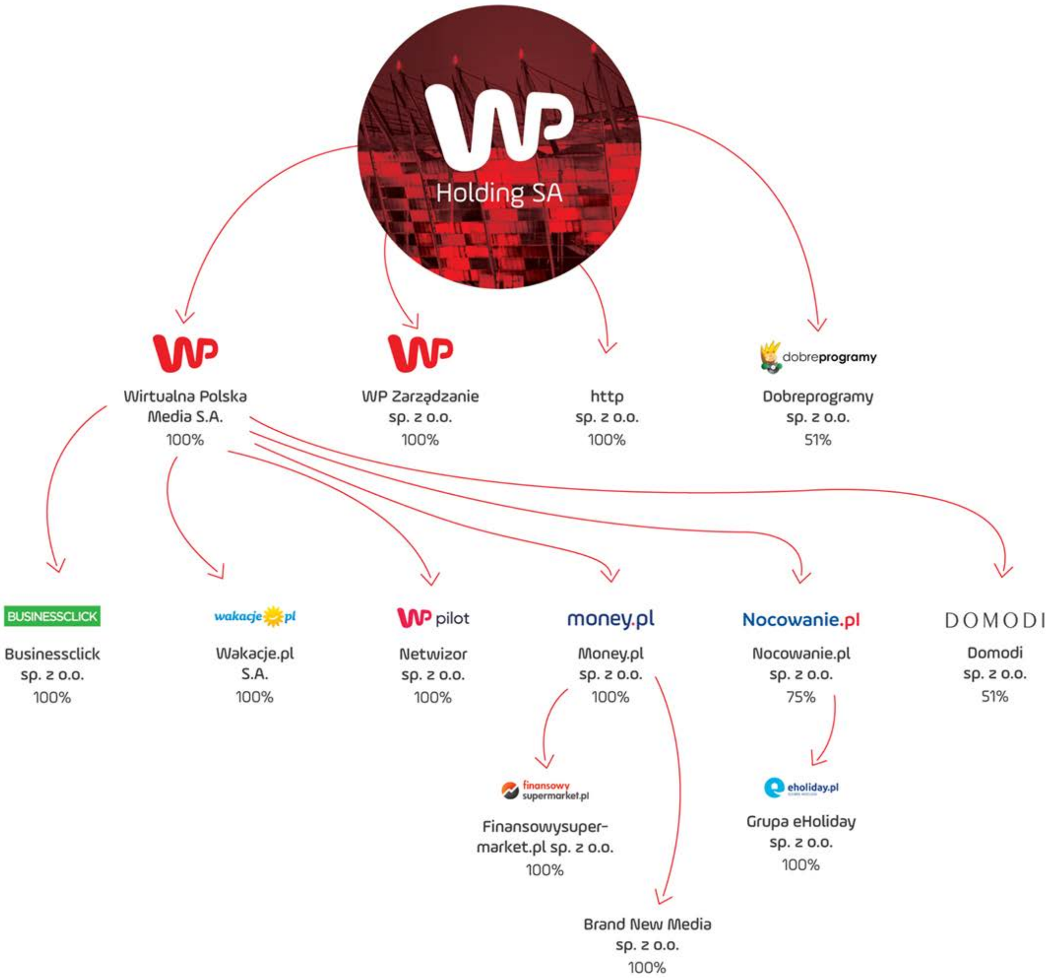
In 2017, we approved the Ethical Compass, a set of the Group's principles and values that we want to follow in our day-to-day professional life. Fair rules for cooperation, building a friendly working environment and creating conditions for proper professional growth are the key objectives set in our Ethical Compass.
The Group's CSR strategy is based on actions addressed to the staff and co-workers because it is them who take responsibility for the integrity, fairness and quality of the services provided by the Group; the values followed by our staff and co-workers have an indisputable impact on the development and success of Wirtualna Polska.

Ladies and Gentlemen, you are more than welcome to gain insight into our values and the resulting standards and policies, as well as into our impact on the society and environment. We have gone to great lengths to describe the world of Wirtualna Polska in a reliable and interesting manner.

JACEK ŚWIDERSKI
CEO

1. GET TO KNOW US [G4-3; G4-5;G4-6]

1.1. THE STRUCTURE OF OUR GROUP [G4-17]



Wirtualna Polska is a capital group with the head of Wirtualna Polska Holding S.A. having its registered office in Warsaw, ul. Jutrzenki 137A.

Our Group operates in Poland and creates an interesting and attractive work environment in cities such as Warsaw, Gdańsk, Wrocław and Lublin.

1.2. OUR BRANDS, PRODUCTS AND SERVICES, AS WELL AS OUR BUSINESS MODEL [G4-4]

Wirtualna Polska consistently merges its media operations with advertising activity and e-commerce, by searching state-of-the-art communication solutions and by linking our users' needs with the commercial offer of our advertising partners.

Wirtualna Polska consists not just of horizontal portals, but also of theme websites, radio stations, television and e-commerce services teeming with attractive offers.

In 2017, the journalists of Wirtualna Polska held a few hundred interviews and over 13 thousand live broadcasts (including sports), providing updates every day; they commented on the latest news and breaking news, as well as presented entertainment news in their original material. For us and for our users, Wirtualna Polska is the focus of events that matter for the whole of Poland. It is owing to the staff and co-workers of Wirtualna Polska that WP's home page has become a reliable and interesting source of information, gaining an increasingly larger audience. Our media offer is also addressed to young internet users; we present all the necessary information combined with a large dose of entertainment on the interesting and unconventional o2 website.

At Wirtualna Polska we have created a number of theme websites. The key local and international news can be found in WP Wiadomości and WP Opinie portals. WP Magazyn features our premium content. The theme websites offered by Wirtualna Polska also include Poland's most popular financial sites: Money.pl i WP Finanse. WP SportoweFakty provides the most comprehensive overview of sports news from all sports disciplines. WP Parenting is an exceptional place dedicated to all parents and those planning to found a family. Lifestyle content can be found on WP Kobieta, Kafeteria, WP Turystyka and WP Kuchnia websites. Those passionate about cars and motor racing will find a full overview of the news on WP Moto and WP Autokult. We also own the popular entertainment and cultural platforms: Pudelek, WP Gwiazdy, WP Teleshow, WP Film and WP Książki. Tech geeks visit WP Tech and DobreProgramy.pl websites. We also create specialist services: WP Fotoblogia, Gadżetomania and Komórkomania. The users will find health tips on WP abcZdrowie, which is embedded in the Group's mission by combining the information function and online services. The users can ask experts in various fields directly and can quickly make an appointment with a physician without having to register.

Also, WP Poczta and Poczta o2 are services that bring us closer to our users, providing us with the opportunity to keep in touch with them on a daily basis. WP Polska email includes an unlimited mailbox and attachments up to 100 MB. o2 email offers the opportunity to chat online with other users, integrate with Facebook and watch YouTube videos in the content of the message. Both email services are characterized by a high level of security, offering a number of solutions to business, such as the option to send authorized emails or adaptation of advertising services to the users' profile and interest, with respect for their right to privacy protection.

E-commerce from WP Group comprises comprehensive solutions, a guarantee that the recipient will be reached effectively, as well as provides the users with information about trends and shopping recommendations. The Group operates efficiently in five e-commerce areas: tourism, fashion, interior design, financial services and medical services.

Tourism websites being part of the Group provide a complete offer for travellers and those searching for accommodation in Poland and abroad. Wakacje.pl is the first Polish tourism website and a dynamically growing chain of brick-and-mortar travel agencies countrywide. Every day, the platform features current offers from the largest and established tour operators. Wakacje.pl provides the consumers with active support in purchasing decisions owing to a unique database of reviews about hotels and destinations, as well as the largest discussion forum dedicated to tourism, where interesting topics and trip reports can be found. The users who are more prone to spend their holiday in Poland can benefit from services featuring a local tourism offer: nocowanie.pl and eholiday.pl, which boast the largest domestic accommodation database in Poland.

We put our mission to support our users in their everyday decisions in practice also by services offered by the two largest fashion search engines in Poland: domodi.pl and allani.pl. The platforms offer a few hundred thousand products from hundreds of online shops. Additionally, the articles that can be found on these websites and the company's You Tube channel feature tips about the latest trends in fashion.

Not only do we support our users in their everyday shopping choices, but we also help them acquire, deposit and multiply their funds. TotalMoney.pl and FinansowySupermarket.pl are platforms which are part of our Group and advanced tools making it possible to purchase and sell financial products and services, save money and manage private budgets.

At Wirtualna Polska we have also created tailor-made television to suit the needs of our users. WP Television has been broadcasting since December 2016. Its broadcast scheduling includes international series not shown on public television in Poland before, current affairs programmes and lifestyle programmes. The programme strategy combines the television's own productions and a valuable international offer. As a result, the audience gains access to the best productions and programms. The station is available as terrestrial television on Multiplex Eight (MUX8), in the best cable television networks and on the NC+ platform.

Our users can also watch our television online through a mobile application and WP Pilot internet platform which offers 80 TV channels in total, including over 30 at no charge. By enabling access to TV channels, we provide a complete media portfolio on the internet. Our innovative application WP Pilot was awarded a "Złoty Bell" statuette during the Mobility Trends 2017 Gala.

The Group also focuses on its users' musical tastes and has given them access to the musical platform Open FM.- the largest free musical platform in Poland. Listeners can enjoy over 100 diverse music stations with almost two thousand hours of music per 24 hours. The stations are divided into several theme categories. Owing to the advanced streaming technology, the application does not require a fast internet connection or large packets. The station is available both online and in a mobile version. Open FM is the most popular music application in the Polish market.

