CYFROWY POLSAT S.A.

CAPITAL GROUP

Interim Consolidated Report
for the six month period ended
June 30, 2016

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REPORT OF THE MANAGEMENT BOARD
ON THE ACTIVITIES OF CYFROWY POLSAT S.A. CAPITAL GROUP
FOR THE SIX MONTH PERIOD ENDED JUNE 30, 2016

POLSAT GROUP AT A GLANCE

Polsat Group is Poland's leading multimedia group. Within the scope of our activities we provide a comprehensive array of integrated media and telecommunication services within the following areas:

- pay digital TV services offered by Cyfrowy Polsat – the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. We offer our customers access to over 170 TV channels, including 70 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD Home Movie Rental, TV online, catch-up TV) and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market;

- mobile telecommunication services, including voice and data transmission services, which we provide mainly through our subsidiary Polkomtel – one of Poland's leading telecommunications operators;

- mobile broadband Internet, offered under two alternative brands: Cyfrowy Polsat and Plus. We provide these services in the state-of-the-art LTE technology. We offer the largest LTE coverage in Poland and our customers attain the highest data transmission speed among offers provided by national mobile network operators technologies;

- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 33 popular TV channels, including 13 in HD standard.

- wholesale services to other operators, including i.a. network interconnection, transit of traffic and national and international roaming services.

The Group operates in two business segments: the segment of services to individual and business customers which relates to the provision of services to the general public and the broadcasting and television production segment.

Our mission and main strategic goals

Our mission is to create and deliver the most attractive TV content, telecommunication products and other services for the home, as well as residential and business customers, using state-of-the-art technologies to provide top quality multi-play services that match the changing needs of the market, while maintaining the highest possible level of customer satisfaction.

The main goal of our strategy is the permanent growth of the value of Cyfrowy Polsat for its shareholders. We intend to achieve this goal by implementing the major elements of our operational strategy which include:

- growth of revenue from services provided to residential and business customers through consistent building of the value of our customer base by maximizing the number of users of our services as well as the number of services offered to each customer, while simultaneously increasing average revenue per user (ARPU) and maintaining high levels of customer satisfaction,
- growth of revenue from produced and purchased content by expanding its distribution, maintaining the audience shares of our channels and improving our viewer profile,
- effective management of the cost base of our integrated media and telecom group by exploiting its inherent synergies and economies of scale, and
- effective management of the Group's finances, including its capital resources.

DISCLAIMERS

This constitutes the semi-annual report of Cyfrowy Polsat Capital Group S.A. prepared as required by Paragraph 82 section 1 and 2 and Paragraph 90 of the Regulation of the Minister of Finance of February 19, 2009 concerning the submission of current and periodic information by the securities' issuers and the conditions of recognizing as equal the information demanded by the national lawful regulation of a country which does not hold the membership in European Union.

Presentation of financial data and other information

References to the Company and Cyfrowy Polsat contained in this Management Board's report on the activities of Cyfrowy Polsat S.A. Capital Group (hereafter "Report") apply to Cyfrowy Polsat S.A. and all references to the Group, Polsat Group, Capital Group, Cyfrowy Polsat Group or Cyfrowy Polsat Capital Group apply to Cyfrowy Polsat S.A. and its consolidated subsidiaries. Expressions such as "we", "us", "our" and similar apply generally to the Group, unless from the context it is clear that they apply only to the Company. A glossary of terms used in this Report is presented at the end of this document.

Financial and operating data

This semi-annual report contains financial statements and financial information relating to the Company and the Group. In particular, this semi-annual report contains our interim condensed consolidated financial statements for the 6-month period ended June 30, 2016 and the interim condensed financial statements for the 6-month period ended June 30, 2015. The financial statements attached to this interim report have been prepared in accordance with International Accounting Standard no. 34 "Interim Financial Reporting" ("IAS 34") and are presented in millions of zlotys. The financial statements were not audited, however, the interim condensed consolidated financial statements for the 6-month period ended June 30, 2016 and the interim condensed financial statements for the 6 months ended June 30, 2015 were reviewed by an independent auditor.

Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this report may not conform exactly to the total figure given for that column or row.

Currency presentation

Unless otherwise indicated, in this Report all references to "PLN" or "zloty" are to the lawful currency of the Republic of Poland; all references to "USD" or "US dollars" are to the lawful currency of the United States; and all references to "EUR" or the "euro" are to the lawful currency of the member states of the European Union that adopted the single currency in accordance with the EC Treaty, which means the Treaty establishing the European Community (signed in Rome on March 25, 1957), as amended by the Treaty on European Union (signed in Maastricht on February 7, 1992) and as amended by the Treaty of Amsterdam (signed in Amsterdam on October 2, 1997) and includes, for this purpose, Council Regulations (EC) No. 1103/97 and No. 974/98.

Forward looking statements

This Report contains forward looking statements relating to future expectations regarding our business, financial and operating results. These statements are expressed, without limitation, through words such as "may", "will", "expect", "anticipate", "believe", "estimate" and similar words used in this Report. By their nature, forward looking statements are subject to numerous assumptions, risks and uncertainties. Accordingly, actual results may differ materially from those expressed or implied by the forward looking statements. We caution you not to base investment decisions on such statements, which speak only as at the date of this Report.

The cautionary statements set out above should be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue. We do not undertake any obligation to review or confirm analysts' expectations or estimates or to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date of publication of this Report.

Industry and market data

In this Report we set out information relating to our business and the markets in which we and our competitors operate. The information regarding the market, its size, the market share, the market position, the growth rates and other industry data relating to our business and markets in which we operate consists of data and reports compiled by various third-party entities and our internal estimates. We obtain market and industry data relating to our business from industry data providers, including:

- Eurostat, for data relating to the Polish economy and GDP growth;

- the Polish Chamber of Electronic Communication;
- the Office of Electronic Communications (UKE);
- the Central Statistical Office of Poland (GUS);
- the Body of European Regulators for Electronic Communications (BEREC);
- the European Commission (Digital Agenda Scoreboard);
- Nielsen Audience Measurement;
- SMG Poland (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2015-2019);
- ZenithOptimedia;
- Megapanel PBI/Gemius;
- PMR;
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

We believe that these industry publications, surveys and forecasts are reliable but we have not independently verified them and cannot guarantee their accuracy or completeness.

Moreover, in numerous cases we have made statements in this Report regarding our industry and our position in the industry based on our own experience and our examination of market conditions. We cannot guarantee that any of these assumptions properly reflect our market position. Our internal surveys have not been verified by any independent sources.

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the 3 and 6-month periods ended June 30, 2016 and June 30, 2015. The selected financial data presented in the tables below is expressed in millions PLN, unless otherwise stated. This information should be read in conjunction with interim condensed consolidated financial statements for the 6-month period ended June 30, 2016 and the information included in item 4 of this Report – *Operating and financial review of Polsat Group*.

Selected financial data:

- from the consolidated income statement for the 3-month periods ended June 30, 2016 and June 30, 2015 have been converted into euro at a rate of PLN 4.3721 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from April 1 to June 30, 2016;

- from the consolidated income statement and the consolidated cash flow statement for the 6 month periods ended June 30, 2016 and June 30, 2015 have been converted into euro at a rate of PLN 4.3665 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to June 30, 2016;

- from the consolidated balance sheet data as at June 30, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.4255 per EUR 1.00 (average exchange rate published by NBP on June 30, 2016).

Such translations shall not be viewed as a representation that such zloty amounts actually represent such euro amounts, or could be or could have been converted into euro at the rates indicated or at any other rate.

It should be noted that data for the periods of 3 and 6 months ended June 30, 2016 are not fully comparable to data for the periods of 3 and 6 months ended June 30, 2015 due to the acquisition of 100% shares of Litenite Limited, the direct parent of Midas, on February 29, 2016, as well as the acquisition of 100% of shares in Radio PIN S.A. on February 27, 2015 and of 100% of shares in Orsen Holding Ltd. on April 1, 2015.

	June 30, 2016		December 31, 2015	
	mPLN	mEUR	mPLN	mEUR
Consolidated balance sheet				
Cash and cash equivalents(1)	955.4	215.9	1,523.7	344.3
Assets	27,581.1	6,232.3	26,490.1	5,985.8
Non-current liabilities	13,316.1	3,008.9	7,773.5	1,756.5
Non-current financial liabilities	11,570.4	2,614.5	6,376.0	1,440.7
Current liabilities	3,503.4	791.6	8,466.5	1,913.1
Current financial liabilities	1,298.5	293.4	6,011.9	1,358.5
Equity	10,761.6	2,431.7	10,250.1	2,316.1
Share capital	25.6	5.8	25.6	5.8

(1) Includes Cash and cash equivalents, short-term deposits and restricted cash.

	for the 6-month period ended June 30			
	2016		2015	
	mPLN	mEUR	mPLN	mEUR
Consolidated cash flow statement				
Net cash from operating activities	1,376.0	315.1	1,304.3	298.7
Net cash from/(used in) investment activities	(864.7)	(198.0)	(347.6)	(79.6)
Net cash used in financial activities	(1,080.0)	(247.3)	(1,310.0)	(300.0)
Net increase in cash and cash equivalents	(568.7)	(130.2)	(353.3)	(80.9)

	for the 3 month period ended June 30				for the 6 month period ended June 30			
	2016		2015		2016		2015	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Consolidated income statement								
Revenue	2,442.9	558.7	2,469.2	564.8	4,806.9	1,100.9	4,798.2	1,098.9
Retail revenue	1,586.9	363.0	1,652.0	377.9	3,152.6	722.0	3,289.2	753.3
Wholesale revenue	645.0	147.5	688.7	157.5	1,244.8	285.1	1,242.0	284.4
Sale of equipment	191.1	43.7	106.9	24.5	363.9	83.3	225.3	51.6
Other sales revenue	19.9	4.6	21.6	4.9	45.6	10.4	41.7	9.5
Total operating cost	(2,042.0)	(467.1)	(1,899.5)	(434.5)	(3,990.0)	(913.8)	(3,808.5)	(872.2)
Content costs	(316.3)	(72.3)	(274.0)	(62.7)	(564.8)	(129.3)	(509.5)	(116.7)
Distribution, marketing, customer relation management and retention costs	(202.2)	(46.2)	(193.2)	(44.2)	(402.7)	(92.2)	(382.4)	(87.6)
Depreciation, amortization, impairment and liquidation	(527.5)	(120.7)	(393.5)	(90.0)	(951.2)	(217.8)	(861.4)	(197.3)
Technical costs and cost of settlements with mobile network operators	(456.6)	(104.4)	(522.4)	(119.5)	(1,006.9)	(230.6)	(1,004.7)	(230.1)
Salaries and employee-related costs	(138.2)	(31.6)	(140.8)	(32.2)	(276.1)	(63.2)	(269.9)	(61.8)
Cost of equipment sold	(317.3)	(72.6)	(291.7)	(66.7)	(644.1)	(147.5)	(624.3)	(143.0)
Cost of debt collection services and bad debt allowance and receivables written off	(16.3)	(3.7)	(27.8)	(6.4)	(25.9)	(5.9)	(46.5)	(10.6)
Other costs	(67.6)	(15.5)	(56.1)	(12.8)	(118.3)	(27.1)	(109.8)	(25.1)
Other operating income, net	6.6	1.6	13.8	3.2	13.4	3.1	22.5	5.2
Profit from operating activities	407.5	93.2	583.5	133.4	830.3	190.1	1,012.2	231.8
Gain/(loss) on investment activities, net	(21.4)	(4.9)	(11.9)	(2.7)	(56.6)	(13.0)	17.0	3.9
Financial costs	(133.2)	(30.5)	(222.1)	(50.8)	(315.9)	(72.3)	(483.4)	(110.7)
Share of the profit of jointly controlled entity accounted for using the equity method	(0.8)	(0.2)	0.9	0.2	-	-	1.4	0.3
Gross profit for the period	252.1	57.7	350.4	80.1	457.8	104.8	547.2	125.3
Income tax	(21.2)	(4.8)	(45.9)	(10.5)	(48.4)	(11.1)	(71.9)	(16.5)
Net profit for the period	230.9	52.8	304.5	69.6	409.4	93.8	475.3	108.9
Net profit attributable to equity holders of the Parent	237.7	54.4	304.5	69.6	413.2	94.6	475.3	108.9
Net profit/(loss) attributable to non-controlling interest	(6.8)	(1.6)	-	-	(3.8)	(0.9)	-	-
Basic and diluted earnings per share in PLN (not in millions)	0.37	0.09	0.48	0.11	0.64	0.15	0.74	0.17
Weighted number of issued shares	639,546,016		639,546,016		639,546,016		639,546,016	

	for the 3 month period ended June 30				for the 6 month period ended June 30			
	2016		2015		2016		2015	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Other consolidated financial data								
EBIDTA (1)	935.0	213.9	977.0	223.4	1,781.5	408.0	1,873.6	429.1
EBITDA margin	38.3%	38.3%	39.6%	39.6%	37.1%	37.1%	39.0%	39.0%
Operating margin	16.7%	16.7%	23.6%	23.6%	17.3%	17.3%	21.1%	21.1%
Capital expenditures, net (2)	120.6	27.6	107.9	24.7	235.8	54.0	264.4	60.6

(1) We define EBITDA as net profit/(loss), as determined in accordance with IFRS, before depreciation and amortization (other than for programming rights), impairment charges and reversals on property, plant and equipment and intangible assets, net value of disposed property, plant and equipment and intangible assets, revenue obtained from interest, finance costs, positive/(negative) exchange rate differences, income taxes and share of net results of joint ventures. The reconciling item between EBITDA and reported operating profit/ (loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets and net value of disposed property, plant and equipment and intangible assets.
We believe EBITDA serves as a useful supplementary financial indicator in measuring the profitability of media and telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow from operations under IFRS, or as an indicator of liquidity. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself our presentation and calculation of EBITDA may not be comparable to that of other companies.

(2) Capital expenditures, net represent payments for our investments in property, plant and equipment and intangible assets, reduced by income from the sale of fixed assets. It does not include expenditure on purchase of reception equipment leased to our customers, which are reflected in the cash flow from operating activities, or payments for telecommunication concessions.

1. ORGANIZATION OF CYFROWY POLSAT S.A. CAPITAL GROUP

1.1 Composition and structure of Polsat Group

The following table presents the organizational structure of Polsat Group as at June 30, 2016and December 31, 2015, indicating the consolidation method.

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2016	December 31, 2015
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) (1)	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	-	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
Nord License AS	Vollsveien 13B, Lysaker Norway	trade of programming licenses	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licenses	100%	100%
Polsat Ltd.	238A King Street, London W6 0RF, Great Britain	television broadcasting	100%	100%
Muzo.fm Sp. z o.o. (formerly Radio PIN S.A.)	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	holding activities	100%	100%
Polsat Brands (einfache Gesellschaft)	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
Gery.pl Sp. z o.o.(2)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Netshare Sp. z o.o.	Stanów Zjednoczonych 61 A, 04-028 Warsaw	electronic media (Internet) advertising broker	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	other sport related activities	100%	100%
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol, Cyprus	holding activities	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at June 30, 2016	Share in voting rights (%) as at December 31, 2015
Eileme 1 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 4 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding activities	100%	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ)	Norrlandsgatan 18, 111 43 Stockholm, Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property right management and rental	100%	100%
LTE Holdings Limited	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights rental	100%	100%
Litenite Limited(3)	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	49%(4)
Midas S.A.(3)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	-
Aero2 Sp. z o.o.(3)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	-
Sferia S.A.(3)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	-
AltaLog Sp. z o.o.(3)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	-
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Grab Sarl	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	(5)	(5)
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	provision of Premium-Rate services	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2016	December 31, 2015
Subsidiaries consolidated using the equity method				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG, Great Britain	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	maintenance of loyalty programs	49%	49%

(1) Disposal of shares in Rioni 1 AB on January 4, 2016.
(2) Merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o. on June 30, 2016.
(3) Company consolidated since February 29, 2016.
(4) Due to restrictions related to a dividend and construction of the transactions related to the acquisition, investment in Litenite Limited was accounted for as investments in associates without equity pick-up as at December 31, 2015.
(5) Cyfrowy Polsat owns indirectly 100% of certificates.

Additionally, the following entities were included in the consolidated financial statements for the 6-month period ended June 30, 2016:

Company name	Registered office	Activity	Share in voting rights (%) as at	
			June 30, 2015	December 31, 2014
Karpacka Telewizja Kablowa Sp. z o.o. (1)	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25e/216 10-686 Olsztyn	Infrastructure project advisory	6.55%(2)	-

(1) Investment accounted for at cost less any accumulated impairment losses
(2) AltaLog Sp. z o.o. holds 9.918% share in voting rights in InPlus Sp. z o.o.

Changes in the organizational structure of Polsat Group and their effects

From January 1, 2016 until the date of preparation of this Report, the following changes were implemented to the structure of Polsat Group. These changes are the effect of acquisitions as well as part of the process of optimizing the structure and processes realized within the Group.

Date	Change
January 4, 2016	Disposal of shares in Rioni 1 AB.
January 11, 2016	Transformation of Radio PIN S.A. into a limited liability company Muzo.fm Sp. z o.o.
January 29, 2016	Shares in Litenite Limited representing 49% of its share capital assigned for security in favor of LTE Holdings Limited (a subsidiary of Polkomtel) for the price of EUR 1.00 were transferred back to Ortholuck Limited for the price of EUR 1.00.
February 29, 2016	Acquisition by Polkomtel of 100% of shares in the share capital of Litenite Ltd., the direct owner of shares in Midas representing 65.9975% of the total number of votes and share capital in Midas.
April 27, 2016	Direct acquisition by Polkomtel, by way of a tender offer, of shares in Midas representing 27.2395% of the total number of votes and share capital in Midas.
May 31, 2016	Acquisition of Midas shares remaining in trading by way of a squeeze-out, as a result of which the Company holds indirectly, through Polkomtel and Litenite, 100% of shares in Midas.
June 30, 2016	Merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o.

1.2 Shareholders holding material bundles of shares of Cyfrowy Polsat

The following table presents shareholders of Cyfrowy Polsat possessing – according to our best knowledge – no less than 5% of votes at the General Meeting of the Company as at the date of publication of this Report, ie. On August 25, 2016. Information included in the table is based on the information received from shareholders pursuant to Art. 69 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Reddev Investments Limited (1), including:	154,204,296	24.11%	306,709,172	37.45%
- privileged registered shares	152,504,876	23.85%	305,009,752	37.24%
- ordinary bearer shares	1,699,420	0.27%	1,699,420	0.21%
Embud Sp. z o.o. (2)	58,063,948	9.08%	58,063,948	7.09%
Karswell Limited (2)	157,988,268	24.70%	157,988,268	19.29%
Sensor Overseas Limited (3), including:	54,921,546	8.59%	81,662,921	9.97%
- privileged registered shares	26,741,375	4.18%	53,482,750	6.53%
- ordinary bearer shares	28,180,171	4.41%	28,180,171	3.44%
Others	214,367,958	33.52%	214,539,208	26.20%
Total	639,546,016	100.00%	818,963,517	100.00%

(1) Reddev Investments Limited is an indirect subsidiary Mr. Zygmunt Solorz-Żak.
(2) Entity controlled by Mr. Zygmunt Solorz-Żak.
(3) Entity controlled by EVO Foundation with its registered seat in Vadus, Liechtenstein.

Changes in the structure of ownership of significant number of shares of the issuer in the period since the publication of the last periodic report

Since the publication of the previous interim report, i.e. since May 12, 2016 (quarterly report for the first quarter of 2016) until the date of preparation of this Report, i.e. August 24, 2016, no changes in the structure of ownership of significant packages of the Company's shares took place.

1.3 Shares of Cyfrowy Polsat owned by Management Board and Supervisory Board members

Management Board of Cyfrowy Polsat S.A.

As at the date of publication of this Report, i.e. August 25, 2016 and as at the date of publication of the previous periodic report (quarterly report for the first quarter of 2016) on May 12, 2016, members of the Company's Management Board did not hold, directly or indirectly, shares of the Company.

Supervisory Board of Cyfrowy Polsat S.A.

The following table presents shares controlled directly or indirectly by members of the Company's Supervisory Board as at the date of publication of this Report, i.e. August 25, 2016, and changes in their holdings since the date of publication of the previous financial report (quarterly report for the first quarter of 2016) on May 12, 2016. The information included in the table is based on information received from members of our Supervisory Board.

Supervisory Board Member	Balance as at 12.05.2016	Increases	Decreases	Balance as at 25.08.2016
Zygmunt Solorz-Żak (1) *Chairman of the Supervisory Board*	370,256,512	-	-	370,256,512
Aleksander Myszka (2) *Member of the Supervisory Board*	-	50,000	-	50,000

(1) Mr. Zygmunt Solorz-Żak does not hold directly any shares in the Company. Information on entities controlled by Mr. Zygmunt Solorz-Żak that hold shares in the Company is presented in item 0 hereinabove.

(2) According to the Company's best knowledge, acquired during the Annual General Meeting convened for June 29, 2016, Mr. Aleksander Myszka acquires shares of the Company before his appointment to the Supervisory Board of the Company, ie. Before April 2, 2015.

2. BUSINESS REVIEW OF POLSAT GROUP

Polsat Group is the largest provider of integrated multimedia services in Poland. We are the leading pay TV provider and one of the leading telecommunications operators. We are also one of Poland's leading private broadcasters in terms of both audience and advertising market shares. We offer a complete package of multimedia services designed for the entire family: pay TV via satellite, terrestrial and online broadcasting, mobile telephony and data transfer services, broadband Internet access in 2G/3G and state-of-the-art LTE technologies. We also provide a wide array of wholesale services to other mobile network and television operators.

We operate in two business segments: the segment of services to individual and business customers which relates to the provision of services to the general public and broadcasting and television production.

In the segment of services to individual and business customers we provide services including digital television transmission signal, Internet access, mobile TV, online TV, mobile, wholesale services to other telecommunications operators, as well as sales of telecommunication equipment and production of set-top boxes. As at June 30, 2016 we had 5.9 million contract customers and companies from our Group provided a total of over 16.7 million RGUs, including 12.9 million contract RGUs.

Our broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information, sports and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland.

2.1 Segment of services to individual and business customers

Pay TV

We are the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services as well as market share. As at June 30, 2016 we provided 4.7 million active pay TV services (including almost 1 million Multiroom services).

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family, at attractive prices. At present we provide access to 170 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to 70 HD channels and also provide OT services, such as Cyfrowy Polsat GO, VOD/PPV, online TV, catch-up TV and Multroom HD services.

In June 2012, we expanded our service portfolio to include the Mobile TV service in the DVB-T standard, which enables the reception of real-time television on mobile devices. In 2016 we expanded the offer, thanks to which currently users of our Mobile TV service have access to 24 encrypted channels (12 television and 12 radio channels) and to all DTT channels.

As the only operator in Poland, we offer our subscribers our own high-quality set-top boxes at affordable prices. In the second quarter of 2016, our set-top boxes accounted for 91% of all the set-top boxes sold or otherwise made available to our pay TV customers. By the end of June 2016 we had manufactured a total of over 7.2 million set-top boxes, including 5.6 million HD units.

Online video

The IPLA service offered by our Group is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes, and game consoles) and in terms of content volume. IPLA also enjoys a leading position in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data, in the second quarter of 2016 the average number of unique users of the IPLA website/application was approximately 4.2 million per month.

IPLA is the largest online television in Poland. It offers the broadest database of legal video content and live broadcasts: 77 online TV channels, an average of 200 hours monthly of live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international producers. IPLA offers its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download content and view it offline. Approximately 90% of IPLA VOD content is available free of charge.

IPLA television is available to all users on the territory of Poland and has a special price offer for customers of Plus network and Cyfrowy Polsat. Access to IPLA is available irrespective of the provider of Internet access services on a wide variety of devices: tablets, handsets, computers, selected set-top boxes and smart TVs. Moreover, in the package IPLA WORLD, IPLA television is also available to users staying abroad.

Furthermore, our pay TV customers can also use our video on demand service VOD – Home Video Rental, offering paid access to new movies and hits via set-top boxes. The service requires no additional technological solutions, it can be accessed via a TV set, and is available only to customers who have an HD set-top box.

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators. As at June 30, 2016 we provided over 10.0 million active mobile telephony services.

We offer a comprehensive array of telecommunications services under the established umbrella brand “Plus” and our additional brand “Plush”, as well as under the brands “wRodzinie” and “Sferia”, which belong to Midas Group. Our offer includes retail services, comprising contract and prepaid voice services as well as data transmission services encompassing basic mobile broadband services, MMS, value added services such as entertainment, information, telemedicine or Wi-Fi calling and comprehensive convergent telecommunication services for large businesses. Additionally, our mobile telephony offer is complemented with a wide portfolio of handsets and smartphones which support the LTE technology. Our retail mobile telephony offering is addressed to individual and business customers, including major corporate accounts, small and medium-sized enterprises, and the SOHO (Small Office/Home Office) segment.

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a feature that has been increasingly more popular among consumers. As at the end of June 2016, LTE Internet and HSPA/HSPA+ Internet cover over 96.8% and nearly 100% of Poland’s population, respectively. As at June 30, 2016 we provided nearly 2.0 million broadband Internet access services, mostly in the contract model.

We provide a comprehensive array of data services to both residential and business customers under two alternative brands: Plus and Cyfrowy Polsat. We also offer broadband Internet in the prepaid model within our “JA+Internet na Kartę” (“I+Prepaid Internet”) tariff and as one of the elements of our prepaid offer “Plush”. Thanks to our LTE Internet access service combined with the set Home LTE Internet, created specifically for Cyfrowy Polsat and Polkomtel, we can offer customers a product that constitutes an excellent substitute for fixed-line Internet.