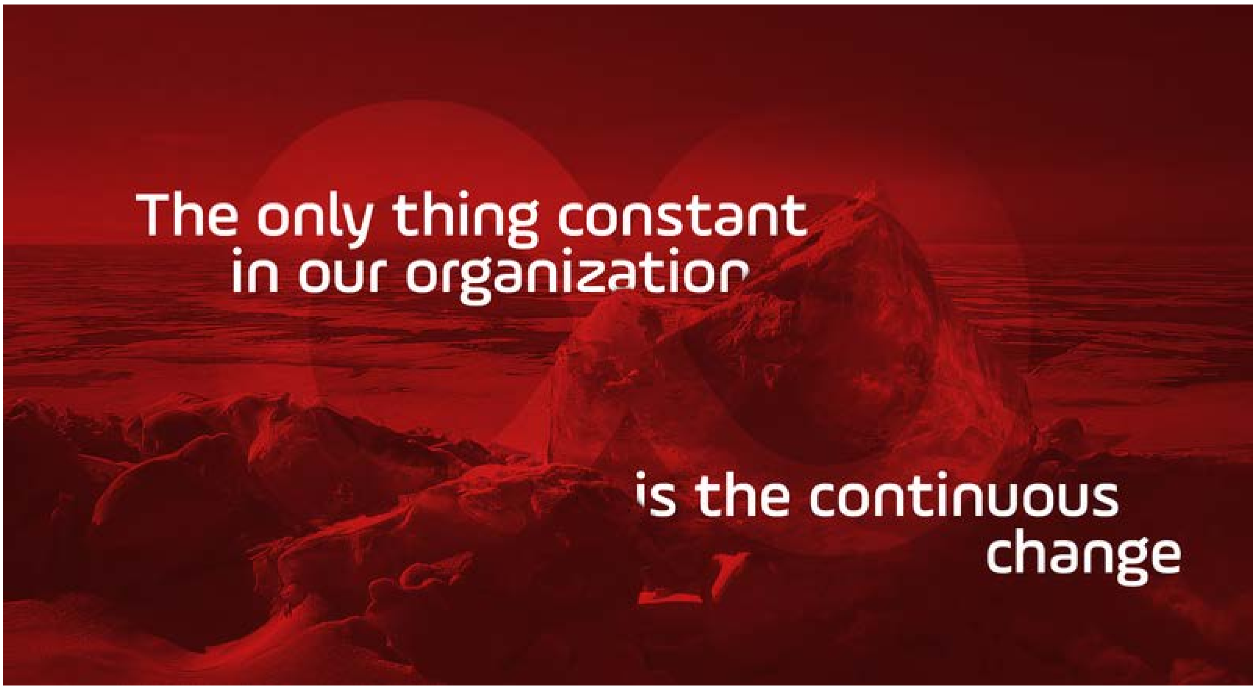
According to the Gemius/PBI survey, 20.8 million Poles used all Wirtualna Polska online products in December 2017.

Wirtualna Polska operates on the Polish online advertising market by offering its customers a wide range of advertising products: modern display advertising, such as video online advertising, email advertising, advertisements for mobile devices and advertisements based on the advertising effectiveness model (i.e. settled for visiting the website, completing the form, registration, purchase of goods or services, lead generation, performance marketing). In 2018, WP has replaced the standard CPM settlement with a much more reliable vCPM (cost per viewed mille) model. It is available in page view/impression campaigns and in programmatic campaigns on platforms which support these solutions. According to the IAB definition, an ad is viewable if at least half of its graphic creation stays in the browser for at least one second. The introduction of the vCPM index is a response to market needs. As a result, the customers obtain even more reliable results of their campaigns. Owing to considerable popularity of its websites and services, Wirtualna Polska reaches a broad group of users with its advertising message.

1.3. WP SUPPLY CHAIN [G4-12;G4-13]

Wirtualna Polska operates in the area of media and internet, building on a team of staff and co-workers. We rely on proven, long-term partners, however, as a Group with a portfolio of electronic services we do not identify our key suppliers and do not operate on the basis of an extensive supply chain, typical of production companies. Independence is our strength. We are at the helm in the process of ensuring service continuity both to our users and advertisers. Wirtualna Polska Group complies with fair competition rules and the agreements made. The Group refrains from cooperation with unfair or unethical clients, partners and suppliers. We are responsible for identifying risks related to the order chain and reacting to any signs of unfair or unethical conduct among our clients, partners and suppliers.

Wirtualna Polska Group does not tolerate any acts of corruption, regardless of their form or purpose.
It is prohibited to enter into anti-competitive agreements or to abuse the dominant position.



WP Group began to develop e-commerce operations in 2014. The first step was to create an offer of services for generating leads in online sales. As a result, it became possible to offer products that perfectly fit the users' needs and interests. E-commerce at Wirtualna Polska currently covers the best offers in five theme categories. The Group sees its future in e-commerce and according to its strategy, intends to expand the e-commerce operations. In 2017, Wirtualna Polska obtained a loan of PLN 265 million from a banking consortium for the Group's development and subsequent acquisitions.

1.4. WIRTUALNA POLSKA – INDUSTRY PRESENCE [G4-16]

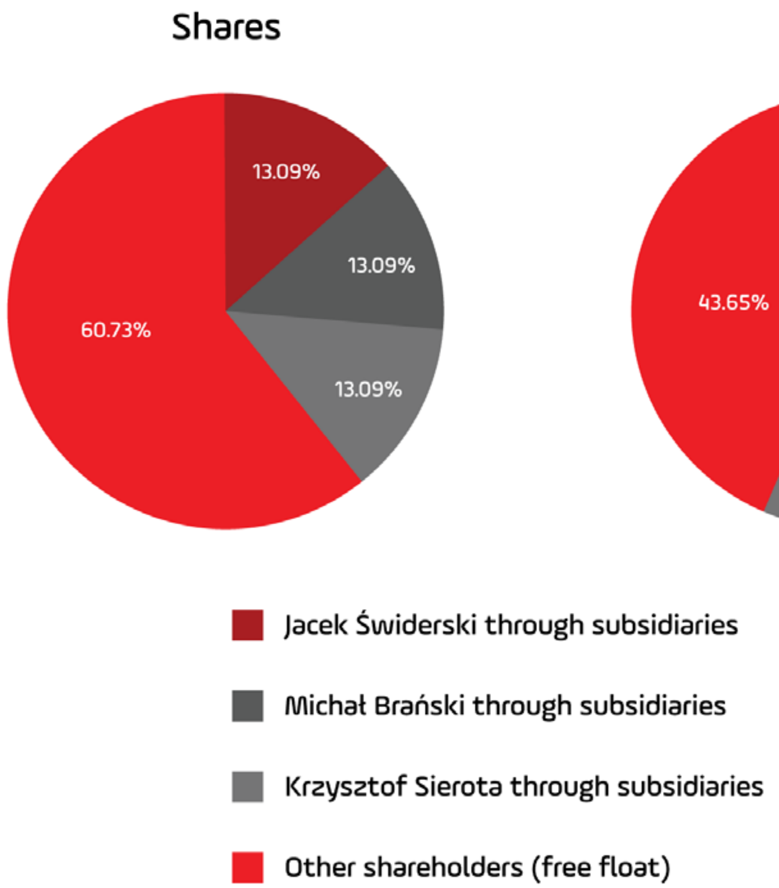
Wirtualna Polska is an ordinary member of the trade association IAB Poland (Internet Advertising Bureau Poland). The mission of the association is to promote interactive communication and publicize the internet as an effective medium, among other things by education and research. The chair of IAB Polska Supervisory Board is Joanna Pawlak, VP Sales and Marketing. The Group supports the association also by participating in working groups and any initiatives taken by the organization. The employees of Wirtualna Polska express their opinions as experts in industry reports published by IAB Poland in cooperation with Harvard Business Review Poland.

In 2017 Wirtualna Polska became the knowledge partner of SAR Effie Awards, a contest for the most effective marketing communication, organized by SAR Marketing Communication Association. The jury of the contest includes an expert representing Wirtualna Polska. The Group also supported other initiatives by SAR, i.a. the contest Innovation 2017 and the conference Imagination Day 2017.

The Group, other partners and the business consulting company Gemius take an active part in creating PBI, Polish Internet Research, which, in accordance with the accepted standards of internet audience measurement, provides knowledge about the market and enables the market participants to make better business decisions in the digital environment. WP is a permanent member of the methodological team liaising with the PBI Management Board, and, at the request of the Board, voices opinions on issues such as planned changes in the Gemius measurement.

1.5. WP – OWNERS AND BUSINESS FORM [G4-7]

Wirtualna Polska Holding is a publicly traded company.



The shareholder structure is also available on the website: www.inwestor.wp.pl.

1.6. WHO IS BEHIND ALL THIS – OUR BODIES AND CORPORATE GOVERNANCE [G4-34]

MANAGEMENT BOARD

The Management Board is the management body of Wirtualna Polska Holding SA.

The Management Board manages the Company's operation, assets and represents the company before courts, public authorities and third parties. The Management Board makes decisions in all matters not reserved by the Statute or applicable law to the exclusive competence of the Supervisory Board or General Meeting.
All Management Board members are obliged and authorized to jointly manage the Company's affairs. The Management Board acts on the basis of the Management Board Rules of Procedure and is convened for a three-year, joint term of office.

The resolutions of the Management Board are adopted by an ordinary majority of votes. In the event of an even number of votes for and against, the President of the Management Board has a casting vote. Resolutions of the Management Board may be adopted in writing or by means of direct remote communication. Management Board members may take part in adopting Management Board resolutions by casting a vote in writing through a different Management Board member. Casting a vote in writing may not concern matters added to the agenda at the Management Board meeting.

According to the Statute, President of the Management Board is in charge of the work of the Management Board and defines the internal division of assignments and competencies between Management Board members; in particular, President of the Management Board may put individual Management Board members in charge of specific departments. Moreover, President of the Management Board convenes Management Board meetings and chairs them.

The Management Board is composed of one to five members including the President of the Management Board and, in the case of the Management Board where more than one person is appointed, it is composed of the remaining Management Board members, elected for a joint term of office. The number of Management Board members is established by the Supervisory Board upon the motion of the President of the Management Board. If the Management Board is composed of one member, the Company is represented by one Management Board member. If the Management Board is composed of several persons, representations and declarations on behalf of the Company are required to be made by two Management Board members acting jointly or one Management Board member acting jointly with a registered attorney.

President of the Management Board is appointed and dismissed by the General Meeting. The remaining Management Board members are appointed and dismissed by the Supervisory Board upon the motion of the President of the Management Board. A Management Board member may be also dismissed or suspended by the resolution of the General Meeting.

The Management Board is currently composed of the President of the Management Board and three members of the Management Board. The mandates of the Management Board members expire no later than on the day of the General Meeting convened to approve the financial statements for the previous financial year in which Management Board members acted in their capacity, i.e. for the year 2018.

Name	Function
Jacek Świderski	President of the Management Board, CEO
Elżbieta Bujniewicz-Belka	CFO / VP Finance
Michał Brański	Management Board Member, VP Strategy
Krzysztof Sierota	Management Board Member, VP Engineering

SUPERVISORY BOARD

The Supervisory Board exercises ongoing control over the activity of Wirtualna Polska Holding S.A. in all areas of business operations.

For the resolutions of the Supervisory Board to be valid, all members must be invited to the Supervisory Board meeting and the presence of at least half of them at the meeting is required. Subject to other provisions of the Statute, the resolutions of the Supervisory Board are adopted by an ordinary majority of votes. In the event of an even number of votes for and against, the Chair of the Supervisory Board has a casting vote.

Supervisory Board members may take part in adopting Supervisory Board resolutions by casting a vote in writing through a different Supervisory Board member. Casting a vote in writing may not concern matters added to the agenda at the Supervisory Board meeting. Resolutions of the Supervisory Board may be adopted in writing or by means of direct remote communication. Adopting resolutions as indicated above (casting a vote in writing through a different Supervisory Board member, in writing or by means of direct remote communication) does not concern the election of the Chair and Deputy Chair of the Supervisory Board, appointment and dismissal of a Management Board member and the suspension of these persons.

Apart from matters indicated in the Code of Commercial Partnerships and Companies, the following fall within the competence of the Supervisory Board:

1) selection or change of the entity authorized to audit financial statements of the company and to conduct external audits at the Company
2) appointment and dismissal of Management Board members upon the motion of the President of the Management Board
3) determining the number of Management Board members upon the motion of the President of the Management Board
4) determining Supervisory Board Rules of Procedure and Management Board Rules of Procedure
5) consenting to a significant transaction concluded by the Company and a related entity, with the exclusion of typical transactions concluded at arm's length as part of the Company's operations with a related entity in which the Company holds a majority share
6) reviewing and expressing opinions on issues subject to resolutions of the General Meeting
7) expressing opinions on long-term development programmes and annual financial plans of the Company
8) purchase or sale by the Company or a related entity, on a one-off basis or during the year, of a block or blocks of shares in a different entity or entities or the options to purchase or sell such shares or convertible bonds for such shares or shares with a value exceeding a total of the value of the consolidated EBITDA
9) the Company or any related entity entering into an agreement resulting in consolidated financial debt exceeding 2.25 times the value of the consolidated EBITDA
10) establishment by the Company or any related entity, for a third party, on a one-off basis or during the year, of a pledge or the sale of assets whose fair market value or book value exceeds the total value of the consolidated EBITDA
11) incurring an obligation or disposition of a right by the Company or its related entity, on a one-off basis or during the year, with a value exceeding the total value of the consolidated EBITDA
12) both with reference to the Company and its related entity, entering into employment contracts, mandate contracts, contracts to provide services (or other contracts of similar nature) whose total annual amount exceeds PLN 1.2 million (including the maximum bonus to be paid under such contract).

The Supervisory Board has appointed an Audit Committee composed of three members, including two members (including the Chair) who meet the criteria for independence and at least one member who has the knowledge and skills in the area of accounting or auditing financial statements and at least one member who has the knowledge and skills in the area of the Company's business operations; hence, the composition of the Audit Committee complies with the requirements of the Act on statutory auditors, audit firms and public oversight ("Act on Statutory Auditors").

The Audit Committee of the Supervisory Board is a permanent collegial advisory and opinion-making body of the Supervisory Board. The Audit Committee operates pursuant to applicable provisions of law (in particular the Act on Statutory Auditors), provisions of the Company Statute, the Supervisory Board Rules of Procedure and the Audit Committee Rules of Procedure, as well as in accordance with the recommendations set forth in Best Practice of GPW Listed Companies. The organization and operation of the Audit Committee are governed by the Audit Committee Rules of Procedure.

The main objective of the Audit Committee is to support the Supervisory Board as a statutory body of the Company in the performance of the Board's control and supervisory obligations within the scope defined in the provisions of the Act on Statutory Auditors, the Supervisory Board Rules of Procedure and the Audit Committee Rules of Procedure.

The objectives of the Audit Committee are met in particular by the following actions:

1) monitoring: a) the financial reporting process, b) the efficiency of internal controls, risk management systems and internal audit, also within the scope of financial reporting, c) monitoring the conduct of

external audits, in particular audits conducted by an audit company, taking into consideration all motions and findings of the Audit Supervision Commission as a result of the inspection of the audit company;
2) control of and monitoring the independence of the statutory auditor and audit company, in particular if the audit company provides services other than audit services to the public interest entity;
3) notifying the Supervisory Board or a different supervisory or oversight body of the public interest entity of audit results and explaining the extent to which the audit has contributed to reliable financial reporting in the public interest entity, as well as explaining the role of the audit committee in the audit;
4) assessment of the independence of the statutory auditor and expressing consent to permitted services, being provided by the auditor, which do not constitute an audit in the public interest entity;
5) devising the policy of audit company selection for the audit;
6) devising the policy of permitted services which do not constitute an audit, being provided by the audit company conducting the audit, by entities related to the audit company and by a member of the audit company network;
7) determining the procedure for the audit company selection by the public interest entity;
8) proposing recommendations referred to in Article 16 (2) of Regulation no. 537/2014 in accordance with policies referred to in sections 5 and 6, to the supervisory board or a different supervisory or oversight body or a body referred to in Article 66 (4) of the Accounting Act of 29 September 1994;
9) proposing recommendations aimed at ensuring the reliability of the financial reporting process in the public interest entity.

The Audit Committee holds meetings as necessary, at least four times a year.
The Supervisory Board may also appoint other committees, in particular the appointment and remuneration committee. Detailed responsibilities and principles of appointing and operation of the committees are defined in the Supervisory Board Rules of Procedure.

Supervisory Board members meeting the criteria for independence

The Supervisory Board should be composed of at least two persons meeting the criteria for independence. The Supervisory Board is currently composed of three persons meeting the criteria for independence: Messrs Mariusz Jarzębowski, Piotr Walter and Aleksander Wilewski.

Supervisory Board members

The Supervisory Board is currently composed of six members. The mandates of the Supervisory Board members expire no later than on the day of the General Meeting convened to approve the financial statements for the previous financial year in which Supervisory Board members acted in their capacity, i.e. for the year 2018.

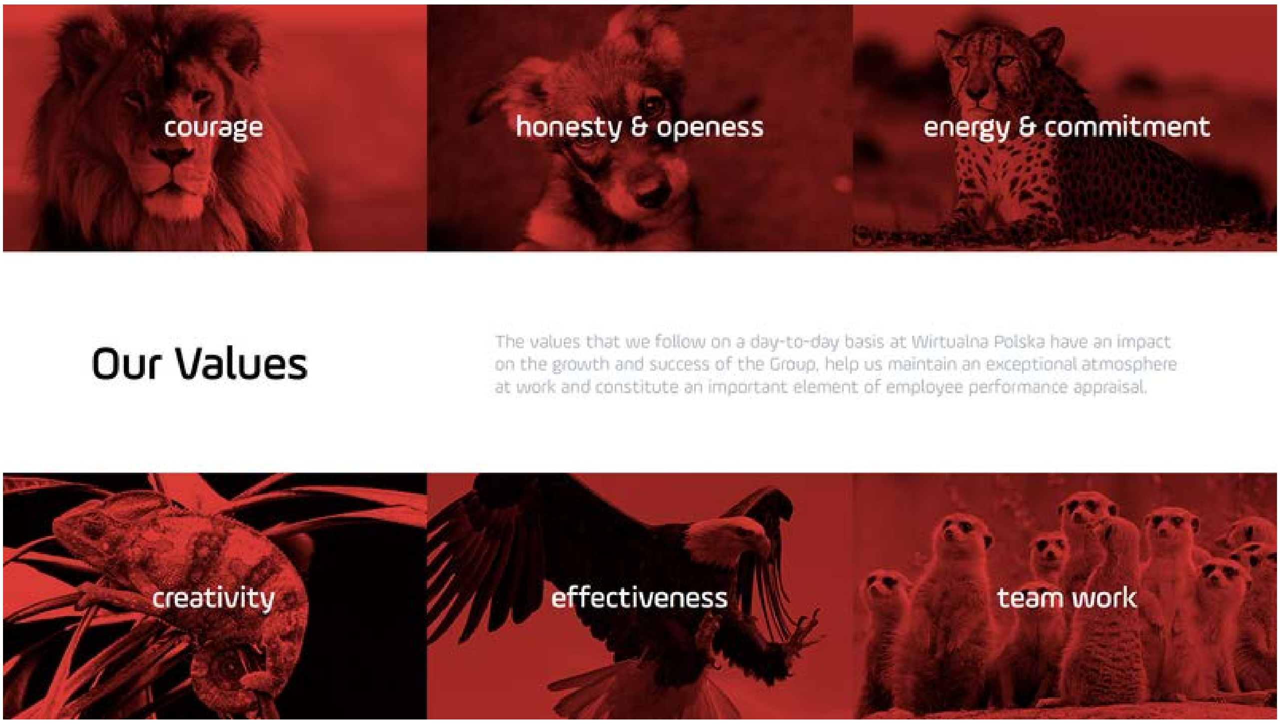
Name	Function
Jarosław Mikos	Chairman of the Supervisory Board/Audit Committee Member
Beata Barwińska-Piotrowska	Supervisory Board Member
Krzysztof Krawczyk	Supervisory Board Member/Chairman of the Audit Committee
Mariusz Jarzębowski	Supervisory Board Member/Audit Committee Member
Piotr Walter	Supervisory Board Member
Aleksander Wilewski	Supervisory Board Member