Additionally, pursuant to the provisions of the concession related to the purchase of the 2.6 GHz band, the company Aero2, a member of Midas Group, provides free of charge Internet access services, however with limited parameters (BDI offer). BDI customers have the possibility to purchase additionally paid data packages, which allow them to use the Internet with higher transfer speed and without a time limit on the duration of the session. BDI packages are sold in the prepaid model.

Our offering is complemented by a portfolio of dedicated devices (modems, routers, tablets, laptops, installation sets which allow better reception and distribution of signal via WiFi within the house, etc.), including equipment, which supports the LTE technology. Such a wide offering allows us to address the needs of customers, who are interested in using mobile broadband Internet for its mobility as well as those customers, who want to substitute fixed-line Internet access at home or in the office.

Bundled services

Currently, the bundling of services is one of the strongest trends in the Polish media and telecommunications market. In keeping with the rapidly changing market environment and consumer expectations, we offer a complete and unique service package based on pay TV, mobile telephony and broadband Internet access, complemented by additional services such as financial and banking services or sale of electric energy. Those services can be combined freely on an as-needed basis. Our broad range of bundled services is offered through a diverse array of digital distribution platforms, such as television sets, mobile handsets, computers and tablets.

smartDOM

As part of our strategy of integrating modern home products and services, Cyfrowy Polsat and Polkomtel launched smartDOM (smartHOME), a joint program which enables profitable bundling of innovative services offered by both operators. Customers of the program can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, electricity and banking services, and make savings on each service added to their package.

Within the smartDOM program we offer a promotion, marketed under the slogan "Second product half off, third for even PLN 1". The promotional program is based on a simple and flexible mechanism - a customer subscribed to one service with a specified value who purchases additional products of our Group, obtains attractive discounts throughout the entire term of the contract.

smartFIRMA

smartFIRMA (smartCOMPANY) is a similar program addressed to business customers, which allows to combine mobile telephony, LTE Internet and fixed-line voice services. The program also includes PlusBank products, electric energy from Plus, as well as a wide portfolio of supplementary services which support and enhance business. Currently, our business customers can choose up to 6 products, while 5 of them are subject to discounts. The first product is always mobile telephony or LTE Internet access.

Wholesale business

As part of our wholesale business, we provide services to other telecommunication operators (such as network interconnection, traffic transit, national and international roaming, services to MVNOs, shared access to network assets and lease of network infrastructure).

Network interconnection

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at June 30, 2016 we were party to 26 interconnection agreements with national and international operators.

As part of interconnection cooperation with other operators, we actively use the service of termination of calls in the network of Poland's largest fixed-line operator, Orange, while relying on a flat fee arrangement. This arrangement offers the possibility of constructing competitive retail offers for calls made from our mobile telecommunications network to Orange's fixed-line network for business and mass market subscribers and enables us to substantially reduce interconnection costs.

Shared access to network assets and lease of telecommunications infrastructure

As a consequence of significant capital expenditures in the past, our subsidiaries - Polkomtel, Aero2 and Sferia - have an extensive telecommunications infrastructure, which allows handling constantly increasing usage of telecommunication products and services. In order to optimize costs of maintenance of our infrastructure, we share access to network assets and lease components of our network infrastructure from and/or to other telecommunication providers on the Polish market.

International roaming

Within our wholesale business we provide international roaming in services to foreign mobile operators that allow the subscribers of foreign mobile telecommunications network operators to use telecommunications services (including voice calls, text messaging and data transmission) when logged to Plus mobile network and outside their home network. We also enter into international roaming wholesale agreements in order to provide, both to our own customers and the subscribers of MVNOs, international roaming services in the networks of our roaming partners.

Cooperation with roaming partners represents a major part of sales in the wholesale segment. We develop our international roaming services by offering roaming services over our own network to subscribers of foreign operators, who are currently staying in Poland. In addition, we offer the wholesale roaming service over our own network to foreign operators under discount agreements in exchange for favorable terms offered by foreign partners for the handling of roaming traffic generated by our customers, who use roaming services abroad. This helps reduce costs of wholesale international roaming services incurred by us and enables the provision of competitive international roaming services (in terms of their price and quality) to our customers.

National roaming and virtual operators (MVNOs)

We provide wholesale access to our mobile telecommunications network based on different models of cooperation, which can be divided into two main groups: national roaming and virtual operators (MVNOs).

As part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services to P4, Play network operator. P4's subscribers use the Plus mobile telecommunications network in areas not covered by the P4 network, within the scope offered by P4.

Mobile Virtual Network Operators (MVNOs) are operators that provide mobile telephony, data services and fixed-lined telephony services based on mobile networks, but do not own frequency allocations nor necessarily have all technical infrastructure required to provide telecommunications services. Their operation is typically based on the frequency allocations and the infrastructure of existing MNOs throughout the country.

As part of the cooperation with MVNOs, we provide wholesale services including voice calls, text messaging and data transmission, premium rate services, value-added services, international roaming, services provided to specific governmental authorities and agencies, hosting services on our billing platform, customer support, as well as other services, depending on the needs and selected technical model of cooperation.

2.2 Broadcasting and television production segment

Production and sale of television channels

Our portfolio comprises 33 channels (13 of which are available in HD) including our flagship POLSAT, available in SD and HD formats, and 31 thematic channels. On June 10, 2016, Polsat Group launched two encoded channels for the duration of the UEFA EURO 2016 championship. Polsat Sport 2 and Polsat Sport 3 aired all 51 matches live, without ads. On August 1, 2016 a new channel, Polsat Sport Fight HD, dedicated to martial arts was launched.

POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is one of the leading Polish TV channels in terms of shares in the commercial audience, aged 16-49, with a share of 13.2% in the first half of 2016. Telewizja Polsat broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2). Apart from terrestrial signal, POLSAT is also available in SD and HD formats from most cable networks and satellite platforms. The channel features a broad range of films, entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

Thematic channels are television channels delivered primarily over the cable/satellite (in the paid model) and to a smaller extent over multiplexes in the terrestrial network (free of charge), which broadcast themed content, such as children's programs, films, sports, music, lifestyle, news or weather.

Thematic channel	Description
Polsat Sport Polsat Sport HD	Sports channel broadcasting major sports events in Poland and worldwide (volleyball, athletics, football, handball, world class boxing and MMA contests), which include live broadcast. Polsat Sport HD broadcasts the content of the corresponding basic channel in HD standard.
Polsat Sport Extra Polsat Sport Extra HD	Sports channel broadcasting premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League. Polsat Sport Extra HD broadcasts the content of the corresponding basic channel in HD standard.
Polsat Sport News	Sports channel dedicated to sports news. It is an FTA channel broadcast within the DTT technology.
Polsat Sport Fight HD	Channel dedicated to martial arts, broadcasting, among others, HBO professional boxing galas, TOP Rank, Showtime, Matchroom and mixed martial arts KSW, MMA Attack, as well as coverages of Polsat Boxing Night.
Polsat Film Polsat Film HD	Movie channel broadcasting movie hits, top box office productions and non-mainstream movies from a library of major US movie studios. Polsat Film HD is a version of our movie channel offering high definition broadcast.

Thematic channel	Description
Polsat Cafe Polsat Cafe HD	Channel dedicated to women focusing on lifestyle, fashion and gossip as well as talk-shows. The channel also broadcasts in HD standard.
Polsat Play Polsat Play HD	Channel dedicated to men, focusing on consumer gadgets, the automotive industry, angling and cult series. The channel also broadcasts in HD standard.
Polsat 2 Polsat 2 HD	Channel broadcasting reruns of programs that premiered on our other channels. The channel also broadcasts in HD standard.
Polsat News Polsat News HD	24-hour news channel broadcasting live shows and covering primarily news from Poland and key international events, also broadcast in high definition.
Polsat News 2	News channel offering debates on politics, business and world economy, as well as programs on culture, society, current and international affairs. Addressed to viewers interested in economics.
Polsat Jim Jam	Children's channel based exclusively on programs by Hit Entertainment, the channel is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat	Criminal channel that takes its viewers to the world of crime providing the insight to criminal laboratories, police archives and courtrooms.
Polsat Food Network Polsat Food Network HD	Culinary channel, based on the content library of Food Network, one of the most popular channels on American television. This is a joint venture of TV Polsat and Scripps Network Interactive. The channel also broadcasts in HD standard.
Polsat Viasat Explore HD	Channel dedicated to men, simple-unusual people, who work hard and have fun realizing extraordinary dreams. Polsat Viasat Explore operates based on cooperation with Viasat Broadcasting. The channel broadcasts only in HD standard.
Polsat Viasat Nature	Nature channel targeted at the entire family, which allows viewers to accompany wildlife researchers, veterinary doctors and celebrities in their journeys and develop knowledge on dangerous predators, domestic pets and wild animals from around the world. Polsat Viasat Nature operates based on cooperation with Viasat Broadcasting.
Polsat Viasat History HD	Channel offering viewers a journey to the past through high-quality programs, that entertain and educate at the same time; the content features historical events, that influenced the world's history. Polsat Viasat History operates based on cooperation with Viasat Broadcasting. The channel broadcasts only in HD standard.
TV4 TV4 HD	Nationwide entertainment channel, the programming offer of which includes feature movies, series, entertainment and popular science programs and sports. The channel is available in digital terrestrial television. The channel also broadcasts in HD standard.
TV6	Nationwide entertainment channel broadcasting popular entertainment formats in original versions, as well as series, entertainment programs and feature movies from Polsat's library. The channel is available in digital terrestrial television.
Polsat Romans	Channel created for and dedicated to women. The programming offer includes both feature movies as well as popular Polish and foreign series.
Disco Polo Music	Music channel broadcasting disco polo, dance and feast music.
MUZO.TV	Channel broadcasting rock and pop music as well as the best video clips, both the classics and the novelties. MUZO.TV is the second music channel in Polsat's programming offer.
Polsat 1	Channel addressed to Poles living abroad, broadcasts various productions from the libraries of the channels: Polsat, TV4, Polsat Cafe and Polsat Play.

Sales of TV channel advertising airtime and sponsoring

Within out wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from SMG Poland (previously SMG Starlink), we estimate that in the first half of 2016 Polsat Group channels captured 26.5% of the Polish TV advertising market worth approximately PLN 2 billion in that period.

A key factor with a bearing on our revenue from advertising and sponsoring time sale is our share in the total audience. Airtime on our channels is more attractive if the demographic profile of the audience meets advertisers' requirements. In order to make our airtime more attractive, our programming offering is carefully selected and broadcast during specific periods of the day.

Sale of channel broadcasting rights

Our channels are distributed by the majority of Polish cable networks, including such operators as UPC Polska Sp. z o.o., Multimedia Polska S.A. and Vectra S.A., and by all major satellite platforms (with the exception of sports channels, which are exclusive to the Cyfrowy Polsat platform), as well as over the IPTV system. Our agreements with third-parties provide for a non-exclusive license of a specific duration to distribute our channels. The agreements also provide for monthly licensing fees, charged as the product of the contractual rate and the number of customers, or as fixed fees.

As a rule, agreements for the distribution of the Group's TV channels over cable and satellite networks do not include exclusivity clauses. Standard distribution agreements stipulate monthly fees for delivering the signal of the Group's channels to customers of a given network. The rates depend on the number of customers reached by our channels.

3. SIGNIFICANT EVENTS

3.1 Corporate events

Finalization of the process of refinancing of the Group's debt

Conclusion of hedging agreements

In connection with the process of refinancing of the debt under the PLK Senior Notes and hence the need to exchange funds from the PLK Term Loan, denominated in PLN, into EUR and USD funds, Polkomtel executed several FX hedging transactions. In addition, to limit the risk of unfavorable interest rate movements, the Company and Polkomtel executed several Interest Rate Swap transactions. As at January 29, 2016, the total value of the concluded hedging transactions, converted into PLN, amounted to PLN 6,581.8 million.

Transactions were concluded on various dates and with various banks, including Powszechna Kasa Oszczędności Bank Polski S.A., ING Bank Śląski S.A., Société Générale Spółka Akcyjna Branch in Poland, Bank Zachodni WBK S.A., BNP Paribas Fortis SA/NV and Credit Agricole Bank Polska S.A., and as at January 29, 2016 comprised, in particular:

- FX forward transactions for USD with the total value of USD 529.0 million (PLN 2,109.2 million), the settlement date fixed for January 27, 2016 and the average PLN/USD exchange rate of 3.9872;
- FX forward transactions for EUR with the total value of EUR 570.0 million (PLN 2,472.6 million), the settlement date fixed for January 27, 2016 and the average PLN/EUR exchange rate of 4.3378; and
- Interest Rate Swap transactions with the total value of PLN 2,000.0 million involving the swap of interest payments based on the variable WIBOR 3M for interest payments based on the fixed interest rate of 1.553% on average. The transactions were executed for the period from June 30, 2016 to September 30, 2017.

Repayment and redemption of PLK Senior Notes

On January 29, 2016, Eileme 2 repaid all debts in respect of the senior notes issued by Eileme 2 with the aggregate nominal value of EUR 542.5 million and USD 500 million due 2020, bearing interest at 11.75% for the EUR tranche and 11.625% for the USD tranche respectively (PLK Senior Notes). The redemption of the PLK Senior Notes took place on February 1, 2016.

The PLK Senior Notes were redeemed for a price equal to, respectively, 105.875% of the nominal value of the EUR tranche of the HY Notes and 105.813% of the nominal value of the USD tranche of the HY Notes, increased by the due and accrued interest.

Funds used for the early redemption of the PLK Senior Notes came from the term facility granted to Polkomtel on the basis of the PLK Senior Facilities Agreement of September 21, 2015.

Details concerning the repayment of the PLK Senior Notes are provided in the Company's Current Reports No. 1/2016 of January 29, 2016 and No. 4/2016 of February 1, 2016.

Consolidation of Term Loans

In connection with the early repayment and redemption of the PLK Senior Notes on February 1, 2016, amendments provisioned for in the Amendment, Restatement and Consolidation Deed of September 21, 2015 (for details see item 4.3.5 - *Operating and financial overview of Polsat Group – Review of our financial situation - Liquidity and capital resources – Material financing agreements executed by the Group)* were incorporated to the CP Senior Facilities Agreement. Moreover, debts under the PLK Facilities Agreement were repaid on a cashless basis, from funds made available to Polkomtel under the CP Facilities Agreement and Polkomtel and other subsidiaries of the Company have acceded to the CP Facilities Agreement as a borrower and guarantor or a guarantor.

In light of the above, henceforth in this Report, we will refer to the combined CP and PLK Facilities Agreements as the "Combined SFA".

Establishment of additional security interests related to the Combined SFA

As a result of the repayment of all debts in respect of the PLK Senior Notes and the PLK Facilities Agreement, the security interests established in connection with the debts contracted under the aforementioned finance documents were released.

On January 29, 2016, Polkomtel and other members of the Company's group and UniCredit Bank AG, London Branch, executed and signed certain agreements and further documents concerning the establishment of security interests in connection with the amendment of the CP Senior Facilities Agreement pursuant to the Amendment, Restatement and Consolidation Deed, described in the previous point, and the accession thereto of Polkomtel and other subsidiaries of the Company as a borrower and guarantor.

The aggregate book value of the assets encumbered with the security interests, as disclosed in the books of account of the Company's subsidiaries, was PLN 18,382 million as at January 29, 2016. A detailed list of established security interests is presented in item 4.3.6. – *Operating and financial overview of Polsat Group – Review of our financial situation - Liquidity and capital resources - Information on guarantees granted by the Company or subsidiaries.*

Acquisition of Litenite Ltd., direct parent of Midas Group

On February 29, 2016 Polkomtel purchased from Ortholuck Limited 100% of shares in Litenite Limited, a direct owner of 976,542,690 shares of Midas, representing 65.9975% of the total number of votes and the share capital of Midas. As a consequence of the aforementioned acquisition, the Company and Polkomtel, became indirect dominant entities of the Midas Group which includes, in addition to Midas, the companies: Aero2, AltaLog and Sferia.

The consideration for 100% of the shares in Litenite acquired by Polkomtel was EUR 1.0. The calculation of the consideration reflects the fact that as the net indebtedness of Litenite, calculated as the difference between the value of net liabilities and cash, was approximately PLN 788 million as at January 31, 2016, and the only assets of this company, other than cash, were the shares of Midas of a similar value.

The indirect acquisition of shares in Midas by the Company is considered a strategic long-term investment of the Group.

Tender offer to purchase shares in Midas

In connection with the indirect acquisition, on February 29, 2016, of 976,542,690 shares in Midas, representing 65.9975% of the total number of votes and share capital of Midas, Polkomtel announced a tender offer to purchase 503,124,060 shares of Midas, representing up to 34.0025% of the total number of votes and the share capital of Midas. The tender offer was announced pursuant to Article 74 Section 1 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies of 29 July 2005. The price of the Midas shares in the tender offer was set for PLN 0.81 per one share of Midas.

The subscription period for the Midas shares in the tender offer was closed on April 19, 2016, and the tender offer was settled on April 27, 2016. 216 subscriptions were made for a total of 403,054,449 shares in Midas giving the right to 403,054,449 votes at the General Meeting and representing 27.2395% of the total number of votes and share capital of Midas.

In connection with the fact that Polkomtel exceeded the threshold of 90% of the total number of votes in Midas, the management board of Polkomtel made the decision to acquire up to 100% of shares in Midas and therefore announced in May 25, 2016 a squeeze-out of Midas shares held by all the remaining shareholders of that company. The squeeze-out date was set for May 31, 2016, and the squeeze-out price is PLN 0.81 per share. On that date the squeeze-out was executed successfully.

As at the date of this Report, Cyfrowy Polsat held indirectly, through Polkomtel and Litenite, 1,479,666,750 shares in Midas giving the right to 1,479,666,750 votes at the General Meeting of Midas and representing 100% of the total number of votes and share capital of Midas.

On June 13, 2016 the General Meeting of Midas decided to reverse the dematerialization of all Midas shares and to delist them from the regulated market supervised by the WSE. Midas shares were excluded from trading on August 9, 2016.

Repayment of the indebtedness of Midas Group

On April 29, 2016 Midas S.A., a subsidiary of Cyfrowy Polsat, had repaid in full its indebtedness under a facilities agreement dated July 10, 2014, as amended, concluded with Bank Polska Kasa Opieki S.A., in the amount of PLN 326.3 million. The repayment of the indebtedness was made using funds from current operating activities of Aero2.

On May 10, 2016, companies of Midas Group had repaid in full their indebtedness under facilities agreements dated October 27, 2010 and November 25, 2010, as amended, concluded with Invest Bank S.A. (currently Plus Bank S.A.), in the amount of PLN 41.1 million. The repayment of the indebtedness was made using own funds.

Concurrently, in connection with the repayment of all outstanding amounts related to the abovementioned facilities agreements, as well as other financing documents related to them, all securities established in connection with the said agreements have been released.

Furthermore, on May 12, 2016 Polsat Group acquired the majority of zero-coupon notes issued by Midas.

Upgrade of Cyfrowy Polsat's rating

On May 16, 2016 Moody's Investors Service („Moody's") upgraded the corporate family rating (CFR) of the Company from Ba3 to Ba2, with a stable outlook. Further details regarding ratings are discussed in item 4.3.5. – *Operating and financial review of Polsat Group – Review of the Group's financial situation – Liquidity and capital resources – Ratings.*

Appointment of Management Board Members

Based on the resolutions adopted on June 2, 2016 the Supervisory Board of the Company decided to nominate Tobias Solorz to the function of the President of the Management Board of Cyfrowy Polsat and Dariusz Działkowski, Tomasz Gillner-Gorywoda, Aneta Jaskólska, Agnieszka Odorowicz, Maciej Stec and Tomasz Szeląg to the functions of Members of the Management Board of Cyfrowy Polsat. The Management Board was reappointed for a common three-year term beginning as of June 29, 2016.

3.2 Business related events

Cyfrowy Polsat GO

In line with the adopted strategy of expanding the world of multimedia family entertainment, Cyfrowy Polsat introduced a new offer Cyfrowy Polsat GO, which expands the existing package of satellite channels by adding on-line, on-demand access to as many as 84 linear channels available via mobile devices and thousands of materials on demand. Thanks to this our customers who decide to purchase the option ON THE GO for PLN 5 per month, can watch television on mobile devices powered by Android OS and on the website go.cyfrowypolsat.pl.

The new offer addresses the expectations of customers who try to make the best of every moment of their lives and expect that TV will be available to them at the time and place of their choice.

Expansion of the offer of the service Mobile TV

In March 2016 we expanded the offer of Cyfrowy Polsat's Mobile TV, available on DVB-T set-top boxes, by including 4 new thematic channels – Polsat Cafe, Polsat Play, Comedy Central Family and TVN Style. Consequently, Cyfrowy Polsat now offers its customers 12 encoded TV channels and 12 radio channels in the Extra Package. Additionally, users of reception devices of Mobile TV can view FTA digital terrestrial television channels.

Acquisition of sports rights

In 2016, Telewizja Polsat acquired rights to broadcast meetings of the Coppa Italia in the 2016 and 2017 seasons, as well as rights to broadcast all matches of the 2016 European Men's Handball Championship.

Expansion of Cyfrowy Polsat's offer

On March 31, 2016 the programming offer of Cyfrowy Polsat was extend to include two new thematic channels: Water Planet and Novela TV. Both channels are available in one of the most popular programming packages – Familijny Max HD. The offer of the popular science channel Water Planet focuses on the subject of the world of water, tourism and active lifestyle, while the channel Novela TV is dedicated primarily to series.

Furthermore, Cyfrowy Polsat and ELEVEN SPORTS NETWORK have entered into cooperation, as a result of which subscribers of the platform have gained access to HD channels, Eleven and Eleven Sports. The new channels complement the rich sports offering available on Cyfrowy Polsat, with premium content including football from Spain's Liga BBVA, Italy's Serie A TIM, France's Ligue 1 and England's Emirates FA Cup, handball from the Velux EHF Champions League, Formula 1® and much more.

Both channels, available in the form of a paid package, are an addition to the 13 sports channels already available on Cyfrowy Polsat, covering a wide range of sports events including the most important Polish league competitions: Ekstraklasa, PlusLiga, Tauron Basket Liga, PGNiG Superliga, 2018 FIFA World Cup Russia qualifiers, Bundesliga and the UEFA Europa

League, national volleyball team matches, tennis tournaments such as the Australian Open and US Open, and combat sports including KSW and top boxing galas.

EVOBOX PVR awarded the Gold Medal of the Poznań International Fair (MTP)

During the Poznań Media Expo Fairs, which took place in April 2016, the latest satellite set-top box manufactured by Cyfrowy Polsat – EVOBOX PVR, state-of-the-art and most technologically advanced satellite equipment available in operators' offers, was awarded the Gold Medal of the Poznań International Fair (MTP). The innovative software of the EVOBOX PVR set-top box has been developed in cooperation with ADB.

European Football Championship UEFA EURO 2016

Based on the license acquired in 2013, Polsat Group had exclusive rights to all the meetings of the European Football Championship UEFA EURO 2016. For the duration of the EURO 2016 we launched a special package comprised of two sports channels - Polsat Sport 2 and Polsat Sport 3 – which offered live broadcasts of all 51 meetings, without advertisements and in HD quality, complemented with 200 hours of commentary, live coverages and other exclusive content. The UEFA EURO 2016 package was offered in the subscription model to retail customers of Polsat Group. Concurrently, we offered promotions, under which customers prolonging their pay TV or telecommunication contracts and subscribers of the Premium MAX package received that UEFA EURO 2016 package free of charge, thus positively influencing ARPU and churn ratio.

The monetization of rights to the European Football Championship UEFA EURO 2016 was conducted via different channels and consisted in the sale of rights to 11 matches to TVP, the sale of subscriptions of the UEFA EURO 2016 package to cable and satellite operators and the sale of rights to publicly rebroadcast matches. Moreover, in accordance with applicable law, we aired 24 matches on our open channel POLSAT. The actions described above had a positive impact both on wholesale revenue in the segment of broadcasting and television production, retail revenue from pay TV, as well as on audience shares in June and July of 2016.

3.3 Events after the balance date

Implementation of an integrated IT environment

As an element of further operational integration of Plus and Cyfrowy Polsat, and also in connection with the pursued strategy of development on the bundled services' market, Polsat Group will implement a new integrated system supporting sales and customer care as well as a convergent billing system for its products and services. The system will be implemented in cooperation with HUAWEI who will provide the IT systems and who will assume responsibility for the implementation process as the integrator.

The purpose of the implementation is to redefine and standardize the sales processes and the offers across Polsat Group, as well as to provide a single, consistent and effective tool which will enable the management of sales and customer relations in all possible levels. The new approach is based on the omni-channel strategy – a multi-channel approach to sales, customer retention and customer support. The implemented system will enable even simpler and more effective management of sales, as well as a flexible response to changes on the market by making the launch of new products and services easier and faster. A central catalogue of the Group's services and products will be created, with one consistent and effective common sales solution for all customer contact channels.

The project will be implemented over two years and its costs have been distributed throughout the entire duration of the implementation process and have been included in the Group's investment plans assuming capital expenditures below 10% of the Group's revenue, as communicated earlier.