GENERAL MEETING

The rules governing the General Shareholders' Meeting are set forth in section 5 of Wirtualna Polska Holding S.A. Statute, available at http://inwestor.wp.pl

2. VALUES, PRIORITIES AND ETHICS AT WP *[G4-56]*

The values that we follow on a day-to-day basis at Wirtualna Polska have an impact on the growth and success of the Group, help us maintain an exceptional atmosphere at work and constitute an important element of employee performance appraisal. Our values are as follows:



As a company operating in the area of media and the internet, we feel responsible for ethical conduct in business, co-creating, promoting and supporting the highest standards. The areas of special interest to us are: education, environmental protection, health and safety. In our everyday operations, we follow the principle of respect for the dignity of each individual. We build our relationships on trust, fairness and social dialogue. We obey fundamental human rights (we counteract and prevent mobbing, mental, physical and sexual harassment and all other forms of violence) and we respect diversity and dignity (we ban all kinds of discrimination regardless of religion, political conviction, origin, social status, sexual orientation, age, gender, marital status or disability).

In 2017 we made a decision to create the ***Ethical Compass*** at Wirtualna Polska (Code of Ethical Conduct). This is where we indicate our values and demonstrate how WP Group sees its employees and their work. The values and information with regard to the importance of ethical conduct at WP are provided at the onboarding meeting, held to introduce new employees. After the creation of the Ethical Compass, we appointed the ***Ethics Ombudsperson*** who responds to all doubts, violations and issues reported by the staff. For several years now, the Group has been surveying employee satisfaction and compliance with ethics as part of an anonymous annual survey. The survey provides a basis for the improvement of working conditions and for new solutions. Following the survey, 2017 saw the introduction of "Adept", a management competency development scheme.

Our priorities

As a media company, we feel responsible for ethical action, creation, promotion and supporting of high standards.

Areas in center of our attention

Education
- We are a source of information, knowledge and inspiration for continuing education
- We shape attitudes and abilities to acquire information, as well as its verification and selection

Enviromental Protection
- We are a source of reliable information on environmental threads
- We encourage citizens' rights and obligations in this area

Healthcare
- We provide access to reliable and ethical knowledge
- We build awareness on healthcare issues
- We encourage health prophylaxis

Safety
- We focus on children safety on internet
- We participate in activities aiming at building safety awareness of parents and children

These are areas we want to be particularly active and attentive, believing it will help us to contribute to a better future for Poles

In our external relations, we strive to offer our users top quality services. We build the relationships with our users on the basis of trust and transparent communication, but first and foremost, we comply with the agreements made. As part of our editorial and journalistic activity, we provide reliable information and news. We are apolitical and we follow the Publishing Constitution of the Group. We adhere to regulations on consumer protection and we do not use unfair market practices. In cooperation with our clients, partners and suppliers, we obey fair competition principles and the agreements made. We refrain from cooperation with unfair or unethical clients. We do not tolerate any acts of corruption, regardless of their form or purpose. We do not enter into anti-competitive agreements or abuse the dominant position.

As a company listed on the Warsaw Stock Exchange (i.a. Wirtualna Polska Holding S.A. and Wirtualna Polska Media S.A.), we obey the rules set forth in Best Practice of GPW Listed Companies and we inform the public opinion about putting these rules into effect. We maintain active relations with capital market participants and institutions, in accordance with the applicable legal regulations and best market practices: openness and equal treatment of all investors by equal access to information. We take responsibility for timely publication and delivery of reliable, trustworthy and up-to-date financial statements and reports to reveal the true economic standing and financial position of the Group. Compliance with all accounting and reporting standards and regulations is a top priority for us; we commit to respond in a timely and appropriate manner to requests from public authorities.

Corporate social responsibility is a key element of the Group's operations. It helps the Group achieve its business objectives, build its image and reputation, and create values. For us, CSR stands for investing in human capital, promoting educational and cultural projects, and for environmental protection.

3. STAKEHOLDERS IN WIRTUALNA POLSKA [G4-24;G4-25]

3.1. OVER 20 MILLION STAKEHOLDERS

The Group's stakeholders can be split into two basic categories. The first one represents internal stakeholders: staff and co-workers of the Group, who build our offer carefully and ensure that Wirtualna Polska delivers reliable and state-of-the-art services. The second group consists of external stakeholders: users, advertisers, shareholders and investors who, by putting their trust in us, motivate us to grow, achieve more and raise the bar every single day.

3.2. HOW WE GET TO KNOW THEIR NEEDS AND WHAT THEY TOLD US IN 2017 [G4-26; G4-27]

Understanding the needs of various stakeholder groups requires us to be flexible and demonstrate an individual approach towards communication with each stakeholder.

We strive to create a friendly environment so our internal stakeholders such as our staff and co-workers could tell us about their needs frankly and openly.

To this end, we deploy the following tools:

- annual, anonymous employee satisfaction and engagement survey in which we focus on the workplace culture and respect for our values;
- support from HR Business Partners – supervisors who organize weekly status meetings within the functions to gather the needs reported by staff to their managers. Everyone may also contact a HR Business Partner directly, at any time.

In 2017, the main topics reported by our employees included the need for more training sessions to improve management skills, and insufficient internal communication between the teams. In response, WP launched a number of initiatives intended to develop the managers' and directors' skills (e.g. the "Adept" scheme based on the Engaging Leader model, workshops aimed at developing feedback competencies and understanding the employees' development needs), or meetings with inspiring people. The budget was also increased for external conferences, where our management can find inspiration from team or project management in other companies. As regards other issues reported in the surveys, WP also organized workshops for managers in each function. Survey results were presented and action plans were jointly devised and next implemented in each team. We also introduced the role of internal workshop facilitator. This resulted in a larger number of workshops during which the managers and employees can share information and experiences.

Understanding the needs of over 20 million Poles is not simpler by any means, however, we are not afraid of challenges. After all, courage is one of our values.

We offer our users a broad range of tools to communicate their needs to us. The following are the main tools:

- Customer Service Desk available any time;
- annual reputation survey commissioned by Wirtualna Polska;
- annual survey of WP Poczta and Poczta o2 users;

It should be noted that a journalist's work is evaluated by the users all the time, e.g. with comments under the article.

In 2017, the users contacted our Customer Service Desk many times to ask questions and make requests. The questions mainly concerned potential ties of our Group to specific political parties, pushy and/or inadequate commercials appearing in our portals, failure to meet the users' expectations in terms of WP website functionality and requests for new features. According to our procedures, all questions and requests of this kind are immediately transferred to technical/business consultants responsible for the website/service, who make a quality evaluation of the requests.

In the website's reputation survey, Wirtualna Polska readers indicated the tabloidization of the content provided by WP Group as a topic that needs to be attended to urgently. As a result, we introduced a more stringent publishing policy and strengthened the publishing and editorial team. In order to improve the quality of the website content, we also promoted and publicized the WP Stylebook. The results of these steps were visible already at the end of the reporting period. In November and December 2017 Wirtualna Polska was the most frequently quoted website according to the data provided by the Institute of Media Monitoring. Our journalists were nominated for prestigious awards: the Teresa Torańska Newsweek Award, the Andrzej Woyciechowski Radio Zet Contest. Our journalist, Paweł Kapusta, was among the nominees for Grand Press 2017, for the reportage "Trudno ratować kogoś, kogo życie rozlało się po podłodze i kapie" (It is difficult to rescue someone whose life has been spilled all over the floor and is dripping).

The users also requested that the quality of WP video content should be improved. In response, we created a dedicated video online team and a team of video managers responsible for video initiatives. Over 50 people were trained on video-journalism. New WP programmes premiered in 2017, such as: "Klatka po klatce" (Frame after frame), "Kto nami rządzi?" (Who is our leader?), "Moja strona. Bitwa redaktorów" (My way. The editors' battle), "Damy z siebie wszystko" (We will do our best), "Pudelek bez kagańca" (Pudelek without a muzzle), "HARD TALK - na ostro" (HARD TALK – Make it tough).

In 2017 our mailbox users pointed to a large number of messages in the main mailbox (e.g. offers). Inspired by these comments, we continue to develop the File service and since 2017 we have been improving the message sorting rules. Several users pointed to the mobile email, hence we decided to focus on functionality improvement and development of the email application.

We continue to survey and review our users' opinions, needs and comments also with reference to our new products and services. In 2017, we conducted the following surveys for the first time:

- WP Pilot service satisfaction survey;
- "Newsfeed" functionality survey on WP home page;
- survey of the so-called "fiszki" in o2 mail, a solution enabling the payment of invoices;

- survey of the functionality of the Open FM mobile application;
- survey of financial websites – qualitative interviews with business owners and persons interested in financial and economic content.

The next challenge is to find out how to act in order to help our clients reach the broadest possible user group with their offer.

Therefore, we monitor our clients' satisfaction level and expectations i.a. by:

- annual client satisfaction survey by WP Advertising Bureau, addressed to media house staff and since 2017 also to end clients. Both surveys consist of the quantitative part (survey), aimed at the evaluation of the advertising offer and client service, and the qualitative part (individual interviews), aimed at a more in-depth insight into the online advertising market and getting to know the perspective of the media houses and end clients;
- satisfaction surveys of e-commerce clients; for example, satisfaction of travel and tourism clients is surveyed with the NPS tool after each purchase. The clients also receive a survey to complete after each trip.

The annual client satisfaction survey by WP Advertising Bureau revealed the following needs and comments:

- the need to improve advisory competencies in order to build solutions dedicated to the requirements of individual clients. As a result, we decided to develop a marketing automation platform and set up a dedicated team to work out comprehensive strategic offers for key accounts.
- ad visibility and campaign settlement models (also with reference to a low number of such offers on the market) were pointed out in respect of the advertising offer. As a result, we made a decision to introduce the vCPM model in direct reach campaigns, where the clients pay only for the ads that have been viewed (according to the IAB standard).
- the clients had a very positive opinion of WP activity on the e-commerce market, which encouraged us to launch new e-commerce advertising products such as Content Driven Commerce and WP Okazje.

As a joint-stock company, we listen to our investors. We provide the market with all the necessary information about the condition of our business and development plans.

In this group, Wirtualna Polska focuses on direct contacts. Every quarter, we organize conferences to discuss our results, the latest developments from our companies and our plans for the future. The representatives of the Group's Management Board take an active part in the life of the capital market by taking part in several conferences and one-on-one meetings with investors.

4. IMPORTANT CATEGORIES, IMPLEMENTED POLICIES AND IMPACT INDICATORS, OR HOW AND TO WHICH EXTENT WE INFLUENCE OUR STAKEHOLDERS, SOCIETY AND ENVIRONMENT *[G4-18;G4-19;G4-20;G4-21]*

We identified important non-financial aspects in accordance with GRI G4 Sustainability Reporting Guidelines. We defined and assessed Wirtualna Polska's impact on the society, environment and stakeholders together with our staff based on studies and surveys of our users and advertising partners. Based on a checklist the team subjectively assessed each of the aspects outlined in GRI G4 guidelines. The next stage was to summarise the results, and in case of extreme scores to discuss each aspect in order to achieve a consensus and to arrive at a final score. Aspects were prioritised based on average scores in order to identify those that are significant for the Group.

Aspects were scored in three categories, in accordance with GRI G4 guidelines:

- Economic
- Environmental
- Social, with four sub-categories:

- Labour practices and decent work
- Human rights
- Society
- Product responsibility

SIGNIFICANT NON-FINANCIAL CATEGORIES OF WIRTUALNA POLSKA:

ECONOMIC	SOCIAL
ECONOMIC PERFORMANCE MARKET PRESENCE	LABOUR PRACTICES AND DECENT WORK - EMPLOYMENT - TRAINING AND EDUCATION - DIVERSITY AND EQUAL OPPORTUNITY - EQUAL REMUNERATION FOR WOMEN AND MEN HUMAN RIGHTS - NON-DISCRIMINATION SOCIETY - ANTI-CORRUPTION - COMPLIANCE REGARDING IMPACT ON SOCIETY - GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY PRODUCT RESPONSIBILITY - COMPLIANCE

4.1. ECONOMIC CATEGORY

The economic aspect of sustainability concerns our impacts on economic conditions of our stakeholders. Whether and how do we contribute to creating shared value? Whether and to which extent are we a stakeholder in the socio-economic change towards better living? We have been facilitating communication for years. We inform about events. We provide a number of free services accessible to everybody, regardless of their material status.

We enable people to pursue their careers regardless of gender, sexual orientation, colour or views. We invest in our employees.

Important aspects identified in this category are: economic performance and market presence:

4.1.1. ECONOMIC PERFORMANCE [G4-9; G4-EC1]

This aspect concerns the economic value created by us and how it is divided. It is the fundamental indicator showing how we create value for our stakeholders and local economy.

Our Capital Group's 2017 net revenue from sales was PLN ***466 million.***

Capitalisation of our Group calculated on the basis of our share price at the Warsaw Stock Exchange as at 31 December 2017 was nearly PLN ***1.4 billion.***

in PLN'000	Twelve months ending 31 December 2017	Twelve months ending 31 December 2016	Change %
Sales	***465 613***	***415 144***	***12%***
Operating costs, including:	(386 984)	(334 281)	16%
Amortisation and depreciation	*(51 007)*	*(42 082)*	*21%*
EBITDA	***129 636***	***122 945***	***5%***
EBIT	78 629	80 863	-3%
Financial income and costs	(19 021)	(17 337)	-10%
Revaluation of commitments to purchase non-controlling interests	(5 319)	(48 126)	-89%
PBT	54 289	15 400	253%
Net income	***40 032***	***53 848***	***-26%***

4.1.2. MARKET PRESENCE [G4-8; G4-9; G4-EC5]

Due to our dynamic development we keep increasing the number of services and products we offer. We run news, advisory and educational portals. We offer advertising services in all of our media. Advertisement types include: continuous broadcasting, outreach campaigns, WP Data Power ads targeted at strictly specified audience profile, video ads, mailing, mobile and regional campaigns, as well as the so-called special campaigns developed together with partners. In online sales we are an agent for accommodation services, travel, interior design and decoration, comparison engines and financial services, health and medical services, as well as fashion campaigns of top brands.

Based on complete 2017 data

- 78% of Group's revenue comes from the domestic market,
- 19% from EU Member States,
- 3% from non-EU countries.

Our customers include both advertisers and direct clients.

In total, we employ ***959*** people[1]. One of the ways in which we invest in our employees is to ensure their good economic status.

The gender breakdown of lowest-level employees' salaries compared to minimum salaries in each market in main business locations:

The Company invests in its employees by offering competitive, attractive, satisfying and non-discriminatory salaries. The Company complies with the nationwide single statutory minimum wage, however all its employees receive salaries higher than the minimum. The Company recognises that building employees' good economic status and paying salaries higher than the minimum is one of the factors building strong social relations, ensuring employee loyalty and strengthening social approval for the organisation's activities. Main business locations are those where WP employs more than 100 people. They are as follows: Warsaw, Gdańsk, Wrocław and Lublin.

4.1.3. MAIN RISKS IDENTIFIED IN THE ECONOMIC CATEGORY

The risk of loss of popularity and brand strength of Group's portals and online services

Potential reasons that could make this risk materialise include mismatching of offered services with users' needs, and presenting unattractive or untrue content in Group's services.
Potential consequences of this risk include loss of users, and consequently financial losses.

[1] Employment indicators were calculated based on the total number of employees, in accordance with the definition of an employee adopted by the Statistics Poland (GUS). This definition includes persons employed under contracts of employment, manager contracts or resolutions of appointment, excluding persons on unpaid, rehabilitation or parental leave, as well as self-employed persons and employees of temporary employment agencies. Total number of employees does not include persons collaborating under contracts of mandate or task-specific contracts.

The Group prevents this risk by using an effective user needs and opinions research system and by implementing WP Group-wide policies and procedures concerning content quality.

Risk of broadcasting ads that may be regarded as prohibited or unlawful

This risk could materialise if employees lacked knowledge on applicable laws and WP Group policies.
Potential consequences of the occurrence of this risk include loss of users, administrative sanctions and consequently financial losses.
The Group prevents this risk by implementing effective procedures whereby advertising materials are verified by advertising law experts, as well as by an effective training system on advertising creation for persons publishing advertising materials.

4.2. SOCIAL CATEGORY

The social dimension of sustainability concerns our impact on the social environment in which we do our business. The social category includes the following sub-categories:

- Labour practices and decent work
- Human rights
- Society
- Product responsibility

4.2.1 LABOUR PRACTICES AND DECENT WORK *[G4-10;G4-LA1; G4-LA10; G4-LA12]*

Our point of reference and standard with regard to labour practices and decent work are the internationally recognised universal standards, including:

- *Universal Declaration of Human Rights, UN,* 1948
- *International Covenant on Civil and Political Rights, UN,* 1966
- *International Covenant on Economic, Social and Cultural Rights, UN,* 1966
- *Convention on the Elimination of All Forms of Discrimination Against Women, UN,* 1979
- *Declaration on Fundamental Principles and Rights at Work* of 1998 based on eight fundamental conventions of ILO.

EMPLOYMENT

Our responsibility in the field of employment involves recruitment process and working condition standards, including remuneration, working time, breaks, holidays, dismissal practices, protection of women on maternity leave, workplace environment, occupational health and safety.

We are striving for top employment standards. In order to achieve it we implemented policies that define our approach and rules.

Employment and remuneration policy

- we follow the equal treatment rule, also in relation to employment and remuneration,
- we shape our own employment and co-working conditions taking into the account the type and quality of work or services, our needs and possibilities and market environment,
- salaries, rises, bonuses and commissions depend on competences and performance regardless of gender, creed, political views, origin, social status, sexual orientation, age, marital status or disability,
- an employee's closest relatives and life partners may be employed in, and cooperate with the Group, provided that they will have no professional relationship with the employee concerned, nor any influence on their competences, promotion, working conditions or salary,
- we are building an internal labour market by encouraging development and promotion within the Capital Group enabling all employees to participate in ongoing recruitment processes,

- we encourage employees to become our ambassadors and to recommend to us work candidates that are known to provide good quality work and high involvement.

Work safety and working conditions quality

- health and safety are our fundamental rights, therefore we ensure the best working conditions possible and follow occupational health and safety rules and practices,
- we ensure regular occupational health and safety training, preventive occupational medical care, introductory and periodical medical examinations, specialised medical examinations for drivers, as well as take all steps to limit workplace accidents,
- we ensure the highest possible quality and standard of working environment by providing modern, aesthetic and functional office space in order to create comfortable and friendly workplace atmosphere.