Expansion of TV Polsat's channel portfolio

On August 1, 2016 Telewizja Polsat expanded its portfolio of sports channels, already including Polsat Sport HD, Polsat Sport Extra HD and Polsat Sport News, by launching a new channel - Polsat Sport Fight HD. The channel will be broadcast in HD standard, 7 days a week for at least 18 hours daily. Polsat Sport Fight HD is entirely devoted to martial arts. Air-time will be filled with exciting fights on the ring during the biggest galas – the rights to which are owned by Telewizja Polsat – including, among others Polsat Boxing Night, HBO professional boxing nights, TOP Rank, Showtime, Matchroom and mixed martial arts - KSW, MMA Attack or FEN.

Expansion of the offer of IPLA online television

In August 2016 the largest online television IPLA, which belongs to Polsat Group, expanded its offer by including 31 online TV channels. Apart from thousands of videos on demand, popular films, series and animations, the widest array of legal sports broadcasts in Poland, news and journalistic videos, IPLA also offers as many as 77 online television channels. The offer is available to all users on the territory of Poland, irrespective of the provider of internet access services. IPLA is available on a wide selection of devices: computers, smartphones, tablets, selected set-top boxes and smart TV sets, without long-term contracts and commitments. The expansion of IPLA's offer is a strategic phase in its development and addresses the increasing needs of IPLA's users and the changing global trends in online video and television consumption patterns.

Commercial launch of Internet LTE Plus Advanced

After having performed successful tests in March this year, on August 23, 2016, we offered our customers services based on the technology of frequency band aggregation, marketed under the name LTE Plus Advanced. The aggregation of two carrier frequencies of 20 MHz each in LTE FDD standard, operating in the 1800 and 2600 MHz bandwidths, allowed us to increase data transmission speed within our internet access services to a maximum of 300 Mbps, and, together with the continued network roll-out, will contribute to increased stability and capacity of our mobile network. This in turn will translate into improved quality of Internet access services for our existing customers and the possibility of comfortable use of the network by a larger number of users. As at the date of publication of this Report, LTE Plus Advanced was available in several dozen locations in Poland, covering mainly the largest metropolitan areas.

4. OPERATING AND FINANCIAL REVIEW OF POLSAT GROUP

4.1 Operating review of the Group

Key performance indicators (KPI) presented below for the second quarter and first half of 2016 include the operating results of Polsat Group comprising Midas Group, acquired on February 29, 2016. In light of the above, the operating results for the analyzed periods of 2016 are not fully comparable with the operating results for the analyzed periods of 2015, however, the effect of consolidation of the operating results of Midas Group on the overall reported operating results of Polsat Group is immaterial.

When assessing our operating results in the segment of services to individual and business customers, we analyze contract services and prepaid services separately. In the case of contract services we consider the number of unique, active services provided in the contract model (RGUs), the number of customers, churn rate and average revenue per customer (ARPU). When analyzing prepaid services we consider the number of unique, active services provided in the prepaid model (prepaid RGUs) as well as average revenue per prepaid RGU. The number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.

The table below presents our key performance indicators for the analyzed periods.

	for the 3 month period ended June 30			for the 6 month period ended June 30		
	2016	2015	change / %	2016	2015	change / %
Total number of RGUs (contract + prepaid)	16,711,541	16,349,090	2.2%	16,711,541	16,349,090	2.2%
CONTRACT SERVICES						
Total number of RGUs, including:	12,880,725	12,377,021	4.1%	12,880,725	12,377,021	4.1%
Pay TV, including:	4,632,246	4,374,517	5.9%	4,632,246	4,374,517	5.9%
Multiroom	*972,771*	*886,305*	*9.8%*	*972,771*	*886,305*	*9.8%*
Mobile telephony	6,559,223	6,519,311	0.6%	6,559,223	6,519,311	0.6%
Internet	1,689,256	1,483,193	13.9%	1,689,256	1,483,193	13.9%
Number of customers	5,862,310	5,990,051	(2.1%)	5,862,310	5,990,051	(2.1%)
ARPU per customer [PLN]	88.4	87.0	1.6%	87.7	86.4	1.5%
Churn per customer	9.0%	10.1%	(1.1 p.p.)	9.0%	10.1%	(1.1 p.p.)
RGU saturation per customer	2.20	2.07	6.3%	2.20	2.07	6.3%
Average number of RGUs, including:	12,809,438	12,391,326	3.4%	12,742,650	12,383,965	2.9%
Pay TV, including:	4,595,313	4,397,999	4.5%	4,564,059	4,400,770	3.7%
Multiroom	*964,197*	*881,296*	*9.4%*	*956,281*	*871,061*	*9.8%*
Mobile telephony	6,546,774	6,532,488	0.2%	6,535,045	6,551,416	(0.2%)
Internet	1,667,351	1,460,839	14.1%	1,643,546	1,431,779	14.8%
Average number of customers	5,876,458	6,031,638	(2.6%)	5,889,492	6,068,444	(2.9%)
PREPAID SERVICES						
Total number of RGUs, including:	3,830,816	3,972,069	(3.6%)	3,830,816	3,972,069	(3.6%)
Pay TV	73,544	41,517	77.1%	73,544	41,517	77.1%
Mobile telephony	3,473,228	3,737,282	(7.1%)	3,473,228	3,737,282	(7.1%)
Internet	284,044	193,270	47.0%	284,044	193,270	47.0%
ARPU per total prepaid RGU [PLN]	18.9	18.3	3.3%	18.3	17.8	2.8%
Average number of RGUs, including:	3,794,613	4,006,108	(5.3%)	3,798,241	4,037,377	(5.9%)
Pay TV	52,114	61,165	(14.8%)	44,184	64,569	(31.6%)
Mobile telephony	3,473,104	3,755,130	(7.5%)	3,501,472	3,776,276	(7.3%)
Internet	269,395	189,813	41.9%	252,585	196,532	28.5%
TELEVISION						
Audience share	25.5%	24,7%	3.3%	24.9%	24.3%	2.4%
Advertising market share	27.3%	25.2%	8.3%	26.5%	25.2%	5.3%

4.1.1 Segment of services to individual and business customers

As at June 30, 2016, in the segment of services to individual and business customers, our Group provided a total of 16,711,541 active services, which constitutes an increase of o 362,451 compared to 16,349,090 active services provided as at June 30, 2015. We noted a dynamic growth in the number of broadband Internet access and of pay TV services (in particular Multiroom) services provided in the contract model in the first half of 2016 compared to the corresponding period of the prior year, which was partially offset by a decline in the analyzed period in the number of provided prepaid mobile telephony services.

As at June 30, 2016 the share of contract services in the total number of provided, active services was 77.1%. This indicator increased from 75.1% as at June 30, 2015.

Contract services

As at June 30, 2016 we provided contract services to a total of 5,862,310 customers, i.e. 2.1% less compared to 5,990,051 customers as at June 30, 2015. The drivers behind this decrease include the merging of contracts under one common contract for the household and the outflow of customers with only one service. In line with the our strategic assumptions, the Group avoids conducting an aggressive customer acquisition policy for individual products and concentrates rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of active contract services provided by us increased by 503,704, that is 4.1%, to 12,880,725 as at June 30, 2016 from 12,377,021 as at June 30, 2015. This change is primarily the effect of a higher number of pay TV and mobile Internet services provided in the contract model. The number of pay TV services provided in the contract model amounted to 4,632,246 year as at June 30, 2016, which constitutes an increase by 257,729, or 5.9%, compared to 4,374,517 as at June 30, 2015. This increase in due among others to the growing popularity of our Multiroom service (increase by almost 86.5 thousand provided services year on year), as well as to higher sales of OTT paid services. The number of contract services provided in the area of broadband Internet access increased by 206,063, i.e. 13.9%, to 1,689,256 as at June 30, 2016 from 1,483,193 as at June 30, 2015. The dynamic growth in the number of mobile Internet RGUs was supported by the broadest coverage offered by our network, as well as its highest quality proven by a survey by UKE published in January 2016. Concurrently, the number of provided mobile telephony services increased by almost 40 thousand reaching the level of 6,559,223 as at June 30, 2016. We believe that further saturation of our customer base with integrated services, including our product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

As a result of the implementation of our strategy, we note an increase of ARPU in the contract services segment. ARPU per customer increased by 1.6%, to PLN 88.4, in the second quarter of 2016 from PLN 87.0 in the corresponding period of 2015. In the first half of 2016 ARPU increased by 1.5%, to PLN 87.7 from PLN 86.4 in the first half of 2015. In line with the assumptions of our long-term strategy, our Group aims to maximize revenue per contract customer through sales of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer.

Our churn rate decreased to 9.0% in the twelve-month period ended June 30, 2016 compared to 10.1% in the twelve-month period ended June 30, 2015. This is the effect of the systematically growing loyalization of our customers connected with the success of the smartDOM program.

The saturation of our customer base with multi-play services is systematically growing. As at June 30, 2016, each customer in our customer base had on average 2.20 active contract services, which constitutes an increase of 6.3% compared to 2.07 active contract services per customer as at June 30, 2015. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to a single customer.

The smartDOM program continues to record very good sales results and has a positive effect on the level of RGU saturation per one customer, ARPU per contract customer and the churn rate. At the end of June 2016, already 1.16 million customers had joined the program and had bought a total of 3.44 million RGUs. RGU saturation per customer in this group was close to 3.0 as at June 30, 2016. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through sales of additional products and services, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at June 30, 2016 decreased by 141,253, that is 3.6%, to 3,830,816 from 3,972,069 as at June 30, 2015. This decrease was caused among others by the migration of part of our customers from prepaid tariffs towards the contract services segment, driven by relatively more attractive terms of post-paid tariffs, as well as discounts offered in the smartDOM program.

At the same time ARPU per prepaid RGU increased by 3.3% in the second quarter of 2016, to PLN 18.9 from PLN 18.3 in the corresponding period of 2015. In the first half of 2016 ARPU per prepaid RGU increased by 2.8%, to PLN 18.3 from PLN 17.8 in the first half of 2015. The increase in the level of ARPU in the prepaid segment is connected mainly with higher consumption of data on smartphones, as well as higher volumes of exchanged voice traffic at stable retail prices in the segment.

4.1.2 Braodcasting and television production segment

We consider audience share by channel, advertising market share and technical reach when analyzing and evaluating our television broadcasting and production activities. The following tables set forth these key performance indicators for the relevant periods.

Audience shares

	3 months ended June 30		change [%]	6 months ended June 30		change [%]
	2016	2015		2016	2015	
Audience share[(1) (2)], including:	25.46%	24.65%	***3.25%***	24.88%	24.29%	**2.43%**
POLSAT (main channel)	***13.80%***	***13.35%***	***3.39%***	***13.22%***	***13.40%***	***(1.37%)***
Thematic channels[(2)]	***11.65%***	***11.30%***	***3.10%***	***11.66%***	***10.89%***	***7.11%***
TV4	3.54%	3.51%	*0.88%*	3.65%	3.44%	*6.25%*
TV6	1.75%	1.42%	*23.21%*	1.79%	1.42%	*25.60%*
Polsat 2	1.39%	1.42%	*(1.48%)*	1.38%	1.42%	*(2.68%)*
Polsat Film	0.74%	0.70%	*4.99%*	0.81%	0.73%	*11.03%*
Polsat News	0.77%	0.85%	*(9.37%)*	0.75%	0.79%	*(4.45%)*
Polsat Play	0.68%	0.67%	*1.64%*	0.68%	0.69%	*(0.44%)*
Polsat Sport	0.69%	0.58%	*17.64%*	0.56%	0.46%	*20.35%*
Polsat Sport News	0.43%	0.53%	*(18.91%)*	0.41%	0.40%	*2.01%*
Polsat Cafe	0.36%	0.44%	*(18.04%)*	0.35%	0.41%	*(15.50%)*
Polsat JimJam	0.20%	0.14%	*44.85%*	0.24%	0.15%	*55.19%*
Disco Polo Music	0.26%	0.30%	*(12.50%)*	0.25%	0.26%	*(6.08%)*
Polsat Romans	0.15%	0.12%	*21.77%*	0.16%	0.14%	*13.87%*
CI Polsat	0.14%	0.12%	*16.24%*	0.12%	0.11%	*14.02%*
Polsat Viasat History	0.13%	0.11%	*16.36%*	0.12%	0.11%	*6.31%*
Polsat Food Network	0.10%	0.08%	*28.75%*	0.10%	0.08%	*33.77%*
Polsat Viasat Explore	0.08%	0.05%	*61.70%*	0.09%	0.06%	*58.18%*
Polsat Sport Extra	0.11%	0.12%	*(3.45%)*	0.10%	0.10%	*0.00%*
Polsat News 2	0.08%	0.10%	*(15.15%)*	0.08%	0.09%	*(11.49%)*
Polsat Viasat Nature	0.03%	0.03%	*11.54%*	0.03%	0.03%	*0.00%*
Muzo.tv	0.01%	0.02%	*(39.13%)*	0.01%	0.02%	*(30.00%)*
Polsat 1[(3)]	n/d	n/d	*n/d*	n/d	n/d	*n/d*
Advertising market share[(4)]	27.30%	25.20%	***8.30%***	26.50%	25.20%	**5.30%**

1) Nielsen Audience Measurement, All day ages 16-49 audience share.
2) When calculating the total audience share of Polsat Group and audience share of thematic channels, we take into account the moment of including the channel into our portfolio.
3) Channel broadcast since December 18, 2015, not included in the telemetric panel.
4) Our estimates based on SMG Poland (previously SMG Starlink) data.

Comparing the first half of 2016 with the corresponding period of 2015, we observe the largest nominal increments in terms of shares in the case of TV4 and TV6, which is the result of an attractive programming offer combined with the channels' availability in the DTT system. The results of Polsat Sports on the other hand are the effect of broadcasting, frequently live, of large sports event (e.g. European Men's Handball Championship and the UEFA EURO 2016 Championship). The growing shares of other thematic channels, in particular Polsat Viasat Explore, Polsat Jim Jam, Polsat Food Network and Polsat Film, are due to the systematic increase of the technical reach of these channels.

Both in the second quarter and the first half of 2016 viewers in the commercial group (everyone aged 16-49) were attracted by the fixed slots on our main channel's schedule. Monday's film slot Mega Hit had an audience share of 18.2% in the second quarter and 18.5% in the first half of 2016, while the premier episodes of the TV series *First Love* gained an audience share of 21.1% in the second quarter and 20.2% in the first half of 2016. The series *Świat według Kiepskich,* aired from Monday to Saturday at 7.30 p.m. had an audience share of 14.9% both in the second quarter and the first half of 2016.

The news program broadcast daily at 6.50 p.m., *Wydarzenia* (*News*), gained an audience share of 18.9% in the second quarter and 19.4% in the first half of 2016. The morning block of news and information programs, *Nowy Dzień z Polsat News* (*New day with Polsat News*), broadcast daily from Monday to Friday, is worth mentioning. This block had an audience share of 17.5% in the first quarter of 2016 and 17.1% in the first half of 2016.

The results of the second quarter and the first half of 2016 were significantly influenced by programs from the spring scheduling. A large audience was gathered by the show *Your Face Sounds Familiar.* The Saturday slots dedicated to this show had an audience share of 18.4% in the second quarter and 18.3% in the first half of 2016. Another position in our spring scheduling, the show *Our New House*, the premier episodes of which were rescheduled to Thursday, gathered on average 17.9% of viewers in the second quarter and 17.3% in the first half of 2016. The reality show *Hell's Kitchen* had an audience share of 14.5% both in the second quarter and the first half of 2016. The show *Top Chef* gained an audience share of 14.4% in the second quarter, while in the first half of 2016 this share amounted to 13.4%. *Dancing with the Stars* attracted 12.7% of viewers in the second quarter and 13.4% in the first half of 2016.

Additionally, record high results of sports events broadcast in the first half of 2016 are worth notice. The most widely viewed match of the UEFA EURO 2016 was the meeting Poland-Portugal of June 30, 2016 with total SHR on Polsat and Polsat Sport of 47.1%. Another EURO 2016 meeting worth mentioning was the match between Poland and Switzerland of June 25, which gained a total audience share of 43.1%. The total audience share of the match Poland-Ukraine of June 21 on both Polsat and Polsat Sport was 42.0%. It must be emphasized that the mentioned matches of the Polish team were aired simultaneously on the channel TVP1 in accordance with the sublicense granted by Polsat.

The broadcasts of matches played in the European Men's Handball Championships gathered a significant audience. The most widely viewed meeting between Poland and Croatia, which took place on January 27, 2016, gained a total audience share of 42.7% on both Polsat and Polsat Sport News. The simultaneous broadcast on both these channels of the match played by Poland against Norway on January 23, 2016 gained a total audience share of 40.5%, while the viewership of the match against France (January 19, 2016) reached the level of 38.5% SHR.

The festiwal *Polsat Superhit Festival 2016 – Sopocki Hit Kabaretowy* gained a very high audience share in the analyzed period. The broadcast of May 29, 2016 attracted 29.3% of viewers to their TV sets. The cabaret *Płocka Noc Kabaretowa,* aired on June 4, 2016 on the main channel, had an audience share of 22.8%. The concert of the band Ich Troje, aired on Polsat channel in June 24, 2016 and entitled *A wszystko to…,* gave the channel a 20.2% share in the audience.

Distribution and technical reach

Technical reach(1)	3 months ended June 30		*Change / %*	6 months ended June 30		*Change / %*
	2016	2015		2016	2015	
Polsat	99.9%	99.8%	*0.10%*	99.9%	99.9%	*0.00%*
TV4	99.9%	99.9%	*0.00%*	99.8%	99.9%	*(0.10%)*
Polsat Sport News	94.6%	94.1%	*0.53%*	94.4%	93.7%	*0.75%*
TV6	94.5%	93.5%	*1.07%*	94.2%	93.2%	*1.07%*
Polsat 2	63.3%	61.6%	*2.76%*	63.0%	61.7%	*2.11%*
Polsat News	55.9%	55.4%	*0.90%*	55.9%	55.5%	*0.72%*
Polsat News 2	55.8%	53.8%	*3.72%*	55.4%	53.9%	*2.78%*
Polsat Cafe	55.3%	54.0%	*2.41%*	55.0%	53.9%	*2.04%*
Polsat Film	51.2%	49.7%	*3.02%*	51.0%	49.9%	*2.20%*
Polsat Sport	48.6%	48.0%	*1.25%*	48.6%	48.0%	*1.25%*
Polsat Play	48.9%	47.0%	*4.04%*	48.6%	46.9%	*3.62%*
Polsat Romans	46.7%	45.3%	*3.09%*	46.2%	44.0%	*5.00%*
Disco Polo Music	46.1%	44.8%	*2.90%*	45.9%	44.5%	*3.15%*
Polsat JimJam	44.4%	43.2%	*2.78%*	44.1%	43.1%	*2.32%*
Muzo.tv	40.6%	38.8%	*4.64%*	40.1%	38.5%	*4.16%*
CI Polsat	39.2%	37.6%	*4.26%*	38.8%	37.5%	*3.47%*
Polsat Viasat History	39.0%	33.8%	*15.38%*	38.7%	33.6%	*15.18%*
Polsat Sport Extra	36.1%	35.0%	*3.14%*	36.0%	34.8%	*3.45%*
Polsat Viasat Explore	34.1%	27.6%	*23.55%*	34.2%	26.5%	*29.06%*
Polsat Viasat Nature	32.1%	26.3%	*22.05%*	30.9%	25.9%	*19.31%*
Polsat Food Network	25.3%	20.4%	*24.02%*	25.0%	20.2%	*23.76%*
Polsat 1(2)	n/d	n/d	*n/d*	n/d	n/d	*n/d*

1) Nielsen Audience Measurement, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach.
2) Channel broadcast outside of Poland, not included in the telemetric survey.

Thematic channels of Polsat Group are currently available on all significant cable and satellite platforms. The systematically increasing availability of our channels is clearly visible. Comparing data for both the second quarter and first half of 2016 with corresponding periods of 2015, the highest growth dynamics in technical reach were recorded by Polsat Viasat Explore, Polsat Food Network, Polsat Viasat History and Polsat Viasat Nature. The other group of channels, which systematically improve their technical reach, comprises the most recently launched channels (Polsat Romans, Disco Polo Music, MUZO.TV).

Advertising and sponsoring market share

According to SMG Poland (previously SMG Starlink) media house estimates, expenditures on TV advertising and sponsoring in the first half of 2016 amounted to about PLN 2 billion and increased year-on-year by 1.4%. Based on these data, we estimate that in the first half of 2016 our TV advertising market share increased year-on-year to 26.5% from 25.2%. In the second quarter of 2016, expenditures on TV advertising and sponsoring amounted to PLN 1.12 billion, which constitutes an increase of 0.5% year-on-year. Our TV ad market share increased to 27.3% in the second quarter of 2016 from 25.2% in the corresponding period of 2015.

If we compare the current portfolio of Polsat Group's channels, we generated 2.05% more GRPs in the first half of 2016 compared to the corresponding period of 2015.

4.2 Key positions in the consolidated income statement

Revenue

Revenue is derived from retail revenue, wholesale revenue, sale of equipment and other revenue sources.

Retail revenue

Retail revenue consists primarily of:

(i) monthly subscription fees paid by our pay digital television contract customers for programming packages;

(ii) subscription fees paid by our contract customers for telecommunication services;

(iii) fees for telecommunication services provided to our contract customers, which are not included in the subscription fee;

(iv) payments for telecommunication services paid by our prepaid and mix customers;

(v) fees for the lease of set-top boxes;

(vi) activation fees;

(vii) penalties; and

(viii) fees for additional services.

The total revenue from pay digital television and telecommunication subscription fees depends on the number of customers and the number of services provided to them, as well as on the amount of monthly subscription fees paid for our programming and telecommunication packages and the amount of additional services provided to our customers in the given period. Activation fees are collected at the moment of activation and amortized over the life of the contract.

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;

(ii) revenue from cable and satellite operator fees;

(iii) revenue from the lease of infrastructure;

(iv) interconnect revenue;

(v) revenue from roaming;

(vi) revenue from the sale of broadcasting and signal transmission services; and

(vii) revenue from the sale of licenses, sublicenses and property rights.

Sale of equipment

Sale of equipment consists mostly of revenue from sales of set-top boxes, STB hard disk drives, antennas, Internet modems, tablets, laptops, routers, mobile handsets, smartphones, accessories and other equipment.

Other revenue

Other revenue sources consist primarily of revenue from the lease of premises and facilities, revenue from interest on installment plan purchase and other sales revenue.

Operating costs

Operating costs consist of:

(i) content costs;

(ii) distribution, marketing, customer relation management and retention costs;

(iii) depreciation, amortization, impairment and liquidation;

(iv) technical costs and cost of settlements with mobile network operators;

(v) salaries and employee-related costs;

(vi) cost of equipment sold;

(vii) cost of debt collection services and bad debt allowance and receivables written off; and

(viii) other costs.

Content costs

Content costs consist of:

(i) programming license costs;

(ii) amortization of purchased film licenses;

(iii) costs of internal and external production and amortization of sport rights; and

(iv) other content costs.

Programming license costs include monthly license fees due to television broadcasters and distributors, license fees for materials broadcast on VOD and royalties due to collective copyright management organizations and the Polish Film Institute.

Amortization of purchased film licenses includes amortization of rights to TV programming content produced by third parties and licensed to us. Amortization is based on the estimated number of showings and the type of programming content.

Costs of internal and external production and amortization of sport rights include production costs for TV programs specifically produced by or for us, either under licenses from third parties or under our own licenses. These costs also include amortization of sport broadcasting rights. Amortization of TV production is based on the estimated number of showings and type of programming content. Amortization is based on the estimated number of showings and the type of programming content. Amortization of sport broadcasting rights is recognized in 100% on the first broadcast or on a straight-line basis over the seasons or competitions.

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

(i) commissions due to our distributors and retail points of sale when they conclude sale or retention agreements with our customers for pay television and telecommunication services;

(ii) costs of courier services, distribution of reception equipment, storage costs and costs associated with services of our regional agents;

(iii) costs of warranty service; and

(iv) costs of maintenance of points of sales.

Marketing expenses consist of expenses on TV and radio commercials, press, online and outdoor advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. Customer relation management and retention costs consist of mailing costs, call center costs and other customer relation management costs.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs primarily consist of:

(i) depreciation of network systems components and telecommunication network equipment (access and core network equipment, network management systems and software);

(ii) amortization of costs of telecommunications concessions acquired by Polkomtel, Aero2 and Sferia;

(iii) depreciation of set-top boxes leased to our customers;

(iv) depreciation of plant and equipment, TV and broadcasting equipment;

(v) amortization of intangible assets, including customer relationships, trademarks and IT programs;

(vi) non-current assets impairment allowance; and

(vii) net value of disposed property, plant and equipment as well as intangible assets, no longer suitable for use.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;

(ii) electric energy costs connected with the functioning of our telecommunications network;

(iii) telecommunication network maintenance costs and fees;

(iv) IT systems maintenance costs;

(v) payments for the lease of satellite transponder capacity;

(vi) payments for the use of conditional access system based on the number of access cards;

(vii) TV broadcasting costs (digital terrestrial transmission and DVB-T);

(viii) Interconnection and roaming charges ; and

(ix) other costs.

Salaries and employee-related costs

Salaries and employee-related expenses consist of salaries paid to employees under employment contracts (excluding salaries and social security contributions of factory employees, which are included in the costs of manufacturing of reception equipment, salaries and social security contributions relating to employees directly involved in the production of TV programs, which are presented as part of the costs of internal TV production and salaries and social security contributions relating to employees directly involved in the production of IT software, which are capitalized on intangible assets) or project-specific contracts, managerial contracts, casual work contracts, remuneration of our Supervisory Board members, social security costs and other employee benefits.