Respecting privacy

- we respect our employees' privacy, however we expect the Ethics Compass rules to be followed, if actions in personal lives influence the Group's business or discharging of professional duties,
- everyone has the right to their own individual political views, religious beliefs, opinions on social issues etc. We would like those views, beliefs and opinions to have no negative impact on relationships within the team, with clients, partners or vendors,
- we have transparent rules for accessing company emails, computers and telephones. In justified situations the Managing Board may take a decision to access data gathered on those devices without prior consent, if:
  - there is a suspicion of abuse,
  - it is necessary to access the data when the employee is absent,
  - authorities require such access under respective laws.

Counteracting abuse

- we counteract abuse committed against the Group and its affiliates, its Employees and Collaborators, We have implemented control procedures to counteract abuse.

Employee structure in Wirtualna Polska:

In 2017 the Group's Companies employed 959 people on contracts of employment, including as many as 645 people, i.e. 67.25%, for an indefinite period. In 2017 women constituted 52% of all employees, out of which nearly 15% in managerial positions at different levels.

Employment Structure	Women	Men	Total
Contract of employment	494	465	959
- including for an indefinite period	364	281	645
Employees by type of work	Women	Men	Total
Supervised workers	428	375	803
Managers	63	93	156
Employees by region	Women	Men	Total
Warsaw	163	186	349
Gdańsk	177	182	359
Wrocław	63	65	128
Lublin	66	31	97
Remote work/others	10	16	26

The Group's main locations are Warsaw, Gdańsk, Lublin and Wrocław, where the employment exceeds 100 people.

In 2017 the employment rate was 22.6%. In the same year the rotation index was 16.8%. The following tables present detailed information on 2017 changes in employment.

Employees by age group:

Age group	Leaving employees	New employees	Employment
employees aged less than 30	73	144	440
employees aged 30 – 50	86	72	510
employees aged over 50	2	1	9
Total	***161***	***217***	***959***

Employees by gender:

Gender	Leaving employees	New employees	Employment
Women	97	124	494
Men	64	93	465
Total	***161***	***217***	***959***

Employees by location:

Region	Leaving employees	New employees	Employment
Warsaw	72	82	349
Gdańsk	50	47	359
Wrocław	19	45	128
Lublin	18	43	97
Other	2	0	26
Total	***161***	***217***	***959***

TRAINING AND EDUCATION

Wirtualna Polska's most important asset are its employees. The development of the entire organisation, quality of our products and services and the form and content of information we provide depends to a great extent on them. That is why investing in employees is our priority. We focus on investing in improving employees' knowledge and skills, but we do not forget about comfortable working conditions in our offices, work tools and mutual respect rules laid down in Wirtualna Polska Group Values.

We keep up our employees' involvement by boosting their motivation and satisfaction, as we believe that it has direct impact on our end-customer satisfaction. Every year we use an anonymous questionnaire to ask our employees about their thoughts on our strategy, services, portals, work atmosphere and their bosses. We also ask them about changes that we introduced in the previous year to see whether they appreciate the changes, whether the changes are on the right track and whether the changes address the areas that influence our team's involvement. In the questionnaire we do not forget about ethical approach to people's work.

We also boost involvement by rising our managers' managerial qualifications and by constantly improving our employees' product knowledge.

Managerial skills development and lifelong learning programmes to support continuity of employment and facilitate end-of-career management:

Our development policy is based on the ***70/20/10*** model, i.e.:

70% of knowledge comes from hands-on experience and from facing challenges outside of our comfort zone (Learn by doing.) It is all about self-development and looking for inspiration.
20% of competences is gathered through relations and cooperation with other people. Learning through sharing experiences, feedback, contacts with bosses and co-workers.
10% of knowledge comes from traditional training and workshops. Learning through applying gained knowledge in practice.

In 2017 we organised a number of training initiatives for our employees. For details, see below.

"Adept" ("Apprentice") Programme

In 2017 we launched a special development programme for our managers; the objective of the programme is to induce newcomers to the company and persons promoted to managerial positions into manager's work. The programme is bases on 5 features of an "Engaging Leader" and our values. During workshops and meetings management apprentices discuss the role of a manager, build the understanding of effective team management, setting and enforcing objectives, but first and foremost learn to develop competences of their staff. Programme participants learn about the following fields:

- Human Resources

The training includes the following subjects: work time (overtime, holidays); remuneration (salary payment, granting bonuses, prizes, rules for deductions); human resources development (recruitment, training, competence development); executing and terminating contracts in accordance with WP values, staff changes and handling difficult situations; HR processes used in the Group (individual employee objectives and motivation, feedback, harassment prevention.)

- Management

The training includes the following subjects: role and responsibility of a manger – a review of studies on engagement and loyalty building managerial activities; result-oriented management (ROM) – consequences of manager's actions; communication cycle in management, versatile management – focus on flexibility and individual employee approach; managerial conversation training; delegating objectives – using SMART and SMARTER rules; task planning and delegating; managerial feedback; monitoring; summary – assessing and defining directions for action and development; so-called contracting of cooperation rules – manager's policy statement.

External training

WP Group employees have the opportunity to attend numerous trainings provided by the best vendors on the market, as well as to participate in conferences to develop their competences. We focus a lot on IT, project management and sales process management. All of those fields have a direct impact on our competitiveness on the market and on the quality of what we may offer to our clients. On top of that we add to the "development catalogue" opportunities to meet inspiring people, creators and authorities during company meetings.

Internal training

Internal training provides product and tool knowledge. It helps new employees to understand how WP Group works, its culture and values. Since 2017 we started to use our employees' knowledge as well. We invited them to train their colleagues. Our employees share their knowledge with other WP team members during workshops, trainings and meetings.

Trade conferences

Employees are encouraged to participate in various conferences devoted to the Group's main fields of activity (media, e-commerce) and trade meetings in line with their professional skills and competences. Such events enable employees to familiarise themselves with market trends and to establish business relations.

Internal labour market

In 2017 we launched "internal labour market." We developed comprehensive rules for our employees shifting between companies. This approach is enabled by the transparent recruitment policy. Each of our employees receives in their inbox a newsletter containing announcements on current recruitment needs of our teams. Everyone has the right to sign up for the process and develop their passions and skills within the Group.

On-boarding

One of the elements of inducing newcomers into Wirtualna Polska's culture is the on-boarding process. It is already on their first day at work that newcomers learn about the structure, values, products and the most important events from the life of our company. They also receive information about benefits available to our team, as well as other important information to ease them into the company. The on-boarding process involves HR team, direct superiors, as well as co-workers the newcomers are working with from day one.

Employer branding activities

We actively build our employer brand by: ensuring LinkedIn and GoldenLine visibility, cooperating with technical universities, participating in IT events, dedicated IT job fairs, we cooperate with schools improving IT skills.

Recommendation Programme

In order to engage our employees in the organisation building process we developed the Recommendation Programme "Recommend a New Co-Worker" where our employees may recommend their candidates for selected recruitment processes.

We are building organisation engagement through comprehensive Managerial Competences Model

We are working on creating and implementing into our organisation a Competence Model. Not only does a correct competence model allow HR processes and employee efficiency to be improved, but also influences business results. Considering that achieving business objectives and leader efficacy are strongly correlated with the engaging leadership skill, we based our competence model on the Engaging Leader idea.

We are building organisation engagement through comprehensive IT Competences Model

Our company is a leader in IT solutions, therefore we are strongly focussed on developing our technological teams. In 2017 a comprehensive IT Competences Model was created. By implementing this model into our organisation we will be able to even better control the development of key competences in IT teams, career paths and employee engagement. This model also increases our transparency in promotion, which directly supports our values.

Remuneration Policy

In 2017 the function of Remuneration and Benefits Manager was created in our company. This team is tasked with making sure that our company's remuneration policy is consistent with the strategy and market conditions. We also follow closely new trends and innovations in benefits. We are trying to make sure that what we offer to our employees is competitive and better suited to their needs.

In our organisation we are also trying to actively manage talents by, among others, talent mapping

This helps us to manage remuneration and training budgets more effectively and to improve matching benefits with the needs of specific employee groups. Talent mapping in the organisation also helps us to build succession policy for key positions in the company.

Generating new ideas - internal workshops

Creative internal workshops moderated by company employees facilitate much greater openness of participants. Workshops may focus on improving organisation's internal processes and creating the so-called learning organisation.

DIVERSITY, EQUAL OPPORTUNITY AND REMUNERATION

Information on employment structure of management:
Our management comprises in ***86%*** of men and in ***24%*** of women, all between 30 and 50 years of age.

Information on employment structure of staff:
Our staff consists of ***52%*** of women and ***48%*** of men.
The table below shows the employment structure by age and position in the Capital Group.

Category	Employees aged less than 30 years	Employees aged 30-50 years	Employees aged over 50 years
Directors	0%	5%	11%
Managers	10%	23%	11%
Admin. staff	3%	1%	0%
Specialists	86%	71%	78%
Total	***100%***	***100%***	***100%***

Equal remuneration for women and men is a fundamental issue for us and one of the rules laid down in the Employment and Remuneration Policy. Gender differentiation is not in line with our values and it is a barrier to retaining qualified personnel. It also entails the risk of losing good image and legal consequences of discrimination.

Relationship of women's and men's basic salaries and remuneration by main business locations:

Gdańsk	Lublin	Warszawa	Wrocław
74%	96%	108%	108%

4.2.2. HUMAN RIGHTS *[G4-HR3]*

Wirtualna Polska Group follows the principle of respect for, and dignity of all people and is committed to complying with fundamental rules, including no employment of minors (unless where it is permitted by the labour law), counteracting and preventing any irregularities in employee relationships, in particular harassment, mental, physical and sexual abuse and all forms of violence.

Wirtualna Polska complies human rights and recognises them as the guiding principles for its editorial policy, ethical rules for employees and main requirements for doing business. In our business we follow the fundamental human rights rules laid down in the *International Charter of Human Rights* and *Universal Declaration of Human Rights* of the UN.