Cost of equipment sold

Cost of equipment sold relates mostly to set-top boxes, STB hard disk drives, antennas, Internet modems, routers, tablets, laptops, mobile handsets, smartphones and accessories that we sell to our customers.

Cost of debt collection services and bad debt allowance and receivables written off

In this group of costs we present:

(i) bad debt recovery fees;

(ii) bad debt allowance and the cost of receivables written off; and

(iii) gains and losses from the sales of liabilities.

Other costs

Key items of other costs include:

(i) the cost of SMART and SIM cards provided to customers;

(ii) the cost of licenses and other current assets sold;

(iii) legal, advisory and consulting costs;

(iv) property maintenance costs;

(v) taxes and other charges;

(vi) trademark license costs;

(vii) technical and production costs, such as costs of costumes, set design, staging services, other cost which cannot be directly attributable to production and

(viii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

(i) inventory impairment write-downs/reversals; and

(ii) other operating revenue/costs, not derived in the ordinary course of business.

Gains and losses on investment activities, net

Gains and losses on investment activities include interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, results on the disposal of available-for-sale financial instruments, fair value gains/losses on financial instruments (other than interest rate derivatives) at fair value through profit or loss, net foreign currency gains/losses, and results on forward exchange contracts and call options, impairment losses recognized on financial assets, unwinding of the discount on provisions.

Finance costs

Finance costs comprise interest on borrowings (including bank loans and bonds), foreign exchange gains/losses on bonds, realization and valuation costs of hedging instruments and instruments not under hedge accounting related to finance activities, bank and other charges on borrowings and guarantee fees resulting from indebtedness. Borrowing costs are recognized in profit or loss using the effective interest method.

4.3 Review of the Group's financial situation

The following review of results for the 3 and 6-month period ended June 30, 2016 was prepared based on the interim condensed consolidated financial statements for the 6-month period ended June 30, 2016, prepared in accordance with International Accounting Standard 34 and internal analysis.

Given that we acquired shares in Radio PIN S.A. on February 27, 2015, in Orsen Holding Ltd. on April 1, 2015, and that on February 29, 2016 we indirectly acquired shares in Midas Group, our results for the 3 and 6-month periods ended June 30, 2016 are not fully comparable with the results for the corresponding periods of 2015. Given that the results of Radio PIN S.A. and Orsen Holdings Ltd. do not have a material impact on the results of the Group, they will not be subject to elimination in the analysis of the Group's financial situation. Concurrently, we emphasize that we also do not eliminate the effect of consolidation of Midas Group on the results of Polsat Group, however the positions influenced by the consolidation of Midas Group are indicated.

4.3.1 Income statement analysis

Review of financial results for the 3-month period ended June 30, 2016 compared with the corresponding period of the prior year

Revenue

Our total revenue decreased by PLN 26.3 million, or 1.1%, to PLN 2,442.9 million in the second quarter of 2016 from PLN 2,469.2 million in the second quarter of 2015. The decrease in revenue was triggered by the following factors.

[mPLN]	for the 3 months ended June 30		Change	
	2016	2015	mPLN	%
Retail revenue	1,586.9	1,652.0	(65.1)	(3.9%)
Wholesale revenue	645.0	688.7	(43.7)	(6.3%)
Sale of equipment	191.1	106.9	84.2	78.8%
Other revenue	19.9	21.6	(1.7)	(7.9%)
Revenue	2,442.9	2,469.2	(26.3)	(1.1%)

Retail revenue

Retail revenue decreased by PLN 65.1 million, or 3.9%, to PLN 1,586.9 million in the second quarter of 2016 from PLN 1,652.0 million in the second quarter of 2015. This decrease was primarily due to lower revenue from voice services caused by a highly competitive market, which was partially compensated by higher revenue from pay TV services, in particular due to the retail sale of packages dedicated to UEFA EURO 2016, as well as growing revenue from the mobile Internet access service and data transmission.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Wholesale revenue

Wholesale revenue decreased by PLN 43.7 million, or 6.3%, to PLN 645.0 million in the second quarter of 2016 from PLN 688.7 million in the second quarter of 2015. In the second quarter of 2015 this position comprised revenue from the lease of telecommunication infrastructure to Midas Group, which is subject to elimination during consolidation in the second quarter of 2016 as a result of the acquisition of Midas Group on February 29, 2016. The decrease of wholesale revenue was partially compensated by higher revenue from interconnection services and higher advertising revenue resulting from the broadcasting of the UEFA EURO 2016, as well as revenue from the sale of sublicenses to selected meetings of the UEFA EURO 2016 to TVP S.A. and higher revenue from satellite and cable operators related to the wholesale sales of packages of channels dedicated to the EURO 2016.

Sale of equipment

Revenue from the sale of equipment increased by PLN 84.2 million, or 78.8%, to PLN 191.1 million in the second quarter of 2016 from PLN 106.9 million in the second quarter of 2015. This increase was due primarily to the increasing share of installment plan sales and higher revenue from sales of subsidized devices under contracts for telecommunication services, which is the effect of higher unit prices of the equipment sold, as well as optimal management of inventories.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Other revenue

Other revenue decreased by PLN 1.7 million, or 7.9%, to PLN 19.9 million in the second quarter of 2016 from PLN 21.6 million in the second quarter of 2015. Other revenue maintained a stable level and remained under the influence of growing revenue from interest on installment plan sales of equipment to residential customers, reduced by the effects of consolidation of Midas Group from February 29, 2016.

Operating costs

Our total operating costs increased by PLN 142.5 million, or 7.5%, to PLN 2,042.0 million in the second quarter of 2016 from PLN 1,899.5 million in the second quarter of 2015. Operating costs grew for the reasons set forth below.

[mPLN]	for the 3 months ended June 30		Change	
	2016	2015	mPLN	%
Content costs	316.3	274.0	42.3	15.4%
Distribution, marketing, customer relation management and retention costs	202.2	193.2	9.0	4.7%
Depreciation, amortization, impairment and liquidation	527.5	393.5	134.0	34.1%
Technical costs and cost of settlements with telecommunication operators	456.6	522.4	(65.8)	(12.6%)
Salaries and employee-related costs	138.2	140.8	(2.6)	(1.8%)
Cost of equipment sold	317.3	291.7	25.6	8.8%
Cost of debt collection services and bad debt allowance and receivables written off	16.3	27.8	(11.5)	(41.4%)
Other costs	67.6	56.1	11.5	20.5%
Operating costs	2,042.0	1,899.5	142.5	7.5%

Content costs

Content costs increased by PLN 42.3 million, or 15.4%, to PLN 316.3 million in the second quarter of 2016 from PLN 274.0 million in the second quarter of 2015. This increase is due primarily to the recognition of higher costs of sports licenses and internal production related to the broadcasting of UEFA EURO 2016, as well as higher costs of amortization of film licenses connected with the expansion of the programming schedule of our main channel, Polsat, and thematic channels, in particular TV4 and TV6.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 9.0 million, or 4.7%, to PLN 202.2 million in the second quarter of 2016 from PLN 193.2 million in the second quarter of 2015, mainly due to the recognition of higher costs of sales commissions (accounting effect).

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 134.0 million, or 34.1%, to PLN 527.5 million in the second quarter of 2016 from PLN 393.5 million in the second quarter of 2015, primarily as the result of the recognition of depreciation costs of telecommunications licenses, which belong to Midas Group, for the period from March to June 2016 (4 months), due to valuation of those licenses during the preliminary purchase price allocation process related to the acquisition of Midas Group.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators decreased by PLN 65.8 million, or 12.6%, to PLN 456.6 million in the second quarter of 2016 from PLN 522.4 million in the second quarter of 2015. This is primarily the effect of the elimination during consolidation of growing costs of data within our broadband Internet access service in connection with the acquisition of Midas Group on February 29, 2016. In the comparative period the aforementioned costs of traffic were payable to Midas Group.

Concurrently, we noted an increase of interconnection costs within this cost category, due to the growing popularity of tariffs enabling unlimited connections with other telecommunication networks.

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 2.6 million, or 1.8%, to PLN 138.2 million in the second quarter of 2016 from PLN 140.8 million in the second quarter of 2015, as a result of a modification of the schedule of creating provisions, partially off-set by the recognition of salaries and employee-related costs in Midas Group following its consolidation as of February 29, 2016.

Cost of equipment sold

The cost of equipment sold increased by PLN 25.6 million, or 8.8%, to PLN 317.3 million in the second quarter of 2016 from PLN 291.7 million in the second quarter of 2015. This increase was caused by a higher unit cost of sold equipment, while the total volume of sales declined. The increase in the unit cost was due, among others, to a significant increase in the share of contracts comprising the sale of more expensive equipment in the installment sales model and a decreasing number of cheaper, subsidized devices sold.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Cost of debt collection services and bad debt allowance and receivables written off

The cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 11.5 million, or 41.4%, to PLN 16.3 million in the second quarter of 2016 from PLN 27.8 million in the second quarter of 2015, primarily due to a change in the method of calculating write-offs on receivables in the installment plan sales model.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Other costs

Other costs increased by PLN 11.5 million, or 20.5%, to PLN 67.6 million in the second quarter of 2016 from PLN 56.1 million in the second quarter of 2015. This increase was the effect of the recognition of the cost of sold licenses related to the UEFA EURO 2016 and was partially off-set by lower costs of legal and consulting services, as well as a decrease in the costs of office real estate maintenance.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Other operating income and costs, net

Other net operating income decreased by PLN 7.2 million, or 52.2% %, to PLN 6.6 million in the second quarter of 2016 from PLN 13.8 million in the second quarter of 2015.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Gains/(losses) on investment activities, net

Net losses on investment activities amounted to PLN 21.4 million in the second quarter of 2016, which constitutes an increase by PLN 9.5 million, or 79.8%, compared to net losses on investment activities of PLN 11.9 million in the second quarter of 2015, primarily due to higher foreign exchange costs related to the valuation of liabilities related to the UMTS license and the settlement of programming assets related to the rights to the UEFA EURO 2016, caused by a stronger depreciation of the PLN versus the EUR in the second quarter of 2016 than in the comparable period.

Finance costs

Finance costs amounted to PLN 133.2 million in the second quarter of 2016 and decreased by PLN 88.9 million, or 40.0%, compared to PLN 222.1 million in the second quarter of 2015, This decrease was mainly the effect of the lack of costs of interest on the PLK Senior Notes and lack of costs related to the valuation of the PLK Senior Notes in connection with their early redemption on February 1, 2016. The decrease in finance costs was partially offset by higher interest costs on term loans related to the drawing of the second tranche under the Combined SFA in January 2016. As a result of the acquisition of Litenite capital group, as of February 29, 2016 this position also comprises costs of interest on loans and notes of Litenite group for the period of consolidation.

Net profit

Net profit decreased by PLN 73.6 million, or 24.2%, to PLN 230.9 million in the second quarter of 2016 from PLN 304.5 million in the second quarter of 2015, inter alia due to the recognition of depreciation of telecommunication licenses held by Midas Group and lower finance costs.

EBITDA & EBITDA margin

EBITDA decreased by PLN 42.0 million, or 4.3%, to PLN 935.0 million in the second quarter of 2016 from PLN 977.0 million in the second quarter of 2015 for the reasons discussed above. EBITDA margin decreased by 1.3 p.p. to 38.3% in the second quarter of 2016 from 39.6% in the second quarter of 2015.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 5,051 full-time equivalents in the second quarter of 2016, as compared to 5,056 full-time equivalents in the corresponding period of 2015.

Comparison of financial results for the 6-month period ended June 30, 2016 with the results for the corresponding period of 2015

Revenue

Our total revenue increased by PLN 8.7 million, or 0.2%, to PLN 4,806.9 million in the first half of 2016 from PLN 4,798.2 million in the first half of 2015. Revenue grew for the reasons set forth below.

[mPLN]	for the 6 months ended June 30 (1)		change	
	2016	2015	mPLN	%
Retail revenue	3,152.6	3,289.2	(136.6)	(4.2%)
Wholesale revenue	1,244.8	1,242.0	2.8	0.2%
Sale of equipment	363.9	225.3	138.6	61.5%
Other revenue	45.6	41.7	3.9	9.4%
Revenue	4,806.9	4,798.2	8.7	0.2%

(1) Results of Midas Group consolidated from February 29, 2016.

Retail revenue

Retail revenue decreased by PLN 136.6 million, or 4.2%, to PLN 3,152.6 million in the first half of 2016 from PLN 3,289.2 million in the first half of 2015. This decrease was primarily due to lower revenue from voice services caused by a highly competitive market, which was partially compensated by higher revenue from pay TV services, in particular due to the retail sale of packages dedicated to the UEFA EURO 2016, as well as growing revenue from the mobile Internet access service and data transmission.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Wholesale revenue

Wholesale revenue increased by PLN 2.8 million, or 0.2%, to PLN 1,244.8 million in the first half of 2016 from PLN 1,242.0 million in the first half of 2015. This increase was driven mainly by higher revenue from interconnection services and higher advertising and sponsoring revenue connected, inter alia, with the broadcasting of the UEFA EURO 2016, as well as revenue from the sale of sublicenses to selected meetings of the UEFA EURO 2016 to TVP S.A. and higher revenue from satellite and cable operators related to the wholesale sales of packages of channels dedicated to the EURO 2016. This increase was off-set to a significant extent by lower revenue from the lease of telecommunication infrastructure to Midas Group, recognized only in January and February due to the acquisition of Midas Group on February 29, 2016.

Sale of equipment

Revenue from the sale of equipment increased by PLN 138.6 million, or 61.5%, to PLN 363.9 million in the first half of 2016 from PLN 225.3 million in the first half of 2015. This increase was due primarily to higher revenue from installment plan sales and higher revenue from sales of contracts for telecommunication services with a subsidized device (due to higher unit prices of the equipment sold), as well as optimal management of inventories.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Other revenue

Other revenue increased by PLN 3.9 million, or 9.4%, to PLN 45.6 million in the first half of 2016 from PLN 41.7 million in the first half of 2015, i.a. due to increasing revenue from interest on installment plan sales of equipment to residential customers, reduced by the effects of consolidation of Midas Group from February 29, 2016.

Operating costs

Our total operating costs increased by PLN 181.5 million, or 4.8%, to PLN 3,990.0 million in the first half of 2016 from PLN 3,808.5 million in the first half of 2015. Operating costs grew for the reasons set forth below.

[mPLN]	for the 6 months ended June 30 (1)		change	
	2016	2015	mPLN	%
Content costs	564.8	509.5	55.3	10.9%
Distribution, marketing, customer relation management and retention costs	402.7	382.4	20.3	5.3%
Depreciation, amortization, impairment and liquidation	951.2	861.4	89.8	10.4%
Technical costs and cost of settlements with telecommunication operators	1,006.9	1,004.7	2.2	0.2%
Salaries and employee-related costs	276.1	269.9	6.2	2.3%
Cost of equipment sold	644.1	624.3	19.8	3.2%
Cost of debt collection services and bad debt allowance and receivables written off	25.9	46.5	(20.6)	(44.3%)
Other costs	118.3	109.8	8.5	7.7%
Operating costs	3,990.0	3,808.5	181.5	4.8%

(1) Results of Midas Group consolidated from February 29, 2016.

Content costs

Content costs increased by PLN 55.3 million, or 10.9%, to PLN 564.8 million in the first half of 2016 from PLN 509.5 million in the first half of 2015. This increase is due primarily to the recognition of higher costs of sports licenses and internal production related to the broadcasting of UEFA EURO 2016, as well as higher costs of amortization of film licenses connected with the expansion of the programming schedule of our main channel, Polsat, and thematic channels, in particular TV4 and TV6.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 20.3 million, or 5.3%, to PLN 402.7 million in the first half of 2016 from PLN 382.4 million in the first half of 2015, mainly due to the recognition of higher costs of sales commissions (accounting effect).

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 89.8 million, or 10.4%, to PLN 951.2 million in the first half of 2016 from PLN 861.4 million in the first half of 2015, primarily as the result of the recognition of depreciation costs of fixed assets and telecommunications licenses, which belong to Midas Group, for the period from March to June 2016.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 2.2 million, or 0.2%, to PLN 1,006.9 million in the first half of 2016 from PLN 1,004.7 million in the first half of 2015. This is primarily the net effect of higher interconnection costs and the elimination during consolidation of growing costs of data within our broadband Internet access service in connection with the acquisition of Midas Group on February 29, 2016. In the comparative period the aforementioned costs of traffic were payable to Midas Group.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 6.2 million, or 2.3%, to PLN 276.1 million in the first half of 2016 from PLN 269.9 million in the first half of 2015, mainly due to the recognition of salaries and employee-related costs in Midas Group following its consolidation as of February 29, 2016.

Cost of equipment sold

The cost of equipment sold increased by PLN 19.8 million, or 3.2%, to PLN 644.1 million in the first half of 2016 from PLN 624.3 million in the first half of 2015. This increase was caused by a higher unit cost of sold equipment, while the total volume of sales declined. The increase in the unit cost was due, among others, to a significant increase in the share of contracts comprising the sale of more expensive equipment in the installment sales model and a decreasing number of cheaper, subsidized devices sold.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Cost of debt collection services and bad debt allowance and receivables written off

The cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 20.6 million, or 44.3%, to PLN 25.9 million in the first half of 2016 from PLN 46.5 million in the first half of 2015, primarily due to a change in the method of calculating write-offs on receivables in the installment plan sales model.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Other costs

Other costs increased by PLN 8.5 million, or 7.7%, to PLN 118.3 million in the first half of 2016 from PLN 109.8 million in the first half of 2015. This increase was the effect of the recognition of the cost of sold licenses related to the UEFA EURO 2016 and was partially off-set by a decrease in the costs of office real estate maintenance.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Other operating income and costs, net

Other net operating income decreased by PLN 9.1 million, or 40.4%, to PLN 13.4 million in the first half of 2016 from PLN 22.5 million in the first half of 2015.

The effect of consolidation of Midas Group was immaterial on this position of the profit and loss statement.

Gains/(losses) on investment activities, net

Net losses on investment activities amounted to PLN 56.6 million in the first half of 2016, which constitutes a decrease by PLN 73.6 million compared to net gains on investment activities of PLN 17.0 million in the first half of 2015. This decrease was mainly due to higher foreign exchange costs related to the valuation of liabilities related to the UMTS license (due to the depreciation of the PLN versus the EUR in the first half of 2016 compared to the appreciation of the PLN versus the EUR in the corresponding period of 2015), as well as the recognition of foreign exchange losses on the valuation of cash used to repay the PLK Senior Notes, which occurred between the moment of their acquisition and the moment of redemption. This loss corresponds with correspondingly lower foreign exchange costs on the valuation of the PLK Senior Notes, recognized in Finance costs.

Finance costs

Finance costs amounted to PLN 315.9 million in the first half of 2016 and decreased by PLN 167.5 million, or 34.7%, compared to PLN 483.4 million in the first half of 2015, mainly as a result of the recognition in the first half of 2016 of a one-off net revenue related to the valuation and execution of forward contracts hedging the repayment of the principal of the PLK Senior Notes and lower costs of interest on the PLK Senior Notes in connection with their early redemption. This decrease was partially off-set by a higher valuation of the PLK Senior Notes, denominated in EUR and USD, due to a strong depreciation of the PLN versus both these currencies in the first half of 2016 compared to the corresponding period of 2015. As a result of the acquisition of Litenite capital group, as of February 29, 2016, this position also comprises costs of interest on loans and notes of Litenite group for the period of consolidation.

Net profit

Net profit decreased by PLN 65.9 million, or 13.9%, to PLN 409.4 million in the first half of 2016 from PLN 475.3 million in the first half of 2015.

EBITDA & EBITDA margin

EBITDA decreased by PLN 92.1 million, or 4.9%, to PLN 1,781.5 million in the first half of 2016 from PLN 1,873.6 million in the first half of 2015 for the reasons discussed above. EBITDA margin decreased by 1.9 p.p., to 37.1% in the first half of 2016 from 39.0% in the first half of 2015.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 5,041 full-time equivalents in the first half of 2016, as compared to 5,066 full-time equivalents in the corresponding period of 2015.

4.3.2 Operating segments

The Group operates in the following two segments:

- services to individual and business customers segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services, Internet access services, mobile TV services, online TV services and production of set-top boxes,
- broadcasting and television production segment.

The Group conducts its operating activities primarily in Poland.

The activities of the Group are grouped into segments with distinguishable scope of operations where services are rendered and merchandise delivered in a specific economic environment. Activities of defined segments are characterized by different risk levels and different investment returns from those of the Group's other segments.

The segment of services to individual and business customers includes:

- digital pay television services, which primarily relate to direct distribution of technologically advanced pay TV services and revenues are generated mainly by pay TV subscription fees;
- mobile telecommunication services in the contract model (postpaid and mix), which generate revenues mainly from interconnection, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services, which generate revenues mainly from interconnection and settlements with mobile network operators;
- providing access to broadband Internet, which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including international and domestic roaming, as well as telecommunication infrastructure sharing services;
- online TV services (IPLA), which generate revenues mainly from subscription fees and advertising on the Internet;
- Premium Rate services based on SMS/IVR/MMS/WAP technologies;
- production of set-top boxes;
- sale of telecommunication and TV reception equipment.

The broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films, which are broadcast on television and radio channels in Poland. Revenues generated by the broadcasting and television production segment relate mainly to advertising and sponsorship revenues, as well as revenues from cable and satellite operators.

Management evaluates the operating segments' results based on EBITDA. The level of EBITDA reflects the Group's ability to generate cash in a stable environment. The Group defines EBITDA as profit from operating activities increased by depreciation, amortization, impairment and liquidation. EBITDA is not an EU IFRS measure and thus its calculations may differ among various entities.

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended June 30, 2016:

6 months ended June 30, 2016 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,162.7	644.2	-	4,806.9
Inter-segment revenues	15.3	105.2	(120.5)	-
Revenues	4,178.0	749.4	(120.5)	4,806.9
EBITDA (unaudited)	1,499.7	281.8	-	1,781.5
Depreciation, amortization, impairment and liquidation	931.0	20.2	-	951.2
Profit from operating activities	568.7	261.6	-	830.3
Acquisition of property, plant and equipment, reception equipment and other intangible assets	298.0*	14.6	-	312.6
Balance as at June 30, 2016 (unaudited)				
Assets, including:	23,221.1	4,434.3**	(74.3)	27,581.1
Investments in joint ventures	-	5.8	-	5.8

* This item also includes the acquisition of reception equipment for operating lease purposes.
**This item includes non-current assets located outside of Poland in the amount of PLN 17.0 million.

All material revenues are generated in Poland.

It should be noted that the 6-month period ended June 30, 2016 is not comparable to the 6-month period ended June 30, 2015 as Radio PIN S.A. was acquired on February 27, 2015 (allocated to the Broadcasting and television production segment), Orsen Holding Ltd. was acquired on April 1, 2015 (allocated to the Services to individual and business customers segment) and Litenite Limited was acquired on February 29, 2016 (allocated to the Services to individual and business customers segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended June 30, 2015:

6 months ended June 30, 2015 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,244.4	553.8	-	4,798.2
Inter-segment revenues	16.7	75.4	(92.1)	-
Revenues	4,261.1	629.2	(92.1)	4,798.2
EBITDA (unaudited)	1,639.7	233.9	-	1,873.6
Depreciation, amortization, impairment and liquidation	842.1	19.3	-	861.4
Profit/(loss) from operating activities	797.6	214.6	-	1,012.2
Acquisition of property, plant and equipment, reception equipment and other intangible assets	337.6*	14.5	-	352.1
Balance as at June 30, 2015 (unaudited)				
Assets, including:	22,942.1	4,275.1**	(75.4)	27,141.8
Investments in joint ventures	-	4.6	-	4.6

*This item also includes the acquisition of reception equipment for operating lease purposes.
** This item includes non-current assets located outside of Poland in the amount of PLN 19.3 million.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the 6 months ended	
	June 30, 2016 unaudited	June 30, 2015 unaudited
EBITDA (unaudited)	1,781.5	1,873.6
Depreciation, amortization, impairment and liquidation	(951.2)	(861.4)
Profit from operating activities	830.3	1,012.2
Other foreign exchange rate differences, net	(56.8)	11.3
Share of the profit of joint venture accounted for using the equity method	-	1.4
Interest costs, net	(265.7)	(341,3)
Foreign exchange differences on issued bonds	(244.8)	(115.4)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	203.8	-
Other	(9.0)	(21.0)
Gross profit for the period	457.8	(547.2)
Income tax	(48.4)	(71.9)
Net profit for the period	409.4	475.3

4.3.3 Balance sheet analysis

As at June 30, 2016 and December 31, 2015, our balance sheet amounted to PLN 27,581.1 million and PLN 26,490.1 million, respectively.

Assets

As at June 30, 2016 and December 31, 2015, our non-current assets were PLN 24,377.8 million and PLN 22,261.2 million, respectively, and accounted for 88.4% and 84.0% of total assets, respectively.

As at June 30, 2016 and December 31, 2015, our current assets amounted to PLN 3,203.3 million and PLN 4,228.9 million, respectively, and accounted for 11.6% and 16.0% of the total assets, respectively.

The value of reception equipment amounted to PLN 353.3 million as at June 30, 2016 and decreased by PLN 17.7 million, or 4.8%, compared to PLN 371.0 million as at December 31, 2015.

The value of other property, plant and equipment increased by PLN 382.4 million, or 15.0%, to PLN 2,931.0 million as at June 30, 2016 from PLN 2,548.6 million as at December 31, 2015, mainly due to the recognition of the value of the telecommunication infrastructure and technical equipment of Midas Group.