NON-DISCRIMINATION

Our point of reference for implementing the principle of non-discrimination are the following international conventions:

- Convention concerning Equal Remuneration for Men and Women Workers for Work of Equal Value
- Convention concerning Discrimination in Respect of Employment and Occupation.

In Staff Rules and Ethics Compass Wirtualna Polska as an employer commits to counteract discrimination in employment, in particular due to gender, age, disability, race, religion, nationality, political views, trade union membership, ethnicity, creed, sexual orientation, as well as due to definite/indefinite period of employment or to full/part-time employment.

WP Group as an employer ensures equal treatment of employees in terms of employment and dismissal, conditions of employment, promotion and access to training to raise professional qualifications, in particular due to gender, age, disability, race, religion, nationality, political views, trade union membership, ethnicity, creed, sexual orientation, as well as due to definite/indefinite period of employment, to full/part-time employment or due to provision of remote work. Equal treatment in employment means non-discrimination in any way, directly or indirectly for reasons laid down by the Company in the Staff Rules. Moreover, the Company committed, and takes actions to ensure the elimination of direct and indirect discrimination that could lead to a differentiation of employees' situation due to one of the features set out above.

Wirtualna Polska prohibits any discrimination due to gender, the objective or result of which is infringement of dignity or humiliation of an employee (sexual harassment.)

In the Company all forms of harassment are prohibited construed as actions or behaviours concerning an employee or directed against an employee consisting of persistent and long-lasting persecution or intimidation causing a lowered professional self-esteem, causing or aiming at humiliation or ridicule, isolation or elimination from the team of co-workers.

In order to implement the policy of counteracting discrimination, sexual abuse and harassment the Company created the function of ***HR Business Partner*** in the Human Resources area. Employees in this position are responsible for contacting and gathering information from staff in all areas of the Company. Also, the function of ***Ethics Ombudsman*** was created with their email being available for notifying any cases of infringement of Company's ethics or non-discrimination rules. The Group provides a quick path for escalation of any incidents of discrimination due to race, colour, gender, religion, political views and national or social origin by having persons appointed for this purpose by Managing Boards of WP Group Companies.

How to report infringements and irregularities:

a) employees are required to respond as soon as possible to any practices and actions in contravention of the Ethics Compass, Group's internal regulations and the law.
b) any remarks may be reported via email, telephone or in person to:
    a. Ethics Ombudsman
    b. Direct boss
    c. Persons appointed for this purpose by Managing Boards of Companies.
c) all reports are investigated. The decision on the form of investigation and the group of people involved is taken by Presidents of Managing Boards of Group's Companies together with persons appointed for this purpose (or Supervisory Boards of Group's Companies, where the notification concerns Members of Managing Boards.)
d) where the irregularity was reported in good faith the Group commits to ensuring safety and anonymity to the author of report, so as to make sure that they are not affected by negative consequences of the report. The Group also commits to take care of the good name of the person charged until the situation is clarified.
e) The Group assesses the compliance with rules of ethics in the Group during the annual survey.

The Group follows equal treatment rules, also in relation to employment and remuneration. Remuneration is set and rises, bonuses and commissions are granted exclusively based on competences and performance of an Employee or Collaborator, regardless of their gender, religious or political views, origin, social status, sexual orientation, age, marital status or disability.

Wirtualna Polska shapes its own employment and co-working conditions taking into the account the type and quality of work or services, its needs and possibilities and market environment.

The Group did not record any discrimination cases due to race, colour, gender, religion, political views and national or social origin within the reporting period.

4.2.3. SOCIETY *[G4-SO5;G4-SO8;G4-SO11]*

This area concerns the impacts of the organisation on the society and local communities.

The Group running its media and online business feels particularly responsible for ethical behaviour, as well as for co-creating, promoting and supporting high ethical standards in such common good areas as: education, health, environmental protection and safety and security of children. We ensure the right working culture expressing respect, fairness and social dialogue. Our special partner of the dialogue is the Employees Council representing interests of the Employees; opinions and remarks of the Council influence the way we shape working conditions and management processes. The Group creates conditions conducive of free expression of views on all topics related with working in the Group, including employee surveys.

Provision of User Services Policy

- we are striving to ensure top quality services to users.
- we are building user relations based on trust and transparent communication, and first and foremost we follow terms and conditions of contracts.
- in our editorial work we provide honest and reliable information. We are apolitical and we follow the Group's Editorial Constitution.
- we follow consumer protection laws and we do not engage in unfair market practices.

Cooperation with Clients, Partners and Vendors and Relations with Competitors.

- we follow fair competition rules and contracts.
- we refrain from cooperating with unfair or unethical Clients, Partners and Vendors. We react to all cases of unfair or unethical behaviour on the part of Clients, Partners and Vendors in course of order execution.
- we do not tolerate any corruption practices regardless of the form and objective.
- we do not conclude restrictive agreements and do not abuse dominant position.

Local Community Relations

- we feel we are a part of the community in which we function, therefore as a responsible company we undertake commitments to support local communities. Being aware of how the media, for co-creation of which we feel responsible, influence social attitudes and behaviours, we participate in charity campaigns, sponsor events promoting charities and cooperate with institutions providing support to persons in difficult in difficult situation.
- we stimulate civic and charitable attitudes among our Employees by encouraging them to engage in volunteer work.

IN OUR BUSINESS WE DO NOT FORGET ABOUT IMPORTANT SOCIAL ISSUES, WE TALK ABOUT THEM WITH USERS AND WE PROMOTE THEM AMONG EMPLOYEES

The Group acts on the basis of adopted values and policies. The Group's business areas are strictly related with its users: readers, listeners, viewers and consumers. That is why Wirtualna Polska is responsible for being ethical, and for co-creating, promoting and supporting best attitudes. WP Group believes education plays a special role therefore it provides daily information, creates knowledge and inspires lifelong learning. The Group's strength also lies in its ability to have positive impact on important social issues. WP portals are the source of reliable information on environmental protection, health and online security. WP wants to use the information to build awareness and contribute to improving Poland's future. Employees are also encouraged to co-act and implement those objectives.

Promoting Environmental Attitudes

In 2017 all Group's portals and services published ***137*** pieces of content concerning awareness of air pollution, smog, its health impacts and possible ways to prevent this phenomenon. In 86 materials Wirtualna Polska encouraged the use of public transport and informed about more environmentally-friendly modes of transport, including benefits of riding a bicycle and electric cars.

One of the most frequently viewed materials concerning important social issues was the article entitled "Clean Air and 20% Off The Electricity Bill. A Large Polish City Goes Solar Farm" discussing how the amended Renewable Energy Sources Act may help municipalities and cities to switch to more environmental energy sources.

Promoting Active Lifestyle

WP Group promotes on its websites education and sports events, as well as health initiatives and encourages its employees to support them. Yet another time WP partnered with the "Gdańsk Biega" ("Gdańsk Run") project promoting healthy lifestyle among the people of Tricity. WP employees won the silver medal in "Journalists Yachting Championships" and again participated in the "European Cycling Challenge" – a bicycle competition for European cities. WP Group provided employees cycling to work with self-service bicycle repair stations in its offices in Gdańsk and Warsaw.

Promoting Healthcare and Prophylaxis

For many years WP Group has been cooperating with Stowarzyszenie Kwiat Kobiecości ("Flower of Womanhood" Association), a nationwide cervical cancer prevention organisation. WP Kobieta website presents numerous publications promoting checkups and educating women on this subject. On top of that, WP Group joined the Nationwide Social Campaign "Piękna, bo zdrowa" ("Beautiful, Because Healthy.") In 2017 Wirtualna Polska became media partner of Enactus association combining the academia with the business. Young students get an opportunity not only to meet scientists. Students supported by academic mentors and business advisors implement innovative educational projects aimed at improving local communities' quality of living. In 2017 WP Group was the media partner of, and provided editorial support to several prophylaxis campaigns.

Employee Engagement

WP Group employees are socially aware activists. WP's values include courage, sincerity and openness, energy and engagement, creativity, effectiveness and team work. Those values make WP team members open and engaged. In 2017 WP employees yet again joined the "Dar krwi – darem życia" ("Gift of Blood – Gift of Life") campaign organised in cooperation with the Regional Blood Donor Centre in Warsaw. For many years our employees have been involved in the "Szlachetna paczka" ("Good Parcel.") Each year WP volunteers in Gdańsk and Warsaw help families in need. During Christmas period they provide them with food, cleaning products, clothing, towels, linen, school supplies, toys, books and kitchen equipment. WP Group also cares for atmosphere among employees. For instance, in 2017 a series of WP healthy breakfasts was launched for a healthy and pleasant kick off of the working day.

Important aspects identified in the area of social impact of our business include: ***anti-corruption, social impacts compliance and grievance mechanisms for impacts on society.***

ANTI-CORRUPTION

Our anti-corruption measures include a consistent employment and remuneration policy, as well as an ***Ethics Ombudsman***.

Rules of sales of services and supply chain relations are intended to set out harmonised and transparent standards to rule out corruption. The Company introduced supply chain and sales record-keeping procedures that require business activities at all organisation levels to be accepted by superiors, bosses or persons delegated to control a specific field of business. The Company introduced a code that identifies ethics priorities.

WP Group makes sure that its employees and collaborators refrain from any actions that could cause conflict of interests. Conflict of interests occurs whenever a decision may be influenced by personal interests of an employee, collaborator or a third party and at the same time it goes against the interest of the Group.

In particular, it is unacceptable to:

- use for purposes not related with employment in WP Group or cooperation with WP Group business opportunities obtained through employment or cooperation with WP Group;
- take decisions or influence decisions on starting cooperation between WP Group and clients, partners or vendors with whom an employee or collaborator is linked (via capital or personally), or who employ him/her or their closest relatives (i.e. spouse, first and second degree of relatedness), or their life partner (i.e. a person in an informal relationship with the employee or collaborator, in particular running a joint household with them);
- gaining any personal gains from WP Group's transactions – directly or through closest relatives (i.e. spouses, first and second degree of relatedness), or life partner (i.e. a person in an informal relationship with the employee or collaborator, in particular running a joint household with them);
- for employees and collaborators to accept and offer presents, gifts, financial gains from or to clients, partners or vendors in connection with, or in relation to work or collaboration with WP Group (this does not apply to special occasion and holiday gifts.)

Occasional acceptance of small low value gifts (other than money) that in general practice do not infringe fair business rules is exempt from the above rules. It is also acceptable to participate in meetings that take the form of business meals, conferences and trips.

Any problems related with actions that may infringe the Code of Ethics and lead to corruption behaviours follow the defined escalation path via notification to superiors and Ethics Ombudsman. Group clearly instructs its employees that in case of any doubts whether a behaviour may be construed as corruption, they are required to refuse the present, gift or other form of gain.

Confirmed Corruption Cases and Actions Taken

No corruption cases were found in the Company, none of the employees took actions to infringing anti-corruption rules, no cooperation between the Company and a business partner was found to be based on non-market conditions due to infringement of corruption ban.

Neither the Group, nor its employees were sued for corruption, nor did any court rule in a corruption case in the reporting period.

IMPACT ON SOCIETY COMPLIANCE

The degree of Group's compliance shows that we are able to manage our business in a way that minimises non-compliance and infringements, as well as the risk of potential fines and indirect consequences in the form of reputation impacts.

Amount of significant fines and total number of non-financial sanctions due to legal or regulatory non-compliance *[G4-SO8]*

In the Group there were no cases of legal or regulatory non-compliance concerning the provision and use of products and services that would cause any non-financial sanctions on Group's companies.

GRIEVANCE MECHANISMS FOR IMPACTS ON SOCIETY

Organisation's impact on the society resulting from the activities of the organisation itself and in relation with other operators may give rise to disputes. Effective grievance mechanisms play an important role in amending consequences of negative impacts on society.

The nature of the Group's social engagement and social impact, and in particular the nature of services provided by the Group, i.e. information society services, information services, e-commerce services and other online services, sometimes – as it is usual for this channel – leads to criticism, offensive comments and even online hate. However, the Group does not record any complaints regarding social impact. The main objective of the Company's programme policy is to shape internet users' opinions by honest reporting on events, explaining importance and meaning of those events and providing advice in everyday choices. Both life and consumer choices. The Company provides top quality up-to-date, true and useful information on a wide range of subjects. In line with the socially responsible policy topics covered on WP websites may not offend religious feelings, promote violence or the use of drugs and alcohol, nor to incite any form of hatred or intolerance. In order to eliminate socially undesirable user behaviours the Company takes steps in the form of regulations, policies and notification mechanisms.

Users of services provided by the Group's Companies are required to follow regulations, the law, principles of community life, decency and netiquette. Users are required, among other things, to refrain from placing on websites run by the Group's Companies content inciting racial, religious or ethnic hatred, pornographic content, content praising fascism, communism, Nazism, as well as content praising or promoting violence, and offending religious feelings. It is prohibited to use websites of the Group's Companies to send messages infringing third party rights (so-called persistent messages.)

Wirtualna Polska provides tools for reporting comments, opinions, content and messages non-compliant with regulations, law, principles of community life and decency and has the right to remove such content immediately, also from user's profile, and thus to disable the use of Group's services. Further on, Wirtualna Polska reserves the right to notify respective authorities responsible for crime prevention and prosecution.

Number of social impact-related complaints lodged, considered and completed using formalised grievance mechanisms :
The Company did not record any social impact-related complaints lodged using formalised grievance mechanisms in the reporting period.

4.2.4. PRODUCT RESPONSIBILITY *[G4-PR9]*

Aspects in the "Product Responsibility" sub-category concern products and services that directly influence stakeholders, in particular clients.

Each Wirtualna Polska user may be confident that we provide him with top-quality product. What does this mean? In the user layer this means intuitive and modern portals where we use state-of-the-art product solutions. Our big data teams continuously work on improving algorithms matching content with our users' needs. In the information layer this means verified information and materials prepared in such a way as to give our readers the broadest perspective possible. We never stop at answering the question "what happened?" We explain how the thing that happened influences our user's life. We always say: "call" – we never take their word for it. We verify politicians' and manufacturers' promises. The speed of internet work makes technological support for quick information verification a must. Under the Google Digital News Initiative (DNI) we received a Google grant of EUR 135,000 for the Fake News Alert project. The objective of the project is to develop an online fake news detection tool using smart algorithms. The project is planned to be finalised in September 2018. It is important for WP's image, as we want to be associated exclusively with verified information for journalists – as it makes their lives easier – and for users, for whom we created a few hundred thousand materials in 2017.

We know how important online child protection is. Our portal administrators enable us to protect children against accessing inappropriate content. Our strict verification of content before publication means that the youngest generation of WP users (and their parents) may feel secure.

We take a strong stance against online hatred. Our moderator team is particularly active during events causing waves of hate in comments.

PRODUCT RESPONSIBILITY COMPLIANCE

Protection of health and safety is an important objective of numerous national and international regulations. Non-compliance means that internal management systems and procedures are wrong or ineffectively implemented. Apart from financial consequences in the form of fines, non-compliance means also greater risk of reputation loss.

Amount of significant fines due to non-compliance with laws and regulations on the supply and use of products and services:

In the Group there were no cases of legal or regulatory non-compliance concerning the provision and use of products and services that would cause any non-financial sanctions being imposed on the Group's Companies.

4.2.5. MAIN RISKS IDENTIFIED IN THE SOCIAL CATEGORY

Risk of losing qualified staff or staff's engagement due to inappropriate working conditions or behaviour of others.

The above risk may materialise due to working conditions being insufficient or mismatched with employees' needs, including remuneration, working time, holidays, dismissal practices, protection of women on maternity leave, workplace environment, occupational health and safety.
Potential consequences include lack of staff's engagement, outflow of qualified staff, losses incurred as a result of employees' cooperation with competitors, loss of reputation and financial losses.
The Group prevents this risk by surveying employees' satisfaction and needs, ensuring effective working conditions policy and procedures, implementing employee-friendly solutions, adjusting remuneration policy to the market situation, and building lasting relationships and employee engagement.

Risk of discrimination of susceptible social groups in media coverage, service access and employment.

This risk may potentially materialise due to lack of effective human rights assurance system, lack of irregularity monitoring system and lack of knowledge and awareness of WP Group's policy in this field among employees. Potential consequences include loss of reputation and clients, and ultimately financial losses are possible.
The Group prevents this risk by introducing human rights assurance and non-discrimination policy, as well as internal regulations and procedures regarding employment and remuneration. An effective employee training system and published materials monitoring system are required as well.

Risk of employees accepting material benefits for providing certain information or opinions to the public.

The above risk may materialise where there are no appropriate internal systems and procedures for preventing corruption or conflict of interests, or where such systems and procedures are not implemented correctly, as well as due to lack of knowledge and awareness of WP Group's policy and consequences of non-compliance among employees and external stakeholders.

Potential consequences of this risk materialising include loss of reputation and indirect financial losses.
The Group prevents this risk through an effective system for identifying conflicts of interest that may affect employees and other persons involved in Group's business, procedures for preventing corruption and conflicts of interest, effective training system, as well as clear external message on the policy for preventing corruption and conflicts of interest.

Risk of infringement and – consequently – of fines and non-financial sanctions being imposed on the organisation.

If it did not have, or if it improperly implemented internal management systems and requirement identification procedures, the Group would be exposed to the risk of direct financial losses and reputation loss. We prevent this risk by implementing an effective system for identifying legal requirements in the context of services we offer.

4.3. ENVIRONMENTAL CATEGORY [G4-14]

The bulk of our business is done online. We do not have an elaborate supply chain or physical production processes causing environmental impact. For our activities we rent office space with security, waste collection and utilities supply services. We closely monitor energy consumption, amount of generated waste and other environmental parameters; we set ourselves goals for improving working conditions standards. Even though our business has negligible direct environmental impact and we do not regard this aspect as important for our sustainable development, we do realise the possibility of shaping the awareness and attitudes of our users. We know that we have a huge educational potential.

Our environmental protection commitments:

- *we comply with environmental protection laws. Our activities are linked with effective use of natural resources and contamination prevention.*
- *we are convinced that each of us is responsible for the protection of environment and human health. We participate in projects promoting environmental lifestyle among Employees, we encourage them, among other things, to use energy consciously, to limit the use of water, to practice selective waste collection and get involved in many more initiatives.*

5. CONTENT DEFINITION APPROACH [G4-28;G4-30;G4-31;G4-32]

This document was prepared based on the international non-financial data reporting standard Global Reporting Initiative (GRI Standard). The non-financial statement was prepared for the first time in accordance with the legal requirement of disclosing non-financial information laid down in Article 49b(2-8) of the Bookkeeping Act.

The words “we”, “our”, “Company”, “WP Group”, “Wirtualna Polska” and “Group” used in the Non-Financial Statement refer – depending on the context – to Wirtualna Polska Holding S.A. and its affiliates subjected to consolidation.

The Report describes the Group’s activities in the period from 1st January 2017 to 31st December 2017, unless otherwise stated. No significant changes in terms of size, structure, ownership or supply chain were observed in the reporting period.

Preparing the content of the Report we analysed internal and external factors, including press publications in the reporting period, subjects discussed in internal communication, Group’s current business strategy, as well as subjects important in non-financial reporting for the media sector.

In the Report we described in detail all key subjects and presented the approach to managing them as well as corresponding indicators.The importance assessment will be reviewed annually in an internal verification process.

Statistics used in the report were taken from internal reporting systems. All of the statistics were internally checked before publication. We did not use the support of internal auditor.

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, 15 March 2018

WP Holding SA

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