The value of goodwill increased by PLN 368.8 million, or 3.5%, to PLN 10,975.2 million as at June 30, 2016 from PLN 10,606.4 million as at December 31, 2015 as an effect of the recognition of the preliminary valuation of shares of Midas Group, acquired on February 29, 2016.

The value of customer relationships decreased by PLN 301.2 million, or 8.3%, to PLN 3,337.3 million as at June 30, 2016 compared to PLN 3,638.5 million as at December 31, 2015 due to amortization costs for the first half of 2016.

As at June 30, 2016, the value of brands was PLN 2,068.6 million, which constitutes a decrease by PLN 12.0 million, or 0.6%, to PLN 2,080.6 million as at December 31, 2015, due to recognition of the amortization of the Plus trademark in the first half of 2016.

The value of other intangible assets amounted to PLN 3,903.0 million as at June 30, 2016 which constitutes an increase by PLN 1,480.8 million, or 61.1%, compared to PLN 2,422.2 million as at December 31, 2015. The main reason behind this increase is the recognition and subsequent valuation of telecommunication licenses belonging to Midas Group and the recognition of licenses for frequencies in the 2600 MHz band, purchased by Polkomtel in the LTE auction concluded in 2015.

The value of non-current and current programming assets decreased by PLN 17.5 million, or 5.2%, to PLN 319.7 million as at June 30, 2016 from PLN 337.2 million as at December 31, 2015. This decrease was the effect of attribution to costs of the value of sport licenses related to UEFA EURO 2016 and was partially off-set by the purchase of additional film rights in order to expand our scheduling which will translate into higher attractiveness of our programming offer and therefore has a positive impact on the viewership results of our channels.

Investment property amounted to PLN 5.2 million as at June 30, 2016 and remained unchanged since December 31, 2015.

The value of non-current and current deferred distribution fees amounted to PLN 288.8 million as at June 30, 2016, which constitutes a decrease by PLN 7.2 million, or 2.4%, from PLN 296.0 million as at December 31, 2015.

The value of other non-current assets amounted to PLN 331.8 million as at June 30, 2016 and increased by PLN 59.0 million, or 21.6%, compared to PLN 272.8 million as at December 31, 2015, i.a. as a result of an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 236.5 million as at June 30, 2016, which constitutes an increase by PLN 148.9 million, or 170.0%, compared to PLN 87.6 million as at December 31, 2015, among others due to the consolidation of Midas Group.

The value of inventories was PLN 270.0 million as at June 30, 2016 and decreased by PLN 11.0 million, or 3.9%, from PLN 281.0 million as at December 31, 2015. This change was caused primarily by a fall in the stock of handsets, tablets and laptops, which was partially compensated by a higher stock of set-top boxes.

The value of trade and other receivables decreased by PLN 78.0 million, or 4.8%, to PLN 1,541.1 million as at June 30, 2016 from PLN 1,619.1 million as at December 31, 2015, among others due to lower trade receivables and lower public receivables.

The value of other current assets amounted to PLN 62.8 million as at June 30, 2016, which constitutes a decrease by PLN 336.7 million, or 84.3%, compared to PLN 399.5 million as at December 31, 2015, primarily due to the elimination of intragroup settlements related to the purchase of data packages from Midas Group due to its consolidation from February 29, 2016.

The value of cash and cash equivalents and restricted cash decreased by PLN 568.3 million, or 37.3%, to PLN 955.4 million as at June 30, 2016 from PLN 1,523.7 million as at December 31, 2015 due, among others, to the purchase of shares in Midas under the tender offer and squeeze-out, the purchase of Midas Notes and repayment of the indebtedness under the Combined SFA according to schedule.

Equity and liabilities

Equity increased by PLN 511.5 million, or by 5.0%, to PLN 10,761.6 million as at June 30, 2016 from PLN 10,250.1 million as at December 31, 2015, primarily due to profit generated in the first half of 2016 in the amount of PLN 409.4 million and the recognition of the value of non-controlling shares.

As at June 30, 2016 and December 31, 2015 the value of our non-current liabilities amounted to PLN 13,316.1 million and PLN 7,773.5 million, which constituted 79.2% and 47.9% of the Group’s total liabilities, respectively.

As at June 30, 2016 and December 31, 2015 the value of our current liabilities amounted to PLN 3,503.4 million and PLN 8,466.5 million, which constituted 20.8% and 52.1% of the Group’s total liabilities, respectively.

Loans and borrowings (long- and short-term) increased by PLN 4,392.6 million, or 66.4%, to PLN 11,003.3 million as at June 30, 2016 from PLN 6,610.7 million, mainly as a result of the increased use of the Combined SFA by drawing the amount of PLN 4,800.0 million pursuant to the Amendment, Restatement and Consolidation Deed.

Senior Notes liabilities (long- and short-term) decreased by PLN 3,914.6 million or by 68.1%, to PLN 1,837.4 million as at June 30, 2016 from PLN 5,752.0 million as at December 31, 2015. This is the net effect of the premature redemption of the PLK Senior Notes on January 29, 2016 and the recognition of liabilities on Litenite Notes, acquired along with shares in Litenite.

Finance lease liabilities (long- and short-term) amounted to PLN 28.2 million as at June 30, 2016 and increased by PLN 3.0 million, or 11.9%, from PLN 25.2 million as at December 31, 2015.

UMTS license liabilities (long- and short-term) increased by PLN 40.0 million, or 5.2%, to PLN 809.8 million as at June 30, 2016 from PLN 769.8 million as at December 31, 2015 due to the depreciation of the PLN versus the EUR in the analyzed period.

Deferred income tax liabilities increased by PLN 273.3 million, or 44.4%, to PLN 889.1 million as at June 30, 2016 from PLN 615.8 million as at December 31, 2015, i.a. due to the acquisition of Midas Group.

Non-current and current deferred income amounted to PLN 697.8 million as at June 30, 2016, which constitutes an increase by PLN 17.0 million, or 2.5%, compared to PLN 680.8 million as at December 31, 2015.

The value of other non-current liabilities and provisions amounted to PLN 148.9 million as at June 30, 2016, which constitutes an increase by PLN 24.7 million, or 19.9%, compared to PLN 124.2 million as at December 31, 2015, due i.a. to provisions in Midas Group.

The value of trade and other payables amounted to PLN 1,365.9 million as at June 30, 2016 which constitutes a decrease by PLN 119.5 million, or 8.0%, compared to PLN 1,485.4 million as at December 31, 2015. This decrease was driven primarily by the recognition in the comparable period of liabilities related to derivatives hedging future interest payments on term loans (IRS) and EUR denominated notes (CIRS), as well as lower liabilities related to the purchase of non-current and intangible assets.

Income tax liabilities decreased by PLN 137.0 million, or 77.8%, to PLN 39.1 million as at June 30, 2016 from PLN 176.1 million as at December 31, 2015, i.a. due to the backflush settlement by Polkomtel in March 2016 of corporate income tax, which was paid in the advance payment model in 2015.

4.3.4 Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the 6-month period ended June 30, 2016, as well as the 6-month period ended June 30, 2015. All data is expressed in millions PLN.

[mPLN]	for the 6 months ended June 30(1)		change	
	2016	2015	mPLN	%
Net cash from operating activities	1,376.0	1,304.3	71.7	5.5%
Net cash from/(used in) investing activities	(864.7)	(347.6)	(517.1)	148.8%
Net cash from/(used in) financing activities	(1,080.0)	(1,310.0)	230.0	(17.6%)
Net increase in cash and cash equivalents	(568.7)	(353.3)	(215.4)	61.0%
Capital expenditure	(240.8)	(277.7)	36.9	(13.3%)

(1) Results of Midas Group consolidated from February 29, 2016.

Net cash from operating activities

Net cash from operating activities amounted PLN 1,376.0 million in the first half of 2016, which constitutes an increase by PLN 71.7 million, or 5.5%, compared to PLN 1,304.3 million in the first half of 2015. The increase in net cash from operating activities was mainly the result of the net profit generated in the first half of 2016, amounting to PLN 409.4 million, adjusted by a series of factors, the most significant being:

- a lower increase in receivables and other assets in the first half of 2016 than in the corresponding period of 2015,
- recognition of net gains on derivatives in the first half of 2016 versus a net loss on derivatives in the corresponding period,
- higher costs related to foreign exchange differences recognized in the first half of 2016 than in the corresponding period of 2015,
- an increase in liabilities, provisions and deferred income in the first half of 2016 compared to a decrease in liabilities, provisions and deferred income than in the corresponding period of 2015,
- lower income tax in the first half of 2016 than in the comparable period,
- higher costs of depreciation, amortization, impairment and liquidation in the first half of 2016 than in the corresponding period of 2015,

- lower interest costs in the first half of 2016 than in the corresponding period of 2015,
- higher payments for film licenses and sport broadcasting rights combined with higher amortization costs of film licenses and sport broadcasting rights in the first half of 2016 than in the corresponding period of 2015.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 864.7 million in the first half of 2016, which constitutes an increase by PLN 517.1 million, or 148.8%, from PLN 347.6 million in the corresponding period of 2015. This item primarily comprised the purchase of Midas Notes by Polsat Group for the total amount of PLN 323.6 million, the acquisition of non-controlling shares in Midas Group net of cash acquired, the payment for the reservation of four blocks in the 2600 MHz band, won by Polkomtel in the LTE auction concluded in 2015 and current expenditure on investments of Polsat Group.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 1,080.0 million in the first half of 2016, which constitutes a decrease by PLN 230.0 million, or 17.6%, compared to PLN 1,310.0 million in the first half of 2015 The level of cash used in financing activities in the first half of 2016 was affected primarily by the refinancing of the PLK Senior Notes and the associated premium for a premature redemption, the refinancing of term loans, the repayment of bank loans granted to Midas Group, as well as inflow from the beneficial realization of currency hedging instruments.

Capital expenditure on the purchase of property, plant and equipment and intangible assets

In the first half of 2016 cash expenditures of Polsat Group on the purchase of property, plant and equipment and intangible assets decreased by PLN 36.9 million, or 13.3%, to PLN 240.8 million from PLN 277.7 million in the first half of 2015. These expenditures comprised among others, the continued roll-out of the telecommunications network based on HSPA+ and LTE technologies, the modernization of the transmission network, the purchase of IT software and licenses, the modernization of service platforms, the execution of the project of integration and modernization of server environments, a replacement of the switchboard at the call center, the purchase of equipment related to the launch of the Cyfrowy Polsat GO services and expenditures related to the construction of the new recording studio.

4.3.5 Liquidity and capital resources

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. Our objective is to ensure cost-efficient access to various financing sources, including bank loans and other borrowings.

We believe that our cash balances and cash generated from our current operations, as well as means available within our revolving facilities (described below) should be sufficient to fund the future cash needs for our operational activity, development of our services, service of our debt as well as for realization of a majority of investment plans in the field of the Group's activity.

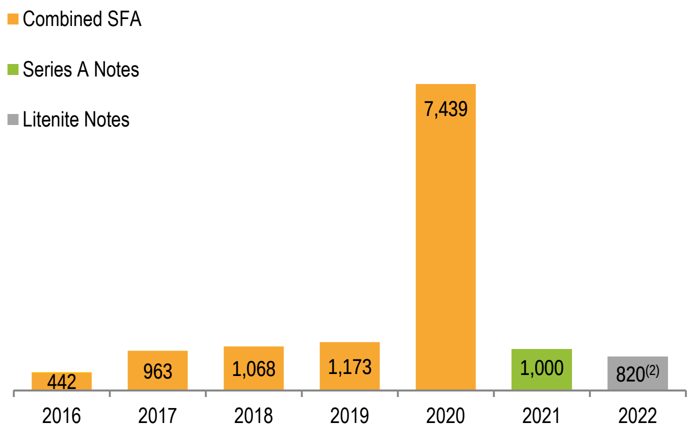
The table below presents a summary of the indebtedness of the Group as at June 30, 2016.

	Balance value [mPLN]	Coupon / interest	Maturity date
Combined SFA	11,001.9	WIBOR + margin	2020
Revolving Facility Loan	-	WIBOR + margin	2020
Series A Notes	1,017.3	WIBOR + 2.5%	2021
Zero-coupon Litenite Notes	819.9	10%	2022
Leasing and other	29.8	-	-
Gross debt	12,868.9	-	-
Cash and cash equivalents (3)	(955.4)	-	-
Net debt	11,913.5	-	-
EBITDA LTM	3,593.0	-	-
Net debt / EBITDA LTM according to SFA (2)	3.09	-	-
Total net debt / EBITDA LTM	3.32	-	-

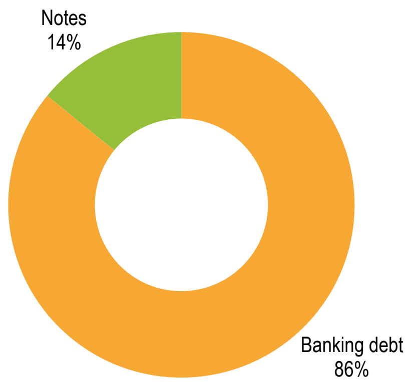
1) This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.
2) Net debt calculated in accordance with the Combined SFA definition, i.e. excluding non-cash serviced debt.

The graphs below present the aging balance of the Group's debt and its currency composition as at June 30, 2016, expressed in nominal values and excluding the debt under the Revolving Facility Loan.

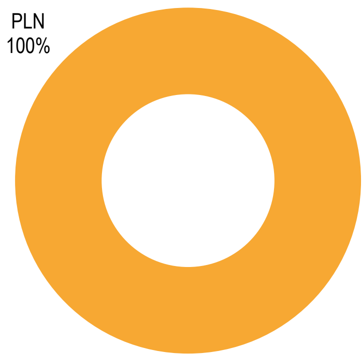
Debt maturing profile[1]
as at June 30, 2016 [mPLN]



Debt structure by instrument type [1]
as at June 30, 2016



Debt structure by currency [1]
as at June 30, 2016



(1) Nominal value of the indebtedness as at June 30, 2016 (excluding the Revolving Facility Loan)
(2) Liability related to the Litenite Notes as at June 30, 2016.

Material financing agreements executed by the Group

Presented below is information on significant agreements executed by the Company and the Group companies, which remain in force as at the date of publication of this Report, as well as a brief description of those agreements, which have expired in the first half of 2016 due to the repayment of debt granted on their basis.

Combined Senior Facilities Agreement

On September 21, 2015, the Company, as the borrower, along with Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy concluded a Senior Facilities Agreement with a consortium of Polish and foreign financial institutions, led by Powszechna Kasa Oszczędności Bank Polski S.A., Bank Zachodni WBK S.A., ING Bank Śląski S.A., Société Générale (Global Banking Coordinators) with the participation of PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 1, PZU Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych BIS 2, BNP Paribas Fortis SA/NV, Bank Polska Kasa Opieki S.A., The Bank of Tokyo-Mitsubishi UFJ Ltd., Bank of China (Luxembourg) S.A., Credit Agricole Corporate & Investment Bank, Credit Agricole Bank Polska S.A., DNB Bank Polska S.A., DNB Bank ASA, HSBC Bank Polska S.A., HSBC Bank plc, Bank Handlowy w Warszawie S.A., CaixaBank, S.A. (Spółka Akcyjna) Oddział w Polsce, mBank S.A., Bank Millennium S.A., Raiffeisen Bank Polska S.A., Goldman Sachs Bank USA, Erste Group Bank AG, Deutsche Bank Polska S.A., and UniCredit Bank AG, London Branch, acting as the Facility Agent and the Security Agent (the "CP Facilities Agreement").

Moreover, on September 21, 2015, a Senior Facilities Agreement was concluded between Polkomtel as the borrower along with Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and the consortium of Polish and foreign financial institutions indicated above (the "PLK Facilities Agreement").

Based on the CP Facilities Agreement the Company had been awarded a term facility loan up to PLN 1,200.0 million and a revolving facility loan up to PLN 300.0 million. Based on the PLK Facilities Agreement Polkomtel has been awarded a term facility loan up to PLN 10,300.0 million and a revolving facility loan up to PLN 700.0 million.

The Company utilized the funds obtained under the CP SFA in particular to repay the indebtedness under the Refinanced CP Senior Facilities Agreement of April 11, 2014 between the Company (as the borrower) and a consortium of financial institutions. Polkomtel utilized the funds granted under the PLK Term Facility in particular to fully repay the outstanding debt under the Facilities Agreement of June 17, 2013 concluded between Polkomtel, Eileme 2, Eileme 3 and Eileme 4, and a consortium of Polish and foreign banks and financial institutions (the repayment took place on September 28, 2015), and to fully repay the indebtedness under the PLK Senior Notes (the repayment took place on January 29, 2016). Furthermore, the Group uses the funds obtained under the CP and PLK SFA to finance general corporate needs.

In connection with the redemption on February 1, 2016 of the PLK Senior Notes, amendments, provisioned for in the Amendment, Restatement and Consolidation Deed of September 21, 2015 were incorporated to the CP SFA (for details see current report no. 42/2015 dated September 21, 2015). The amendments consisted, in particular, in increasing the maximum amount of the term loan to PLN 11,500.0 million and of the revolving facility to PLN 1,000.0 million and the repayment in full of the indebtedness under the PLK SFA. Furthermore, Polkomtel and other subsidiaries of the Company, who were parties to the PLK SFA, have acceded to the CP Senior Facilities Agreement as a borrower and guarantor or guarantor and additional security interests were established as required by the Amendment, Restatement and Consolidation Deed. Given the above, we will refer to the amended CP SFA as the Combined SFA, and the term loan and revolving facility granted under this agreement as the Term Loan and Revolving Facility, respectively.

On May 27, 2016 subsidiaries acquired by Polkomtel on February 29, 2016 ceded to the Combined SFA - Litenite Limited, as an Additional Guarantor, and Midas, as an Additional Borrower and Additional Guarantor.

The Term Facility and the Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the Term Facility and the Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin, with the maximum margin level applicable when the net consolidated indebtedness to consolidated EBITDA ratio exceeds 3.50:1, and the minimum margin level applicable when that ratio is no higher than 1.50:1, whereby the value of consolidated net debt used in the calculation of this ratio, pursuant to the definition set out in the Combined SFA, excludes debt instruments in which interest is not paid in cash on a current basis. The period of the Term Facility and the Revolving Facility is five years and the final repayment date for each of these facilities is September 21, 2020. The Term Facility and the Revolving Facility are to be repaid in quarterly installments of variable value.

Pursuant to the Combined SFA the Company and its Group companies established certain collaterals for the credit facilities granted thereunder. In particular, these collaterals include registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of the Company and its selected subsidiaries, registered and financial pledges on shares in the Company's subsidiaries, registered and financial pledges on receivables related to bank accounts kept for the Company or its selected subsidiaries, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares or assets of the Company's subsidiaries, to be governed by foreign laws. A detailed description of established securities is presented in item 4.3.6. of this Report – *Operating and financial review of Polsat Group – Review of our financial situation - Information on guarantees granted by the Company or subsidiaries.*

When the net consolidated indebtedness to consolidated EBITDA ratio falls to or below 1.75:1, the Company will have a right to demand that the collaterals for the Combined Senior Facilities Agreement be released (save for guarantees granted on the basis of the Combined SFA). However, such released collateral will need to be re-established if the net consolidated indebtedness to consolidated EBITDA ratio again rises above 1.75:1. Additionally, if certain members of the Company's Group incur secured indebtedness, a pari passu collateral will need to be established in favor of the Security Agent (acting for, among others, the lenders under the Combined Senior Facilities Agreement).

Furthermore, in accordance with the provisions of the Combined SFA the Company and other entities from the Group may incur additional facilities. The terms of such additional facilities will be established individually in separate additional facility accession deeds and their terms will have to satisfy certain criteria, depending on the net consolidated indebtedness to consolidated EBITDA ratio.

Pursuant to the Combined SFA, certain members of the Group are to grant guarantees under the English law to each of the financing parties under the Combined SFA and other finance documents executed in relation thereto. The amount of the guarantees will be equal to the amount of the facility increased by all fees and receivables contemplated in the Combined SFA or other finance documents executed in relation thereto. The guarantees secure:

(i) the timely discharge of the obligations under the Combined SFA and other finance documents executed in relation thereto,

(ii) a payment of amounts due under the Combined SFA and other finance documents executed in relation thereto; and

(iii) an indemnification of the financing parties referred to above against any liabilities, costs and losses that such financing parties may incur in relation to unenforceability, ineffectiveness or unlawfulness of any obligation secured by these guarantees. The period of the guarantees has not been specified. The guarantors will be remunerated at arm's length for granting the guarantees.

The Combined SFA provides for typical conditions precedent for the disbursement of the contemplated facilities and certain conditions subsequent for the disbursement of the contemplated facilities, also typical for this kind of transactions.

Series A Bonds issued by Cyfrowy Polsat

Pursuant to the resolution of the Management Board adopted on July 2, 2015, Cyfrowy Polsat issued on July 21, 2015 1,000,000 unsecured, unsubordinated series A bearer bonds with a nominal value of PLN 1,000.0 each and a total nominal value of PLN 1,000.0 million, maturing on July 21, 2021 (the "Series A Bonds" or the "Bonds"). The Bonds were issued by way of a public offering. Detailed terms and conditions of the Bonds' issuance, redemption and payment of interest are specified in the Bonds Terms.

The interest rate on the Bonds is floating and based on the WIBOR rate for six-month deposits denominated in PLN, increased by a margin whose value depends on the value of the Leverage Ratio (defined in the Bonds Terms as ratio of the net financial indebtedness to EBITDA):

(i) the margin amounts to 250 bps if the Leverage Ratio in the given period is less than or equal to 3.5:1;

(ii) the margin amounts to 275 bps if the Leverage Ratio in the given period is greater than 3.5:1 but less than or equal to 4.0:1;

(iii) the margin amounts to 325 bps if the Leverage Ratio in the given period is greater than 4.0:1.

The coupon is paid biannually on January 21 and July 21.

In accordance with the provisions of the Bonds Terms, the Company may exercise at any time an early redemption of of all or part of the Bonds, however, the early redemption may not apply to Bonds that constitute less than 10% of the total nominal value of the Series A Bonds. An early redemption shall be exercised based on the Bonds' nominal value together with the accrued interest plus an applicable premium depending on the date of redemption, specified as follows:

(i) if the early redemption occurs before or on July 21, 2016, the premium shall be equal to 3% of the nominal value of the Bonds subject to the early redemption;

(ii) if the early redemption occurs between July 21, 2016 and July 21, 2017, the premium shall be equal to 2% of the nominal value of the Bonds subject to the early redemption;

(iii) if the early redemption occurs between July 21, 2017 and July 21, 2018, the premium shall be equal to 1% of the nominal value of the Bonds subject to the early redemption;

(iv) if the early redemption occurs after July 21, 2018, the Bonds shall be redeemed according to their nominal value.

Additionally, pursuant to the Bonds Terms, the Company and its subsidiaries are obliged to maintain required levels of certain financial ratios and are subject to restrictions, with respect to (but not limited to):

(i) acquisition or taking up of shares in other companies;

(ii) extending guarantees or granting sureties, accession to debt or release from liability;

(iii) granting loans;

(iv) disposing of assets;

(v) payment of dividends or advance dividends, payment of the price for own shares, or returns of additional payments to shareholders;

(vi) incurring of financial indebtedness and

(vii) entering into composition agreements.

In the event of a breach of restrictions specified in the Bonds Terms, Bondholders are entitled to demand an early redemption of Bonds held by those Bondholders with the consent of the Meeting of Bondholders.

In the event of change of control, as defined in the Bonds Terms, cessation of business activity or insolvency by the Company, i.a. by declaring bankruptcy or liquidation of the Company, Bondholders are entitled to demand an early redemption of Bonds held by those Bondholders.

On August 12, 2015, the Series A Bonds were introduced to trading in the alternative trading system on the Catalyst market managed by WSE.

The Bonds are issued under Polish law and any disputes related to the Bonds shall be resolved in proceedings at the Polish common court having jurisdiction over the registered office of the Company.

Litenite Notes

Litenite, a subsidiary of Cyfrowy Polsat acquired on February 29, 2016, issued zero-coupon unsecured loan notes 2022 with the total nominal value of PLN 1,524.4 million and the issue price of PLN 782.0 million, maturing on December 31, 2022.

Litenite may exercise an early redemption of the all or part of the Litenite Notes. An early redemption shall be exercised based on the Litenite Notes' value calculated as at the date of the early redemption plus an applicable premium depending on the date of redemption, specified as follows:

(i) if the early redemption occurs not sooner than January 2, 2016 and not later than January 1, 2017, the premium shall be equal to 10.0% of the issue price;

(ii) if the early redemption occurs not sooner than January 2, 2017 and not later than January 1, 2018, the premium shall be equal to 7.5% of the issue price;

(iii) if the early redemption occurs not sooner than January 2, 2018 and not later than January 1, 2019, the premium shall be equal to 5.0% of the issue price;

(iv) if the early redemption occurs not sooner than January 2, 2019 and not later than January 1, 2020, the premium shall be equal to 2.5% of the issue price;

(v) if the early redemption occurs on January 2, 2020 or later, the notes shall be redeemed without a premium.

In the event of a breach of restrictions specified in the terms of issuance of the Litenite Notes, are entitled to demand an early redemption of the held notes.

PLK Senior Notes

On January 26, 2012 Eileme 2, Eileme 3, Eileme 4, Spartan (whose legal successor is Polkomtel), Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, Citigroup Global Markets Deutschland AG, executed an Indenture on the issue of senior notes by Eileme 2 for a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, subsequently joined by selected Polkomtel subsidiaries.

On February 1, 2016, Eileme 2 redeemed all of the PLK Senior Notes denominated in EUR and USD at the redemption price (expressed as percentages of principal amount) equal to 105.875% for the PLK Senior Notes denominated in EUR and 105.813% for the PLK Senior Notes denominated in USD.

Series A bonds issued by Midas (the "Midas Notes")

Pursuant to the resolution of the management board adopted on March 6, 2013, amended by the resolutions of the management board of March 28, 2013, July 2, 2015 and March 14, 2016, Midas issued on April 16, 2013 583,772 zero-coupon, dematerialized, secured on selected assets, series A bearer notes with the nominal value of PLN 1,000.0 each and the total nominal value of PLN 583.8 million, maturing on April 16, 2021.

On August 5, 2013, the series A notes issued by Midas were introduced to trading in the alternative trading system on the Catalyst market managed by WSE. On May 12, 2016 the Group purchase a majority of Midas Notes.

The Midas Notes are issued under Polish law and any disputes related to the Bonds shall be resolved in proceedings at the Polish common court having jurisdiction over the registered office of Midas.

As at June 30, 2016, following the purchase of Midas Notes on May 12, 2016, companies belonging to Polsat Group are the owners of the majority of Midas Notes. Consequently, the book value of these notes is subject to elimination during consolidation and therefore is not presented in the summary of Polsat Group's financial indebtedness.

Investment loan agreements concluded between Aero2 and Plus Bank S.A.

On October 27, 2010 and November 25, 2010 investment loan agreements, as amended, were concluded between Aero2 Sp. z o.o., as borrower, and Invest Bank S.A. (currently Plus Bank S.A.) as the creditor, with the aim to refinance and finance investment expenditures on telecommunication infrastructure.

Based on these agreements, as amended, Aero2 was granted a term loan in the total amount of PLN 64.5 million. The indebtedness under the agreements with Plus Bank S.A. was repaid, using own funds, in full on May 10, 2016 by Midas Group, and all securities established pursuant to the agreements, have been released.

Investment loan agreement concluded between Midas Group and Bank Polska Kasa Opieki S.A.

On July 10, 2014 Midas and its subsidiaries: Aero2 Sp. z o.o., CenterNet S.A. and Mobyland Sp. z o.o., as borrowers, and Bank Polska Kasa Opieki S.A. as creditor concluded an investment loan agreement, later amended by amendments dated March 30, 2015, June 26, 2015 and October 22, 2015.

Based on this agreement, as amended, Midas Group was granted a term loan in the total amount of PLN 350.0 million. The funds acquired under this agreement were used in particular for the development of the LTE and HSPA+ networks, and to refinance the earlier indebtedness of Midas Group amounting to PLN 150.0 million.

The indebtedness under the loan agreement with Bank Polska Kasa Opieki S.A. was repaid in full on April 29, 2016 by the companies Midas and Aero2, and all securities established pursuant to the agreement, have been released. Funds used to repay the debt were generated from operating activities of Midas Group.

Contractual obligations

Contractual commitments to purchase programming assets

As at June 30, 2016 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	June 30, 2016 (unaudited)	December 31, 2015
within one year	154.2	178.1
between 1 to 5 years	104.8	116.4
Total	259.0	294.5

The table below presents outstanding commitments to purchase programming assets from related parties not included in the consolidated financial statements.

[mPLN]	June 30, 2016 (unaudited)	December 31, 2015
within one year	9.1	15.9
Total	9.1	15.9

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 129.3 million as at June 30, 2016 (PLN 136.3 million as at December 31, 2015). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at June 30, 2016 was PLN 70.9 million (PLN 63.8 million as at December 31, 2015).

Ratings

The table below presents a summary of ratings assigned to Polsat Group as at the date of publication of this Report.

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
CYFROWY POLSAT						
Corporate rating	Ba2 / stable	Ba3 / positive	16.05.2016	BB+/stable	BB/ CreditWatch Positive	25.09.2015

On September 25, 2015 Standard & Poor's Rating Services, among others upgraded its long-term corporate credit rating on the Company from "BB" to "BB+" with a stable outlook. S&P justified its decision by the expected significant improvement of the Company's capital structure due to the refinancing of the existing debt of the Group. In its media release S&P emphasized in particular greater flexibility resulting from the ultimate pooling of the facilities of companies belonging to the Group, the elimination of foreign exchange risk given that the debt under the new facilities agreements will be denominated solely in Polish zloty, as well as the strengthening of the Company's credit metrics thanks to reduced interest costs.

On May 16, 2016 Moody's Investors Service upgraded the corporate family rating (CFR) of Cyfrowy Polsat S.A. from Ba3 to Ba2, with a stable outlook. In its justification Moody's stated that the rating upgrade primarily reflects the progress in the process of integration of Cyfrowy Polsat and Polkomtel, the continuing financing plans aimed at streamlining debt and corporate structure, the strategic and cost benefits deriving from the recent acquisition of Midas S.A. capital group and consistent deleveraging over the past year aimed at achieving the financial policy of target net leverage under 1.75x over the medium term.

Moody's also underscored Cyfrowy Polsat's capital group's strong market positions in Polish pay-TV and mobile telephony markets and its stable operations, supported by its integrated services offer smartDOM. Furthermore, the rating was positively influenced by a reduction in the Company's foreign exchange exposure, resulting from the completed process of refinancing indebtedness denominated in foreign currencies by debt denominated in Polish zloty, as well as good liquidity, supported by its solid free cash flow generation, an extended maturity profile and an undrawn PLN 1 billion Revolving Credit Facility.

4.3.6 Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

In order to secure the repayment of claims under the Combined Senior Facilities Agreement the following encumbrances over assets of the Group have been established by the Company and other Group companies until the date of publication of this Report:

(i) registered pledges over variable collections of movable property and rights comprised in the enterprises of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Plus TM Management Sp. z o.o., Midas and Aero2, governed by Polish law;

(ii) financial and registered pledges on shares in Cyfrowy Polsat Trade Marks Sp. z o.o. (with an aggregate nominal value of PLN 615,445,000), Telewizja Polsat (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 3,525,300,000) and in Plus TM Management Sp. z o.o. (with a total nominal value of PLN 2,106,000), and Aero2 (with a total nominal value of PLN 113,200,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;

(iii) financial pledges and registered pledges on Midas shares (with the nominal value of PLN 147,966,675), with powers of attorney to exercise corporate rights attached to the Company's shares; the shares so encumbered represent 100% of the total number of votes and share capital of Midas; the Company holds indirectly 100% of the total number of votes and share capital of Midas;

(iv) financial and registered pledges on receivables under bank account agreements of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme 4, Plus TM Management Sp. z o.o., Midas and Aero2, governed by Polish law;

(v) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme, Plus TM Management Sp. z o.o., Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., Telewizja Polsat Holdings Sp. z o.o., Netshare Sp. z o.o., INFO-TV-FM Sp. z o.o., Midas and Aero2, governed by Polish law;

(vi) ordinary and registered pledges on protection rights to trademarks vested in Polsat Brands (einfache Gesellschaft), governed by Polish law;

(vii) assignment for security of certain property rights in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., governed by Polish law;

(viii) contractual joint mortgage under Polish law on the following real properties owned by the Company: (a) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00102149/9, (b) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00136943/2, (c) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00102615/7, (d) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00101039/8, (e) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00132063/1, (f) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00104992/7, (g) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00100109/3, (h) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00103400/4, (i) land located in Warsaw, Targówek district, vicinity of ul. Łubinowa, Title and Mortgage Register WA3M/00100110/3, (j) land located in Warsaw, Targówek district, ul. Łubinowa, Title and Mortgage Register WA3M/00131411/9;

(ix) contractual mortgage governed by Polish law on the land property owned by Polkomtel and located in Warsaw, Ursynów district, in the vicinity of Baletowa street, comprising plots of land no. 131/4 and 132/6, Land and Mortgage Register No. WA5M/00478842/7;

(x) assignment for security of receivables under hedge agreements of the Company and Polkomtel, governed by English law;

(xi) assignment for security of rights under insurance agreements covering the property referred to in item (i) and item (viii) above;

(xii) pledge on shares in Polsat License Ltd. (with an aggregate nominal value of CHF 1,000,000), governed by the Swiss law; the pledged shares represent 100% of the company's share capital and are held by the Company as a long-term capital investment;

(xiii) pledge on shares in Eileme 1 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;

(xiv) pledge on shares in Eileme 2 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;

(xv) pledge on shares in Eileme 3 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;

(xvi) pledge on shares in Eileme 4 (with a total nominal value of SEK 500,000), governed by Swedish law; the pledged shares represent 100% of the share capital of the company and are held by the Company as a long-term capital investment;

(xvii) pledge on shares in Metelem (with a total nominal value of EUR 2,212,325) and on shares in Litenite (with the total nominal value of EUR 1,800), governed by Cypriot law;

(xviii) assignment for security of: (a) receivables due from various debtors, (b) receivables and rights to and in bank accounts; and (c) rights under insurance agreements of Polsat License Ltd., governed by the Swiss law;

(xix) assignment for security of rights under a license agreement between Polsat Brands (einfache Gesellschaft) and Polsat License Ltd. and rights under bank account agreements, governed by the Swiss law;

(xx) charges over accounts of Metelem, governed by Cypriot law;

(xxi) assignment for security of receivables and rights to and in bank accounts of Metelem, governed by the Swiss law;

(xxii) pledge on interests and property rights in Polsat Brands (einfache Gesellschaft), governed by the Swiss law;

(xxiii) pledge on receivables under bank account agreements of Litenite governed by Swiss law;

(xxiv) statements of the Company, Cyfrowy Polsat Trade Marks sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Telewizja Polsat, Polkomtel, Plus TM Management sp. z o.o., Midas and Aero2 on the submission to enforcement on the basis of a notarial deed, governed by Polish law; and

(xxv) statements of Litenite and Eileme 4 on the submission to enforcement on the basis of a notarial deed executed under the Polish law (concerning all property located in Poland or governed by Polish law).

5. OTHER INFORMATION IMPORTANT FOR THE ASSESSMENT OF THE COMPANY'S PERSONNEL, ECONOMIC AND FINANCIAL POSITION, AS WELL AS FINANCIAL RESULTS

5.1 Transactions concluded with related parties on conditions differing from market conditions

Transactions concluded in the first half of 2016 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 18 of the interim condensed consolidated financial statements for the 6-month period ended June 30, 2016.

5.2 Discussion of the difference of the Company's results to published forecasts

Polsat Group had not published any financial forecasts.

5.3 Material proceedings at the court, arbitration body or public authorities

The Management of Cyfrowy Polsat believes that the provisions for litigations as at June 30, 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer

On February 24, 2011 the President of UOKiK imposed penalty on Polkomtel in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court. According to management, during the inspection the Company had fully and at all times cooperated with UOKiK within the scope provided by the law. On June 18, 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 million (i.e. EUR 1 million). On October 20, 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. In the management's opinion it is more likely than not that the ultimate outcome of the proceedings will be favorable to Polkomtel, thus no provision was recognized.

On November 23, 2011 Polkomtel received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5 million. In management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the UOKiK's President regarding the penalty. Following SOKiK's verdict dated June 19, 2015 the penalty has been revoked in full. The verdict is non-binding. The President of UOKiK may appeal against the verdict.

On December 27, 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK, Polkomtel was charged with a penalty in the amount of PLN 4.5 million. The company appealed to SOKiK against the decision. On October 15, 2014, SOKiK issued a decision where the penalty has been reduced to PLN 1.5 million. On February 10, 2016 SOKiK's decision has been revoked thus re-establishing the penalty back at PLN 4.5 million. On March 15, 2016 Polkomtel made a payment in the amount of PLN 1.8 million. The company is waiting for the reconsideration of the case by SOKiK.

On December 23, 2014, the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8 million. The company appealed to SOKiK against the decision.

On December 30, 2014, the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication clients (which entered into a written agreement) with terms and conditions of the preferential sales offer as well as not informing about the termination of the preferential sales offer. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0 million. The company appealed to SOKiK against the decision.

On December 15, 2014, Polkomtel received a claim from Orange for the total amount of PLN 21 million related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On January 13, 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0 million. Polkomtel appealed against the verdict. In the management's opinion the claim is groundless.

In September 2015, Polkomtel received a claim from P4 Sp. z o.o., in which the company demands compensation of EUR 316 million (including interest of PLN 85 million), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Polska, Polkomtel and T-Mobile Polska. The management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In the management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

In addition to the matters described above, there are also other proceedings, for which provisions have been made according the best estimates of the management board members as to potential future outflows of the economic benefits required for their settlement. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases.

5.4 Factors that may impact our results in at least the following quarter

5.4.1 Factors related to social-economic environment

Economic situation in Poland

Macroeconomic trends in the Polish economy and the economic situation on global markets have thus far affected the operations and operating results of Polsat Group, and are expected to continue affecting them in the future. The key factors affecting our operations, in particular the demand for advertising and the spending on our services, include GDP growth, unemployment rate, changes in salaries in real terms, household consumption, and capital expenditure incurred by enterprises.

Based on Eurostat data, a noticeable recovery of economies both of Poland and other EU countries took place in 2014 and 2015. GDP growth for Poland in 2014 and 2015 was 3.3% and 3.6%, respectively. According to the latest Eurostat forecasts, GDP growth in Poland in 2016-2017 will be significantly higher than the EU average amounting to 3.5% in each year. The corresponding indicator in 28 EU countries is estimated at 1.9% in 2016 and 2.0% in 2017.

We believe that average consumer spending, including spending on pay TV, mobile telephony, Internet access and bundle services generally will grow in line with the overall GDP growth in Poland, and will support our future revenue growth. We expect that the economic recovery, anticipated in 2016-2017, will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

Our revenue from subscription fees is dependent upon the number of our customers and their loyalty, pricing of our services and the penetration rate of pay TV in Poland which we consider almost saturated.

The market on which we operate is very dynamic and competitive. Strong competition and the evolving market environment (including consolidation processes on the satellite and cable TV market) impact promotional offerings to our new customers. In addition, due to the heavy competition, we continuously invest in customer retention programs and loyalty building.

Currently, we consider our programming packages to offer the best value-for-money on the Polish DTH market. We believe that it gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, we offer pay TV services as part of our integrated offer under the smartDOM program, which has a positive impact of the loyalization of our customer base and contributes to maintaining a relatively low churn rate.

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still small in Poland (according to data presented by PwC (*Global entertainment and media outlook: 2014-2019)*, its value was estimated at ca. 15.0 million USD in 2015, while in Great Britain and Germany at USD 790.8 million and USD 397.5 million, respectively) and in our opinion has significant growth prospects. We consequently develop our services which provide our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our new service Cyfrowy Polsat GO. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of the advertising market in Poland

Part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts that 2016 will be another year of growth on the advertising market and forecasts the growth of total TV advertising expenditure, net at the rate of 2.1%. Given that TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still a substantial growth potential for TV advertising in Poland in the long term, and the expected economic recovery in 2016-2017 will positively influence the level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs.

The Internet advertising market is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 20.2% y-o-y and reached the value of nearly PLN 3.2 billion in 2015. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures on the video advertising segment, in which we generate our revenue. In 2015 those expenditures increased by 34% and represented 8% of the total expenditures on online advertising. According to PwC forecasts *(Global entertainment and media outlook: 2014-2019)* the online video advertising in Poland will grow by 19.5% (CAGR) in the years 2014-2019. We believe that thanks to the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels

With the high penetration of the Polish market by pay TV, that provides viewers with increasingly greater selection of thematic channels, as well as a broader offer of channels available via digital terrestrial television (DTT), main general entertainment channels (FTA) have experienced a decline in audience share. What is more, SMG Poland (previously SMG Starlink) data suggests that the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we have focused on developing our thematic channels portfolio.

Fixed-mobile substitution and growth of mobile broadband Internet saturation

Substituting fixed services with their mobile counterparts is the universal trend on the telecommunication market. The number of fixed lines and revenues generated by fixed line operators has been gradually decreasing along with the growing penetration of mobile services. This phenomenon has been visible in the voice services area, but currently the fixed-mobile substitution is already visible in the area of broadband Internet access.

In Poland the fixed-mobile substitution has a larger scale than in most of the EU countries. Based on the UKE data, in 2015 the volume of voice traffic in fixed-line networks, which amounted to 9.2 billion minutes, was already almost 10 times lower than the volume of voice traffic in mobile networks (ca. 91.8 billion minutes).

At the same time the availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, high-quality fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting from the high cost of build-out of local loops (the so called “last mile”).

High preference of Poles for mobile technology combined with improving quality of mobile data transmission as a result of the development of the LTE/LTE Advanced technology in our opinion create the opportunity for dynamic growth of the value of broadband Internet market in Poland in the next years, which we intend to utilize.

Growing demand for smartphones and data transmission

Popularity and sales of smartphones in Poland has been gradually growing. In the first half of 2016 93% of handsets sold by us to our telecommunication service customers were smartphones. At the same time, we estimate that at the end of June 2016 ca. 59% of phones used by our customers were smartphones, while this share was 50% in the previous year. This disproportion shows that the smartphones' penetration among our mobile services customers will grow consistently in the next years.

Popularization of smartphones translates into growing sales of data transmission products in the segment of small screen devices. According to data presented in the Ericsson Mobility Report dated June 2016, the volume of transmitted data will increase thirteen fold in the years 2015-2021.

We expect that the growing popularity and technological advancement of smartphones offered by manufacturers, combined with improving quality parameters of data transmission services provided in our mobile network and constantly extending offer of application and contents available for customers resulted in the growing demand for data transmission services.

Seasonality of advertising market

Our advertising revenue tends to be lowest during the third quarter of each calendar year due to the summer holiday period and highest during the fourth quarter of each calendar year due to the increased consumer spending during the Christmas season. In the year ended December 31, 2015, TV Polsat Group generated approximately 21.2% of advertising revenue in the first quarter, 27.1% in the second quarter, 21.3% in the third quarter and 30.4% in the fourth quarter.

Seasonality of the telecommunication market

Although our telecommunication business is not subject to significant seasonal effects, revenue from mobile telephony tends to increase during the summer period due to increased usage of roaming services by customers travelling abroad. In the first quarter of the year revenue from mobile telephony tends to be slightly lower compared to other quarters as a result of the fewer number of calendar and business days in February.

The December holiday period also has an impact on the costs level as a result of the seasonal growth in customer contract acquisition and retention transactions as well as an increase in our sales and marketing efforts resulting in higher costs of goods sold and external services costs, which typically lead to a seasonal decrease in EBITDA in the fourth quarter.

5.4.2 Factors related to the operations of the Group

Growing importance of integrated services

Growing interest in integrated services, observed among our customers base, provides us with a possibility to generate growth of average revenue per user. We carefully follow the evolution of expectations of our customers and strive to meet their growing needs by combining our pay TV, broadband Internet access and mobile television services into attractive packages.

The programs smartDOM (addressed to individual customers) and smartFIRMA (addressed to small businesses) allow our customers to combine in a flexible way products into packages, on which we offer attractive discounts. The program smartDOM, launched in 2014, yields excellent sales results. The possibility to sell additional products and services (cross-selling) to current customers of Cyfrowy Polsat and Plus network has a positive impact both on our revenue and the level of ARPU per contract client and in the future we expect positive effects of increased loyalty of customers, who use our integrated services.

We strive to meet the needs of our customers by offering to every basic service a broad range of complementary services. We combine our traditional pay TV services with VOD, PPV, Multiroom, online video services and mobile television. For Internet access and mobile telephony services we offer Value Added Services (VAS) - services including, among others, infotainment, location-based, financial and insurance services.

Proper utilization of the potential in the area of provision to our customers of integrated and value added services, both through up-selling of single products and value added services as well as through the sale of integrated offers, among others under the smartDOM program, may significantly increase the number of services per individual customer, thus increasing the average revenue per user (ARPU).

Providing Internet access services in LTE technology

We provide broadband Internet access services in numerous available mobile technologies, including mainly HSPA/HSPA+ and the latest LTE technology. Currently, LTE Internet has become the standard of mobile broadband Internet in Poland, successfully replacing the UMTS standard. Thanks to its technical characteristics and quality parameters, mobile LTE Internet often replaces fixed-line connections and satisfies increasingly demanding customers. In addition, it has the advantage of mobility, which is a significant feature for many consumers. We strongly believe that over the long term, as the necessary radio infrastructure and LTE-enabled devices develop, the LTE (and LTE-Advanced in the future) technology will revolutionize not only the broadband Internet market but also content distribution. The wide availability of our LTE Internet service and its superior quality confirmed by UKE research constitute a significant competitive advantage and help us to further increase our customer base both of stand-alone and integrated services.

We provide telecommunication services in the LTE technology based, among others, on frequencies and the network infrastructure of Midas Group, who is part of Polsat Group since February 29, 2016. On March 24, 2015, Midas Group launched the first commercial LTE 800 network in Poland, making it available to Polsat Group. As a result as at the end of March 2016 96.8% of Poles lived within the coverage of LTE Internet service offered by Plus and Cyfrowy Polsat. According to data published by operators, this is the broadest LTE coverage currently offered in our country.

Development of the LTE technology

In light of extremely high price levels attained in the LTE auction, concluded in 2015, we decided that potential cooperation with entities, who won 800 MHz frequency blocks, would be financially inviable and irrational, both for the Group as well as for our customers. Therefore, we have decided to invest in further development of our LTE network based on frequencies currently owned and utilized by Polkomtel and Midas Group, comprising 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands.

We expect that the roll out of the LTE network based first and foremost on a continuous 20 MHz block in the 1800 MHz band, the densification of the network of base station locations, a clear increase in the number of active transmitters and the application of the unique ODU-IDU technology (Outdoor Unit Indoor Unit) will allow us to maintain our competitive advantage in terms of quality of our mobile Internet service. The planned process of refarming of the 900 MHz and 2100 MHz spectrum constitutes another important solution, in consequence of which part of the spectrum currently used to provide 2G and 3G services will be allocated to the cutting edge LTE technology and, later on, LTE Advanced. As a result, we expect to achieve further improvement of the quality of the Internet access service provided by us. Concurrently, the level of capital expenditures required to execute the planned roll out of our mobile network will be significantly lower compared to the cost of purchase of the 800 MHz spectrum in the LTE Auction. Ultimately, this may translate into more attractive services and prices for customers than in the case of a network rollout based on the 800 MHz frequency band.

We believe that this plan will allow us to maintain our competitive advantage consisting in the provision of data transmission services of the highest quality while avoiding the excessive, in our opinion, cost of purchasing or leasing frequencies in the 800 MHz spectrum.

Development of IPLA

IPLA, being the leader on online video market, strengthens our position as aggregator and distributor of content and ensures an important competitive advantage. We continue to develop the service using our experience in sales of pay TV. Developing IPLA is a source of synergies in terms of costs and revenues. Costs synergies come from jointly executed content acquisition and investments in technology development, marketing activities, use of the same infrastructure as well as optimized use of back-office resources. Revenues synergies come from cross-selling and from increased attractiveness of current and new products introduced, that positively impact the customers' satisfaction level.

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in Ericsson Mobility Report dated June 2016, mobile video traffic is expected to grow at an average annual rate of 55% between 2015 and 2021. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

Attractive content of our TV channels

We offer the biggest and most versatile portfolio of TV channels on the Polish market, which places us in the leading position in terms of audience among private television groups in Poland and translates into our share in the advertising market. Our direct production covers mainly news programs, documentaries, shows and series based on international formats as well as solely created concepts. Moreover, we have contracts with major film studios, such as Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution or Monolith Films Sp. z o.o., which provide access to a wide selection of the most attractive films and series. We also offer a wide selection of sports transmissions, including FIFA World Championships 2018 qualifying stage, European Championships in volleyball and handball, boxing and mixed martial arts galas, World Rally Championship, Formula 1 races, Wimbledon and many others. We believe that attractive content, including content which is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

5.4.3 Factors related to the regulatory environment

International roaming in mobile networks

The level of wholesale and retail roaming rates for voice services (reception and execution of voice connections), short text messages, MMS and data transmission on the territory of the European Economic Area (EEA) is subject to regulations.

Pursuant to the Resolution of the European Parliament and Council of November 25, 2015 retail charges for regulated roaming services are to be levelled with domestic charges starting from June 15, 2017 (the “Roam like at home” concept).

As an interim solution, a rule was introduced stating that as of April 30, 2016 charges for regulated roaming services cannot exceed the domestic price increased by an addition roaming fee, whereby the sum of the domestic price and the additional roaming fee cannot exceed a specified level. The maximum additional roaming fees allowed during the transition period, excluding domestic prices, are equal to:

- 5 euro cents per 1MB of data transfer,
- 5 euro cents per minute in the case of outgoing voice calls,
- the average European MTR rate (1.14 euro cent) in the case on incoming voice calls,
- 2 euro cents per short text message.

Additionally, the maximum retail price levels, including the domestic price, remain in force. These levels are presented in the table below.

	Maximum retail prices (excluding VAT)		Maximum average wholesale prices (settlements between operators)
	until April 29, 2016	from April 29, 2016	from July 1, 2014 to present
Data transmission (1 MB)	20 euro cents	20 euro cents	5 euro cents
Outbound voice calls (minute)	19 euro cents	19 euro cents	5 euro cents
Inbound voice calls (minute)	5 euro cents	1.14 euro cents	n/a
SMS (1 SMS)	6 euro cents	6 euro cents	2 euro cents

In accordance with the above regulations, as of April 30, 2016 we have introduced changes in retail roaming prices for our customers, where level of retail charges applicable to domestic calls, which constitutes the basis for calculating the final charge for roaming services for retail customers, was specified based on individual pricelists dedicated to particular telecommunication tariffs. Hence, the level of reductions, from which our customers profit as of April 30, 2016, is diversified.

The implementation of the *Roam like at Home* concept on June 15, 2017 in line with the Regulation depends on the revision of wholesale charges for roaming services. In preparation for this the European Commission presented a proposal of a reduction of maximum average wholesale prices in roaming settlements across the EEA. If the proposal of the Commission is accepted by the European Parliament and the Council of the European Union, maximum average wholesale prices will change as presented in the table below:

	Maximum average wholesale prices (settlements between operators)	
	currently	from June 15, 2017
Data transmission (1 MB)	5 euro cents	0.85 euro cents
Outbound voice calls (minute)	5 euro cents	4 euro cents
Inbound voice calls (minute)	n/a	n/a
SMS (1 SMS)	2 euro cents	1 euro cents

Concurrently, the European Commission maintained its earlier intent to prepare to so called *Fair Usage Policy*, which would protect the interests of operators in individual member states after the implementation of the *Roam like at home* rule. Additionally, according to European Commission declarations, there is a possibility to release individual operators from the obligation of levelling retail roaming charges with domestic charges by introducing a mechanism of supplementary payments to domestic prices in order to cover losses, if the given operator can prove that he would not be able to cover incurred costs related to the provision of roaming services. The European Commission also began the re-analysis of the European market of mobile termination rates (MTR), which indirectly influences the maximum admissible level of retail rates for incoming calls in roaming.

Detailed regulations regarding the above issues are to be presented at the turn of 2016 and 2017.

Reservation of frequencies

The national strategy for frequency allocation is prepared by the President of UKE, taking into account national and social needs as well as international agreements. As a rule, frequency reservation for provision of telecommunication services is granted based on the application and, whenever there are more interested parties than available frequency resources, licenses are awarded by way of a tender or auction procedure.

A frequency license may be amended or withdrawn if, among other things, the licensed entity does not fulfill its commitments under the license, alters use of the frequency band, or fails to utilize the frequency band within a determined period of time from the date of allocation or interrupts its utilization for a specified period of time.

A frequency license is awarded for a specified term and the telecommunications operators may apply, from 12 to 6 months before the end of the period of exploitation of the frequencies, for renewal of the frequency allocation for a further period. The President of UKE, acting in consultation with the President of UOKiK, may decide to refuse to extend frequency allocation if revocation of the frequency allocation follows from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration at a single entity or within a single group. Pursuant to the law, making a reservation for frequencies for a subsequent period requires a one-time payment on behalf of the National Treasury.

As a result of the termination of the LTE auction of 5 blocks in the 800 MHz band and 14 blocks in the 2600 MHz block, Polsat Group's competitors gained the possibility to provide high quality services in LTE based on frequencies in the 800 MHz band. Our competitors are rolling-out their mobile networks based on the 800 MHz spectrum, thus consistently increasing the coverage of their respective networks. It is possible that telecommunication operators will enter into cooperation in the scope of network sharing, which may have a significant effect on the shape of the Polish telecoms market in the foreseeable future. Concurrently, it cannot be unequivocally predicted, whether high costs of financing the purchase of the 800 MHz spectrum incurred by our competitors will be reflected in their pricing policies related to mobile services.

It must be emphasized that legal proceedings in connection with the modification of the rules ending the auction while the auction process was in progress cannot be excluded. This may be due to strong protests of the majority of parties participating in the auction, supported by numerous opinions of recognized constitutionalists as well as experts and analysts of the telecoms market, all of which agree that the solution introduced by the ministry of administration and digitization is unconstitutional. There is a risk that legal proceedings may lead to challenging the results of the auction, announced by UKE, or even the cancellation of the entire auction process.

Registration of prepaid SIM cards

Until recently the anonymous use of prepaid mobile services in Poland was possible, i.e. the user was not obligated to provide any personal data. In accordance with the provisions of the Anti-terrorist Act of July 10, 2016, existing prepaid SIM users have been obligated to provide their personal data to their telecom operators until February 1, 2017 at the latest. Concurrently, telecommunication operators have been obligated to properly verify the provided personal data. Operators have been obligated to discontinue the provision of services for those SIM cards, which will not be properly registered by the indicated deadline. In addition, from July 25, 2016 telecommunication operators may start the provision of services for the newly sold prepaid SIM's only after their registration.

Polkomtel provided the possibility of SIM card registration by its prepaid service users via numerous channels, including Polkomtel's and Cyfrowy Polsat's points of sale, remote sales channels, as well as selected, nationwide partner networks. An information campaign has been launched in parallel, with an attractive promotional offer to encourage customers to register early.

As a result of the implementation of the regulations stemming from the anti-terrorist act, a remodeling of Polish mobile market can be expected, in particular a reduction of the volume of sales of prepaid SIM's with the simultaneous extension of the average period of activity of registered SIM's, as well as a reduction of prepaid customer bases reported by respective operators (due to the elimination of the so-called "dead souls"). Thus the size and the mobile penetration figures for the Polish market should become more realistic. At the same time, it can be expected that part of prepaid service customers, who visit points of customer service in order to register their prepaid SIM's, will decide to enter into postpaid contracts with their operators, which may have a positive impact on the size of our contract base in the coming quarters.

5.4.4 Financial factors

Exchange rates fluctuations

Zloty (PLN) is our functional and reporting currency. Our revenue is primarily denominated in PLN, whereas a portion of our expenses and capital expenditures is denominated in foreign currencies.

Foreign exchange rate fluctuations have historically affected the level of our operating costs, finance costs, as well as the profit or loss on investing activities, and are expected to do so in the future. In particular, our exposure to foreign exchange rate fluctuations stems from our foreign currency payments for:

(i) licensing fees paid to TV broadcasters;
(ii) signal transmission-related charges;
(iii) access to the offering of leading film and TV studios, and of other programming suppliers and producers, including sports federations;
(iv) set-top box parts, and other hardware and software;
(v) transponder capacity lease;
(vi) telecommunication equipment for mobile telephony customers;
(vii) UMTS license fees;
(viii) telecommunication network equipment;
(ix) selected leases of land for telecommunication network sites;
(x) selected office building lease agreements;
(xi) international roaming and interconnect agreements; and
(xii) other trade obligations.

We have no control over how exchange rates will change in the future, and consequently foreign exchange rate fluctuations will continue to affect (positively or negatively) our operations and financial results. Considering our open exposure to the currency exchange risk, the Group has in place a market risk management policy and uses, inter alia, natural hedging and hedging transactions.

Refinancing of the Group's debt

On September 21, 2015, Polsat Group entered into a facility agreement with a consortium of Polish and foreign financial institutions comprising a term facility of up to PLN 11.5 billion and a revolving facility of up to PLN 1.0 billion, which, together with the Series A Bonds with the total nominal value of PLN 1.0 billion, issued in July 2015, was used to refinance the entire indebtedness of the Group.

The new debt financing structure of the Group is characterized by better financial terms and guarantees greater flexibility of current operational and investing activities of the Group. As a result of the refinancing process we expect annual interest savings of ca. PLN 400 million which significantly increases the potential for generating free cash flows.

The Combined SFA has built-in mechanisms of bank margin reduction parallel to the decrease in the net debt to EBITDA ratio, which means that by generating cash from operating and investing activities and by maintaining a high level of EBITDA we are able to decrease interest costs and payments.

Furthermore, the Combined SFA and the Series A Bonds are based on a floating market interest rate, therefore fluctuations of interest rates in Poland will have an effect on value of current debt costs. Taking into account our open exposition to interest rate fluctuations, the Group actively uses hedging transaction in order to limit this risk.

6. RISK FACTORS

6.1 Risks related to our business and the sector in which we operate

The results of our operations in the telecommunications sector depend on the ability to effectively encourage the existing customers to use a wider range of our services, win customers from competitive mobile and fixed-line operators, as well as the ability to reduce churn

It is expected that further growth of our operations on the mature Polish mobile telephony market will chiefly depend on the ability to effectively encourage the existing customers to use a wider range of services offered by us, win customers from competitive mobile and fixed-line operators, as well as the ability to reduce the churn rate. The Group cannot give any assurance that the measures it is undertaking will encourage its existing customers to use a wider range of services or attract customers from competitive mobile and fixed-line operators, or that the measures we are undertaking to increase customer loyalty will reduce the rate of churn or allow the Group to maintain the current churn rate. If we are unable to successfully manage the churn rate, we may be forced to significantly reduce our costs to maintain satisfactory profit margins, or to take alternative steps, which could in turn result in higher costs of customer acquisition and retention.

In addition, the mobile telecommunications industry is characterised by frequent developments in product offerings, as well as by advances in network and handset technology. If we are unable to maintain and upgrade our network and provide customers with an attractive portfolio of products and services, we may not be able to retain customers or the customers' retention costs may increase. Likewise, if we fail to effectively advertise our products and services, acquisition of new customers may be impossible or very difficult.

Additionally, competing mobile operators may improve their ability to attract new customers, or offer their products or services at lower prices, improve their attractiveness for customers, which could make it more difficult for us to retain the current customer base, and the cost of retaining and acquiring new customers could increase.

All such events could have a material adverse effect on the results of our operations, financial condition and prospects.

Our performance depends on our customers' satisfaction, the acceptance of our programming content by viewers, as well as our ability to generate profit from our own productions or from acquired broadcasting rights

We operate on markets where a commercial success primarily depends on customer satisfaction and acceptance of programming content, and viewers' reactions are often difficult to predict. We strive to acquire and retain pay TV customers by providing them with access to a broad range of channels, including sports, music, entertainment, news, children's, educational and film channels, all main terrestrial television channels available in Poland, as well as HD and free-to-air TV and radio channels. Whether customers are satisfied with our programming is vital for our ability to acquire and retain customers, as well as to generate and increase customer revenue.

Our ability to generate advertising revenue in the TV production and broadcasting segment depends almost entirely on viewers' demand for our programmes. Audience shares achieved by programmes we broadcast directly affect both the attractiveness of our television channels to existing and potential advertisers and rates we are able to charge for advertising time. In the TV broadcasting and production segment we also generate revenue from production and sale of television programmes to third parties operating in Poland and, to a lesser extent, abroad. Prices which we are able to receive from potential buyers of our own productions are directly linked to the audience for those programmes, as third-party buyers, interested in generating advertising revenue, look for programming contents with highest viewership numbers.

Demand for TV programmes and programming preferences change frequently, irrespective of the media on which they are carried. We might not be able to attract or retain customers to our pay TV services if we are not able to effectively predict demand for programmes or changes in audience tastes, or if our competitors prove better at such predictions. This may bring about an increase in customer churn, while in the TV production and broadcasting segment it may result in decreasing audiences for our programmes and subsequent difficulties in acquiring advertisers

To some extent, the profitability of our operations depends on our ability to produce or obtain broadcasting rights to the most attractive programmes in a cost-effective manner. While costs of in-house productions of television content are usually higher than costs of purchasing third-party programmes, we believe that a larger number of Polish programmes broadcast on our channels will increase viewers' demand and consequently increase the demand from advertisers. However, there can be no assurance that financial outlays we have made or will make in the future on Polish programming production will be fully recovered or that we will be able to generate revenue high enough to offset those costs.

Consequently, if customers do not accept our programming offer or we are unable to produce programmes or acquire broadcasting rights in a profitable manner, it may have a material adverse effect on our financial condition, results of operations or prospects.

We may be unable to attract or retain customers and advertisers if we fail to conclude or extend the license agreements under which we distribute key programs

Our performance depends on our ability to acquire attractive television programmes. Our pay TV customers' access to television channels depends entirely on our purchase of licences from TV broadcasters. In the TV production and broadcasting segment, we independently produce certain TV programmes, while other TV programmes and content are broadcast under licence agreements. Our licence agreements are usually concluded for definite periods, usually two to three years for films and TV series, and three to five years for sports programmes. Under certain circumstances, a licensor may terminate a licence agreement before it expires without our consent. This is particularly likely if we fail to fulfil our obligations, including the obligation to pay licence fees. In order to acquire and retain customers and advertisers, it is necessary to maintain an attractive selection of TV programmes. There can be no assurance that our licence agreements will be extended on equally favorable terms or that they will be extended at all, nor can we exclude the possibility that a licensor will terminate the licence agreement before its agreed expiry date. Our inability to obtain, maintain, or extend important programme licences may make it difficult for us to provide and offer new attractive channels and programmes, which may result in losing our ability to acquire and retain customers and advertisers. This in turn may have a material adverse effect on our performance, financial condition and growth prospects.

Our ability to increase sales of our services depends on the effectiveness of our sales network

We operate an organised and specialised Poland-wide sales network, which distributes products and services offered by our Group. Because of growing competition with other pay TV providers and telecommunications services providers, we might have to raise fees paid to our distributors in order to expand the sales and distribution network, and change the channels we are using to distribute our services. Any potential increase of fees paid to distributors in our sales and distribution network will result in higher operating costs and probably lead to lower profit from operating activities. Furthermore, if we decide that our distribution network requires extensive reorganisation or reconstruction, we may face the need to incur substantial financial outlays. Any failure to maintain, expand or modify our sales and distribution network may make it much harder to acquire and retain customers of our services, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

In our business, we depend on third-party providers for certain services, infrastructure or equipment. If these are delivered late or if they are not delivered at all our services may delayed or even suspended

External providers provide us with support services and deliver equipment and infrastructure necessary for us to conduct our operations. We have little to no influence over how and when these third-party providers perform their obligations.

We collaborate with a number of third parties in providing our pay TV, broadband Internet access and mobile telephony services. Our ability to deliver pay TV services to the customers depends on the correct operation of the infrastructure and equipment belonging to the entities with which we collaborate. For instance, we lease transponders from Eutelsat S.A. to deliver digital signal via satellite to our customers in Poland. Our customers' antennas are usually adapted to receiving signals delivered through transponders leased from Eutelsat S.A. In order to switch the satellite operator in the event of our failure to extend a contract, or in the event of contract termination by Eutelsat S.A., or for other reasons, we would be forced to find an alternative provider of satellite transmission capacities and potentially reposition our customers' satellite antennas, which would be a cost- and time-consuming process considering the size of our customer base.

To broadcast our terrestrial channels, we use the services provided by Emitel Sp. z o.o. We also rely on another third-party contractor, Nagravision S.A., which provides to us a conditional access system to secure our networks against unauthorised access by pirates and hackers. Our broadcasting services also rely on a number of third-party contractors, and we outsource a number of non-core activities (including certain IT functions) not related to our broadcasting business. These, and other services, are often central to our operating activities.

The provision of our services may be disrupted or interrupted if any of our partners is unable to, or refuses to, perform their contracted services or provide access to infrastructure or equipment in a timely manner, on acceptable terms or at all. These and other disruptions or interruptions may have a material adverse effect on our business, financial condition, results of operations or prospects.

Our ability to grow our customer base depends on our ability to provide high-quality, reliable services and products. In offering products and services, we rely on a number of third-party providers of network, services, equipment and content over whom we have no control. If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Group's companies, our customers may experience service interruptions, which could adversely affect the perceived quality of our services and products, therefore, adversely impact the brand and reputation of the Group's companies, thus affecting our business, financial condition, results of operations or prospects.

A possibility of provision of telecommunications services depend to a large degree on our ability to interconnect with the telecommunications networks and services of other telecommunications operators, including those of Polkomtel's direct competitors. We also rely on third-party operators for the provision of international roaming services to our mobile customers. While Polkomtel has interconnection and roaming agreements in place with other operators, we do not have direct control over the quality of their networks and the interconnections and roaming services they provide, due to the fact that we do not have direct control over availability or quality of networks of such operators or interconnect and roaming services, there can be no assurance that availability and quality of services provided by such other operators will be in accordance with contract. Any difficulties or delays in interconnecting with other networks and services, the failure of any operator to provide reliable interconnections or roaming services on a consistent basis or early termination of any of material interconnection or roaming agreements could result in an inability or limited ability to provide services to our customers or in a deterioration of quality of the services, which in turn can lead to loss of customers or decreased usage of our services, and consequently have a material adverse effect on our performance, financial condition and growth prospects.

In addition, we rely on continued maintenance and supply services rendered by manufacturers of telecommunications equipment, including Nokia Solutions and Networks and Ericsson. Continued cooperation with some of them is important for us to maintain our operations without disruption. We also rely on agreements with external suppliers of handsets and modems (including Samsung, Sony, , LG, Huawei and Microsoft Mobile) and providers of IT services (including Huawei, Intec Billing, CGI, Infovide Matrix, Oracle). We do not have any control over our key suppliers and have limited influence on the manner in which these key suppliers perform their obligations under concluded contracts. There can be no assurance that these providers will not terminate their contracts with us, extend them upon expiry, extend them on the same or more favorable terms, or that we will be able to acquire the necessary equipment and services in the future from these or other suppliers, in required amounts and at the right time, or at all. Accordingly, due to dependence on third-party suppliers, we are exposed to the risk of delayed provision of necessary services or equipment or lack of such provision.

If any of the third parties that we rely on becomes unable to or refuses to provide the services, facilities and equipment that we depend on in a timely and commercially reasonable manner or at all, we may not be able to offer our customers such services, facilities or equipment or may experience temporary service interruptions or service quality problems, which would significantly impact our reputation and customer confidence and lead to a decrease in revenue from sales of such services, facilities and equipment and in consequence have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be unable to keep pace with new technologies used in our markets

The technologies used in broadcasting and delivering pay TV, broadband and mobile telecommunications services develop extremely quickly, which is why there can be no assurance that we will be able to sufficiently modify our services to keep up with these changes.

Compression, signal encoding and customer management systems vital to the correct functioning of our satellite centre, set-top boxes manufactured by us, as well as other software and technologies used by us and our suppliers, must be constantly updated and replaced to match the latest technological developments. Our inability to replace obsolete technological solutions as and when needed may result in disruption of our pay TV services, which may in turn cause an outflow of customers to competitors who have brought their technologies up to date.

Technological progress requires us to modify our content distribution and TV programming methods to keep pace with the changing market. New technologies – including new video formats, IPTV, Internet streaming and downloading services, video on demand (VOD), mobile television, set-top boxes with recording capability, as well as other devices and technologies – introduce new media and entertainment options and change the way customers receive content. This allows them to enjoy television outdoors or at a later time, without commercials and to a custom schedule. Such technologies are growing in popularity and are becoming easier to use, yet the resulting fragmentation of TV viewers may cause a general decline in TV advertising revenues.

It is expected certain communications technologies that are currently under development, namely LTE, LTE-Advanced, VOLTE, as well as fibre optics technology allowing for faster data transmission and lower unit cost per GB transmitted traffic, to become increasingly important in the markets in which we operate. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. We cannot currently predict how emerging and future technological changes will affect the Group's operations, nor can it predict that new technologies required to support its planned services will be available when expected, if at all.

Given the fast pace of technological change and customers' growing expectations, and considering the risk that our competitors may offer telecommunications products and services that are based on new technologies which are more technologically advanced, less costly or otherwise more attractive to customers than those provided by us, we may be required to rapidly deploy new technologies, products or services. The rapid evolution of technology in the markets in which we operate and the complexity of our information technology systems, as well as a number of other factors, including economic ones, may affect our ability to timely launch new technologies, products or services. We cannot guarantee that we will correctly predict the development of new technologies, products or/and the demand for products and, therefore, that we will at an appropriate moment devote appropriate amounts of capital and resources to develop the necessary technologies, products or services that will satisfy existing customers and attract new customers. If we fail to implement new technologies, products or services or implement such new technologies, products or services too late, it may render our technologies, products or services less profitable or less attractive than those offered by its competitors. In addition, new or enhanced technologies, services or products we introduce may fail to achieve sufficient market acceptance or experience technical difficulties. We may also be unable to recover the investments it has made or may make to deploy these technologies, services and products and therefore no assurance can be given that we will be able to do so in a cost efficient manner, which would also reduce our profitability. Moreover, we may not be able to obtain funding, in sufficient amounts on reasonable terms, in order to finance capital expenditures necessary to keep pace with technological developments and with the competitors.

Failure on our part to adapt our products and services to the changing lifestyles and preferences of our customers, or to make sufficient use of new technologies in our activities, may have a material adverse effect on our business, financial condition, results of operations or prospects.

Alleged health risks of wireless communications devices could lead to decreased wireless communications usage or increased difficulty in obtaining sites for base stations

In the past, reports have been published alleging that there may be health risks associated with the effects of electromagnetic signals from antenna sites and from mobile handsets and other mobile telecommunications devices. There can be no assurance that further medical research and studies will not prove that there are health risks associated with the effects of electromagnetic signals.

The actual or perceived risk of mobile telecommunications devices, press reports about risks posed by such devices or consumer litigation relating to such risks could result in decreased mobile usage, reduction in the number of customers, increased difficulty in obtaining sites for base stations and exposure to potential litigation or other liabilities. In addition, these health concerns may cause authorities to impose stricter regulations on the construction of the components mobile telecommunications networks, such as base transceiver stations or other telecommunications network infrastructure, which may lead to an increase in our operating costs in the segment of services to individual and business customers, and may hinder the completion of network deployment and the commercial availability of new services, or may increase costs of such development. Such events may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to the risk of fraudulent activities by customers

Given the nature of the telecommunications market stemming from the manner of making interconnect settlements related to the exchange of domestic and international telecommunications traffic and fees for sold premium services, some of our customers use telecommunications services in a way that differs from the standard method of their use by the end user in order, for example, to terminate mass traffic in the network of another operator while bypassing wholesale interconnect settlements. We prevent such behaviour by analysing any abnormal traffic patterns on individual SIM cards. If such traffic patterns are identified, the card can be immediately deactivated, in accordance with the service provision regulations. However, there can be no assurance that we will be sufficiently effective in preventing this type of fraud. If we do not identify a fraud or identifies a fraud with a delay, we may be exposed to additional costs or lose some revenue due to us, which can have a material adverse effect on our business, financial condition and growth prospects.

We might be unable to maintain good name of the Cyfrowy Polsat, Plus, Telewizja Polsat, IPLA, TV4 and TV6 brands

The good name of the “Cyfrowy Polsat”, “Plus”, “Telewizja Polsat”, “IPLA”, “TV4” and “TV6” brands is a significant component of Group's value. Maintaining their good name is fundamental for acquiring new and retaining existing customers and advertisers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of the “Cyfrowy Polsat”, “Plus”, “Telewizja Polsat”, “IPLA”, “TV4” and “TV6” brands, will not materialise in the future. Any damage to our good name may have a material adverse effect on our business, financial condition, results of operations or prospects.

Goodwill and brand values may be impaired

Following the acquisitions made in the past, in particular of Telewizja Polsat, Metelem, indirectly holding Polkomtel, and Litenite, directly holding Midas, we have carried considerable amounts of goodwill and intangible assets, representing brand value, on our balance sheet. We test the goodwill and brand value allocated to our business segments for impairment on an annual basis, by measuring the recoverable amounts of cash-generating units, based on value in use. Any adverse changes to the key assumptions we apply in impairment testing may have a material adverse effect on our business, financial condition, results of operations.

We may lose our management staff and key employees

Our performance, as well as successful implementation of our strategy, depend on the experience of our management staff and the commitment of our key employees. Whether we are successful in the future will depend partly on our ability to retain the Management Board members who have made considerable contributions to the development of our company, as well as to acquire and retain qualified employees who will ensure effective operation of our business segments. In the television and telecommunication sectors, both in Poland and worldwide, there is strong competition for highly qualified employees. Therefore, no assurance can be given that in the future we will be able to acquire or retain Management Board members or qualified employees. Loss of our key managers or our inability to acquire, properly train, motivate and retain key employees, or any delays in this respect, may have a material adverse effect on our business, financial condition, results of operations or prospects.

Disruptions to set-top box production may adversely affect our reputation and increase customer churn

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to purchase or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our manufacturing plant in Mielec. In 2015 set-top boxes manufactured by us accounted for more than 89% of all the set-top boxes sold or leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers and to cover (potentially considerable) costs of replacing or repairing any set-top boxes we have sold on the market. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers. Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

Network infrastructure, including information and telecommunications technology systems, may be vulnerable to circumstances beyond the Group control that may disrupt service provision

The mobile telecommunications business depends on providing customers with both reliable service, network capacity and security. The services we provide may encounter disruptions from many sources, including power outages, acts of terrorism and vandalism and human error, as well as fire, flood, or other natural disasters.

Base transceiver stations, where radio equipment is installed, form a crucial element of our network infrastructure. The stations are erected at various, often remote locations, in scarcely populated areas. Such location of certain stations poses a greater risk of theft or acts of vandalism, including by persons objecting to base transceiver stations being erected at particular locations.

Part of Polkomtel's network infrastructure is located on the premises of third parties. Disputes between these third parties and Polkomtel, failure of third parties to properly perform their contractual obligations, as well as a number of other factors and events may cause part of Polkomtel's network infrastructure to be inaccessible, which could adversely affect Polkomtel's ability to efficiently operate, maintain and upgrade its network infrastructure. In addition, we could experience interruptions of our services due to, among other things, software bugs, computer virus attacks, or unauthorised access. Any interruptions in our ability to provide services could seriously harm our reputation and reduce customer confidence, which could materially impair our ability to attract and retain customers in both the retail and wholesale segments. Such interruptions could also result in an obligation to pay contractual penalties or cause our customers to terminate their agreements or the imposition of regulatory penalties due to violations of the terms of frequency allocation. They might also result in a need to incur significant expenditure to restore the functionality of the telecommunications network and guarantee reliable services to customers.

In order to provide pay TV services to our customers, we rely primarily on our satellite centre, as well as satellite transponders, customer management system, reporting systems, sales support system, and customer relationship management system. Any failure of the individual components of our satellite centre, including failure of satellite transponders or any intermediate link, may result in serious disruption or even suspension of our activities for a certain period. In the TV production and broadcasting segment, the IT systems are used primarily for management of advertising scheduling, programme broadcasting, and maintaining relations with advertisers. Failure of any of our IT systems may prevent us from carrying out our operations successfully, while restoring them to full working condition may require significant financial outlays. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

The Group may lose spectrum reservations it uses for LTE/HSPA+ network roll-out

Midas Group companies currently hold frequency allocations in the 800 MHz, 900 MHz, 1800 MHz and 2570-2620 MHz. These allocations are fundamental for the roll-out of our LTE/HSPA+ network. Midas Group's competitors have taken a number of steps, some of which may lead to retraction of the decisions regarding frequency allocations granted to Midas Group, including the 800 MHz and 1800 MHz band frequency allocations, which are currently integral to the offering of LTE services.

No assurance can be given that as a result of the pending proceedings we will not lose its 800 MHz or 1800 MHz frequency allocation, which could have a material effect on the ability to provide LTE services. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation". UKE also stated that the 'reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies'. Until the date of preparation of this Report we have not become aware of further new information regarding these proceedings.

T-Mobile Polska, Orange Polska and P4, as well as the French Chamber of Commerce and Industry have undertaken a series of legal actions aimed at blocking the possibility of using frequencies from the 800 MHz spectrum by our subsidiary, Sferia. As at the date of preparation of this Report legal proceedings are in progress before the Regional Court in Warsaw, the Administrative Court in Warsaw and the Supreme Administrative Court in Warsaw. So far all the decisions of the courts have been favorable for Sferia. Nonetheless, until the legally binding termination of proceedings, it is not possible to exclude the possibility of an unfavorable, from the point of view of Sferia, modification of rulings in the currently ongoing proceedings, which may result in an unfavorable change of the reservation decision regarding the 800 MHz spectrum, or its withdrawal.

No assurance can be given that if we lost certain frequency allocations on the basis of which Polkomtel provides services which rely on the LTE/HSPA+ technologies, Polkomtel would be able to gain access to sufficient alternative frequency band resources on satisfactory terms or at all, and failure to obtain access to such resources could have a negative impact on the implementation of business strategies and consequently a material adverse effect on our financial condition, results of operations and prospects.

The necessity to obtain building permits may delay or prevent roll-out of the telecommunication networks

Roll-out of Polkomtel's network infrastructure, including in particular the construction and installation of base transceiver stations, might require obtaining building permits. No assurance can be given that all the necessary building permits will be obtained or that they will be obtained when originally anticipated, which would pose the risk that work on development of the network infrastructure may have to be discontinued, or may be considerably delayed. Furthermore, any building permit that is obtained may in certain circumstances be revoked, even after a given component of network infrastructure is put into operation, which may in certain circumstances lead to suspension of the operation of the network component and require a legalisation procedure to be carried out or, if such procedure is not possible, the infrastructure component to be disassembled.

The necessity to limit expansion of Polkomtel's network infrastructure due to its failure to obtain the required building permits, delays in infrastructure development or − when a building permit is revoked − the obligation to discontinue operation or to disassemble an infrastructure component, may have a material adverse effect on our business, financial condition, results of operations or prospects.

We could become a party to labor disputes or experience growth of employment costs

In spite of correct relations with our employees, we may not rule out the risk of occurrence work disruptions, disputes with employees, strikes or significant growth of labor costs in one or many of our companies. Each of the above events could prevent our ability to satisfy customer needs or lead to growth of labor costs which would reduce our profitability. In addition any employee-related problems affecting external companies providing services or technologies to us could also have adverse impact on us if they hinder our ability to obtain the required services or technologies on time or the ability to offer the expected quality. All disruptions of this type may have a material adverse effect on our business, financial condition or prospects.

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). At June 30, 2016, 141 employees (expressed as full-time equivalents), or 3.7% of the total workforce of Polkomtel Group , were trade union members. At the date of preparation of this Report, we had no knowledge of any disputes with trade unions or any other collective disputes at Polkomtel. However, involvement in lengthy negotiations with the trade unions or in collective disputes cannot be ruled out; strikes, work interruptions or other industrial action (triggered, for example, by an attempt to optimise the employment level or labour costs or the need to restructure the workforce), as well as employees' pay rise demands may also be experienced. The occurrence of strikes, significant disputes with the trade unions active at Polkomtel or increase in employment costs may disrupt Polkomtel's operations, preventing it from timely or cost-effective provision of services to its customers, which can have a material adverse effect on our business, financial condition, results of operations and prospects.

The administrative and court proceedings in which we are involved may result in unfavorable rulings

We were, and currently are, party to a number of past or pending administrative and court proceedings in connection with our business. Therefore, there is a risk of new proceedings being instituted against us in the future, outcomes of which may prove unfavorable (including those instituted in connection with claims made by organisations for collective administration of copyrights). Under Polish copyright law, we are required to pay fees for collective administration of copyrights to organisations that collect royalties on behalf of authors of copyright-protected works we broadcast or distribute as part of our operations. Such fees are charged in accordance with licence agreements signed with these organisations. Although relevant agreements are in place with several organisations for collective administration of copyrights, there is a risk that claims will be brought against us by other such entities. Polkomtel is in turn a party to administrative and court proceedings, including the ones which have been initiated by regulators, competition and consumer protection office as well as tax authorities. Polkomtel is also a party to disputes and court proceedings involving third party entities.

Any unsuccessful court, arbitration and administrative proceedings may have an adverse effect on our business, financial condition, results of operations or prospects.

Should any claims related to the infringement of third-party intellectual property rights be brought against us, we may be forced to incur substantial expenses to defend against those claims, to acquire a licence for a third-party technology, or to redefine our business methods to eliminate the infringement

Our business success depends largely on third-party intellectual property rights, particularly rights in advanced technologies, software, and programming content. No assurance can be given that we have not, or that we will not in the future, infringe any third-party intellectual property rights. Any such infringement may result in claims for damages being brought against us by third parties. We may also be placed under an obligation to obtain a licence or acquire new products which would enable us to conduct our business in a non-infringing way, or we may have to expend time, human and financial resources to defend against claims of infringement. Expenditure on defending against intellectual property infringement claims or obtaining necessary licences, and the need to employ time and human resources, including the management staff, to handle issues related to absence or infringement of intellectual property rights, may have a material adverse effect on our business, financial condition, results of operations or prospects.

Our own intellectual property rights and other means of protection may not adequately protect our business, and insufficient protection of our programming content, proprietary technologies and know-how may cause profit erosion and customer churn

A large proportion of our products make use of proprietary or licensed content, delivered through our broadcast channels, interactive TV services, and pay TV. We establish and protect our property rights on distributed content relying on trademarks, copyrights, and other intellectual property rights, but no assurance can be given that these rights will not be challenged, revoked or disregarded.

Even if our intellectual property rights remain in full effect, no assurance can be given that our protection and anti-piracy measures will successfully prevent unauthorised access to our services and theft of our programming content. Furthermore, our proprietary content and the content we use under licences may be accessed, copied or otherwise used by unauthorised persons. The risk of piracy is particularly harmful to our segments of TV production and broadcasting and the distribution of paid content. Media piracy is a problem well known in many geographies, including Poland. Technological advancements and digital conversion of multimedia content are powerful incentives for pirating, as they enable the production and distribution of high-quality unauthorised copies, recorded on various carriers, of pay-per-view programmes delivered via set-top boxes, licence-free or free-to-air transmissions on television or the Internet. This is further exacerbated by the difficult enforcement of the laws governing copyright and trade-mark infringements on the Internet, which compromises the protection of our intellectual property rights in that medium. Unauthorised use of our intellectual property may adversely affect our operations, harming our reputation and undermining our trading partners' confidence in our ability to properly protect our proprietary and licensed content, which in turn may have a material adverse effect on our business, financial condition, results of operations or prospects.

Our broadcasting licences may be revoked or may not be renewed

Our business requires that we obtain licences issued by the National Broadcasting Council (KRRiT). These licences may be revoked or may not be renewed. In our segment of services to individual and business customers, broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT. As at December 31, 2015, we held five terrestrial broadcasting licences and twenty satellite broadcasting licences. All TV broadcasting licences issued by KRRiT are issued for specified period. Our terrestrial TV broadcasting licences and satellite broadcasting licences will expire at various times between 2015 and 2030.

Our mobile pay TV services use the 470–790 MHz band, which has been allocated to us for a specified period. There can be no assurance that this allocation will be extended prior to its expiry. In particular, pursuant to the Telecommunications Law, our frequency allocation may not be extended or may be revoked by the President of UKE in case of a gross breach of the terms of its use, or if revocation of the frequency allocation derives from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration within the Group.

To maintain the frequency allocations, the Group must comply with the terms of the allocation, as well as relevant laws and regulations introduced by the President of UKE and the Minister of Digital Affairs. Any breach of those terms, laws or regulations by the Group, including in particular failure to pay frequency allocation fees, may cause the allocation to be revoked and penalties to be imposed on the Group. In particular, given that the regulations and laws governing the Polish telecommunications industry are very complex and often change, there can be no assurance that the Group will not breach any laws or regulations related to frequency allocation or any terms of such allocation.

To keep our TV broadcasting licences, we must comply with the applicable laws and the terms and conditions of the licences. Failure to comply with the applicable laws or breach of the terms and conditions of a broadcasting licence, especially with respect to the period within which we must commence broadcasting of a channel, could lead to the licence being revoked or a fine being imposed on us. Our broadcasting licences may also be revoked if we are found to be conducting activities in violation of the applicable laws or the terms and conditions of our broadcasting licences, or we fail to remedy such violation within the applicable grace period. In addition to licence revocation, there is also a risk that licences granted by KRRiT will not be renewed.

If any of our broadcasting licences or the Group's frequency allocation are not extended, are revoked or extended on unfavorable conditions, the Group may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure, all of which may have a material adverse effect on our business, financial condition, results of operations or prospects.

Polkomtel Group's current frequency allocations may be revoked or may not be renewed on acceptable terms or at all

All frequency allocations have been issued to companies belonging to Polkomtel Group for a definite term. There can be no assurance that Polkomtel's frequency allocations will be extended prior to their expiry. In particular, pursuant to the Telecommunications Law, Polkomtel Group's frequency allocations may not be extended or may be revoked by the President of UKE in case of a substantial breach of the terms of its use, or if revocation of the frequency allocations follows from the necessity to ensure equal and effective competition or substantially better use of frequencies, especially if the extension of the allocation would lead to excessive frequency concentration at Polsat Group.

To maintain the frequency allocations, companies belonging to Polkomtel Group must comply with the terms of the allocation, as well as relevant laws and regulations introduced by the President of UKE and the Minister of Digital Affairs. Any breach of those terms, laws or regulations, including in particular failure to pay frequency allocation fees, may cause the allocation to be revoked and penalties to be imposed on the given company. In particular, given that the regulations and laws governing the Polish telecommunications industry are very complex and often change, there can be no assurance that companies belonging to Polkomtel Group will not breach any laws or regulations related to frequency allocation or any terms of such allocation.

If any of Polkomtel's frequency allocations is not extended, is revoked or extended on unfavorable conditions, Polkomtel Group may be forced to suspend the provision of some services temporarily or permanently, may be unable to offer services based on a particular technology or may have to incur substantial expenditure in order to be able to provide services to customers based on frequencies from other bandwidths, all of which may have a material adverse effect on our business, financial condition, results of operations or prospects.

The spectrum of radio frequencies available to the mobile phone industry is limited and therefore we may not be able to obtain new frequency allocations

The ability to maintain existing and implement new or improved mobile technologies and the Group's ability to successfully compete on the telecommunications services market partly depends on our ability to obtain further radio frequency resources. The size of the spectrum of radio frequencies available for allocation in Poland is limited, and the process of obtaining allocations is long and very competitive.

The Group’s inability, or limited ability, to obtain access to frequency bands important for further development of Polkomtel's operations (on favorable terms or at all), including maintaining the existing or implementing new or improved mobile technologies, or obtaining such access by competitors can have a material adverse effect on Polkomtel's business, financial condition, results of operations and prospects.

6.2 Risk factors associated with the Group's financial profile

The servicing of our debt is very cash-intensive, and our debt servicing liabilities may impair our ability to finance the Group's business operations

Our Group uses large financial leverage. In the past, debt servicing and other cash requirements were financed with cash flows from operating activities and revolving credit facilities. Our debt servicing liabilities increased significantly following the acquisition of Telewizja Polsat, Metelem and Litenite, and completion of the related financial transactions.

Our ability to service and repay debt depends on future results of our operations and our ability to generate sufficient cash flows to pay these and other liabilities, which in turn depends, to a significant extent, on the general economic climate, financing terms, market competition, acts of law and secondary legislation, and a number of other factors which are often outside of our control. If our future operating cash flows and other capital resources prove insufficient to repay our liabilities as they fall due or cover our liquidity requirements, we may lose our property, plant and equipment which serve as security for the repayment of our debts, or we may be forced to (i) restrict or postpone certain business and investment projects; (ii) dispose of assets; (iii) incur more debt or raise new capital; or (iv) restructure or refinance our debts, in part or in full, at or prior to their maturity. The terms and conditions of our debts limit our ability to take the above measures. Therefore, we cannot guarantee that they will be taken on commercially reasonable terms, or at all, if need arises.

Also, the refinancing of our debt on unfavorable market terms would require us to pay higher interest rates or observe more stringent covenants, which could further restrict our business activity. If our debt financing increased, the related risks would also increase. Moreover, any significant adverse change in financial market liquidity, resulting in tighter lending terms and debt or equity financing constraints, may restrict our access to financing sources and increase our borrowing costs, which could significantly affect our ability to achieve and manage liquidity, raise additional capital, or restructure or refinance our existing debt.

Our facility agreement and notes indenture provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Group's ability to incur new debt for financing future operations or to pursue business opportunities and activities that may be in our interest.

If our debts are not repaid in accordance with the underlying agreements, then those debts, as well as other liabilities incurred under other agreements or debt instruments, which include cross-default or cross-acceleration clauses, may become immediately payable, and we may not have sufficient funds to repay all our liabilities. Our inability to generate sufficient cash flows to service our debt, or to restructure or refinance it on commercially reasonable terms (or at all), may have a material adverse effect on our business, financial condition, results of operations or prospects.

We may need to incur a significant amount of new debt in the future. In particular, the terms and conditions of the Combined Senior Facilities Agreement as well as the Series A Bonds Terms impose certain limitations on, but do not prohibit us from, incurring new debt or other liabilities. In particular, a high level of debt may (i) limit our ability to repay our liabilities under the Combined Senior Facilities Agreement, or other liabilities; (ii) require us to apply a considerable portion of operating cash flows towards debt repayment, restricting the availability of cash used to finance our investment activities, working capital, and other corporate needs and business opportunities; (iii) reduce our competitiveness relative to other market players with lower debt levels; (iv) affect our flexibility in business planning or responding to the overall unfavorable economic conditions or to specific adverse developments in our sector; and (v) impair our ability to borrow new funds, increase our borrowing costs and/or affect our equity financing capacity. In consequence, any additional debt would further reduce our ability to secure external financing for our operations, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

We might be unable to refinance our existing debt, secure favorable refinancing terms, or raise capital to finance new projects

We are exposed to risks related to debt financing, including the risk that the debt will not be repaid, extended, or refinanced at maturity, or that the terms of such extension or refinancing will be less favorable. In the future, we may need to increase our share capital if our operating cash flows are insufficient to ensure financial liquidity or fund new projects. Depending on our capital requirements, market conditions, and other factors, we may be forced to seek additional sources of financing, such as debt instruments or a share offering. If we are unable to refinance our debts on reasonable terms, or at all, we may be forced to sell our assets on unfavorable terms, or to restrict or suspend certain activities, which could have a material adverse effect on our financial condition and performance. Our inability to secure external financing could force us to abandon new projects, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

We might be unable to repay our debts if control of the Company changes

In the event of a change of control of the Company within the meaning of the Combined Senior Facilities Agreement we are under the obligation to repay our liabilities under both agreements. Moreover, if a change of control takes place, our ability to repay our debt will be limited by the level of available funds at the time. There can be no assurance that those funds will be sufficient to repay outstanding debts. In view of the above, we believe that in the case of change of control over the Company, we would require additional external financing in order to repay the debt.

Limitations arising from our contract obligations could make it impossible for us to repay the credit facilities or secure external financing if events constituting a change of control actually occur. Any breach of those limitations may lead to a default under other contracts and acceleration of other debts, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

6.3 Risks related to market environment and economic situation

We are exposed to the effects of the regional or global economic slowdown being felt on the Polish advertising market and affecting consumer spending in Poland

The Group derives almost all of its revenue from telecommunication services customers, pay-TV customers and TV advertisers in Poland. Our revenue depends on the amount of cash our existing and potential customers can spend on entertainment, recreation and telecommunications services. If the economic conditions in Poland deteriorate, consumers may be willing to spend less on entertainment, recreation and telecommunications services, which may have an adverse effect on the number of our customers or on our customers' spending on our services. Lower consumer spending caused by economic recession may also lead existing and potential customers to choose cheaper versions of our service packages or to discontinue using the services, which in turn may have a material adverse effect on results of our operations, financial condition, and growth prospects.

Lower advertising spending in Poland may have a material adverse effect on our revenue and the growth prospects of our television production and broadcasting segment. Slower GDP growth in Poland usually negatively impacts advertising spending. Moreover, as many customers of our TV production and broadcasting segment are global companies, the global economic downturn, even if it has no direct effect on Poland or its effect on the Polish economy is not as significant as in other countries, as well as economic slowdown in Poland, may force customers to cut their advertising budgets in Poland, which will have a negative impact on the demand for advertising services in Poland. A decrease in our advertising revenue may force us to adjust the level of our costs to lower revenues. As adjustments of the cost base to market conditions are not generally sufficient to fully offset the effect of lower revenue, the consequences of such risk factors may include a reduced EBITDA margin, lower quality of our programmes, or limited number of programmes broadcast by us, both our own productions and content purchased from third parties. Any constraints on the quality or quantity of our programming may result in the loss of audience share both to our competitors and to alternative forms of entertainment and recreation, which in turn may affect the attractiveness of our offering to potential advertisers and sponsors.

Worsening of the macroeconomic conditions across the world, as well as possible uncertainty regarding the future economic situation, may have, among others a negative impact on the Group’s ability to acquire sufficient financing on the global capital markets.

In view of the above, the worsening of macroeconomic conditions in Poland or across the world may, as a result, have a considerably adverse impact on the financial situation, results of our operations and growth prospects of the Group.

The Polish mobile telecommunications industry is highly competitive

The Group faces strong competition in all of its core business areas, especially from telecommunication operators such as: Orange, T-Mobile and P4. There can be no assurance that customers will not find the offerings of those operators more attractive.

A shift in the business model of mobile telecommunications network operators in Poland, whereby competing providers of telecommunications services would form joint ventures or strategic alliances, or launch new types of services, products and technologies may additionally intensify competition on the telecommunications services market. The situation on the telecommunications market in Poland may also change significantly as a result of potential acquisitions or if new mobile telecommunications operators enter the market or broadband services are offered by entities other than mobile telecommunications operators.

We face growing competition from entities offering non-traditional voice and data transmission services which rely on the VoIP technology, such as Skype or Viber, through which customers who use only mobile data transmission can be provided with mobile voice and video services, and users with fixed broadband access can be provided with voice and video services over fixed-line networks, usually at prices lower than traditional voice and data transmission services. To this end, such entities use, among other things, the possibility to provide services via existing infrastructure, belonging to telecommunication operators, so as to avoid having to implement capital-intensive business model themselves. Continued growing popularity of these services may lead to a decrease in ARPU per customer and the customer base of telecommunications operators, including the Group’s one. It can be expected that in the future the Group will also have to compete with providers of services supported by communication technologies which at the date of this report are at an early stage of development or which will be developed in the future. The Group's existing competitors as well as new players on the Polish market may introduce different new services or telecommunications services based on better technologies than those currently used by the Group before such services are introduced by the Group, or may offer such services at more competitive prices. Mobile virtual network operators (MVNO) also compete with traditional mobile telecommunications network operators.

The Group’s ability to effectively develop its operations on the Polish telecommunications services market may be also adversely affected by the imposition of new regulatory requirements or new fees or payments on entities operating in Poland, further legal changes, or the regulator's policy designed to increase the competitiveness of the telecommunications services market.

Moreover, the high rate of mobile voice penetration and the highly consolidated nature of the Polish mobile telephony market may result in increased pricing pressure and our ability to compete effectively will depend on our ability to introduce new technologies, convergent services and attractive bundled products at competitive prices. It cannot be ruled out that we will be forced to reduce prices for certain products and services in response to the pricing policies of our major competitors, which may have an adverse effect on our future revenue and profitability.

Group’s reduced competitiveness and increased pricing pressures could have a material adverse effect on the Group’s financial condition, results of operations or prospects.

We face competition from entities offering alternative forms of entertainment and leisure

Technological progress, as well as a number of various other factors expose our operations to growing competition for the time and form of customers' leisure and entertainment activities. In particular, we compete with entities offering such alternative forms of leisure and entertainment as cinema, radio, home video, printed media, as well as other non-media forms of leisure, including live events. Moreover, new technologies, such as video on demand (VoD), Internet streaming and downloading, have broadened and may continue to broaden the selection of entertainment options available to existing and potential users of our services. The growing variety of leisure and entertainment options offered by our current and future competitors may bring about a decrease in demand for our products and services, and weaken the effect of television as an advertising medium. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

Operating results of our TV production and broadcasting segment depend on the importance of television as an advertising media

In the first half of 2016, ca. 75% of the revenue generated by our TV production and broadcasting segment came from sale of advertising time and sponsored time slots on our TV channels. The Polish advertising market sees television competing with other advertising media, such as the Internet, newspapers, magazines, radio, and outdoor advertising. There can be no guarantee that TV commercials will maintain their position on the Polish advertising market, or that changes in the regulatory regime will not favor other advertising media or other broadcasters. The growing competitive pressure among advertising media, driven by the increasing prominence of Internet advertising in Poland, significantly higher spending on thematic channels, and the development of new forms of advertising may have an adverse effect on advertising revenue generated by our TV production and broadcasting segment, and thus on our operations, financial condition, performance, and cash flows.

Our potential advertising revenue depends on several factors, including the demand for and prices of advertising time. No assurance can be given that we will be able to respond successfully to the changing preferences of our viewers, which means that our audience share may decrease, which may adversely affect demand for our advertising time and our advertising revenue. The diminishing appeal of TV as a whole, and our own channels in particular, attributable both to higher interest in other forms of entertainment and to the declining importance of television as an advertising medium, may have an adverse effect on our business, financial condition, results of operations or prospects.

Given the intense competition across all market segments in which we operate, there can be no assurance that in the future our customers and advertisers will use our services rather than those of our competitors

Because the Polish TV market is highly competitive, there can be no assurance that our revenue from pay TV subscriptions and advertising will be satisfactory compared to that of our competitors. Our current and future competitors may outmatch us in terms of financial and marketing resources, which may allow them to attract customers and advertisers more effectively.

nc+, a platform launched in late 2012 following the merger of Cyfra+ and the n platform, is our main competitor on the direct-to-home (DTH) TV market. Apart from other direct DTH competitors, we also compete with broadcasters using other technologies, such as terrestrial, cable and Internet television. Furthermore, we expect growing competition from joint ventures and strategic alliances between providers of cable and satellite TV and telecommunications operators. It is also probable that we will have to face foreign competitors entering the Polish market.

Following completion of the terrestrial television digital switchover process in Poland in July 2013, there are currently 24 TV channels broadcasted terrestrially. According to Nielsen Audience Measurement, in 2015 the audience shares of all DTT channels in the 16-49 age group reached 68.2% (compared to 66.1% in 2014). The aggregate audience share in this age group of the main four channels (POLSAT, TVN, TVP1 and TVP2) was 41.7% in 2015 compared to 43.5% in 2014. The aggregate audience share of the other DTT channels was 26.4% in 2015 vs. 22.6% in 2014, which reflects the growing market fragmentation, to a large extent at the expense of the leading TV channels, including POLSAT. On November 5, 2015 the National Broadcasting Council resolved the competition for the development of MUX-8 and chose the broadcasters, who are to receive licenses for their channels. Current the process of preparing the eight multiplex for launch is underway. MUZ-8 will include 6 or 7 channels.

Our main competitors on the TV advertising markets are other broadcasters, such as TVN − a leading commercial broadcaster, and TVP − the broadcaster financed partly from public funds, which provides public service. Because TVP is the public broadcaster, it cannot interrupt programmes and films with commercial breaks. Any changes in this respect may contribute to the strengthening of TVP's competitive position, reducing our advertising revenue. Furthermore, we will be forced to compete with current and future market participants for terrestrial and satellite broadcasting licences in Poland. Such participants may include major broadcasters with greater resources and more recognisable brands. This is especially true in the case of foreign companies which may find the Polish TV market attractive for various reasons, including its current regulatory environment (which allows TV stations to broadcast more advertising during programmes and films than in other countries), as well as the increasing extent of other permitted advertising activities. And lastly, continued growth of cable TV, DTH and DDT providers in Poland may lead to further market and audience fragmentation, which may make advertisers reluctant to buy air-time on our channels. Losing customers and advertisers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

The switch-over in Poland from analogue to digital terrestrial television broadcasting technology, leading to an increase in the number of generally available free-to-air (FTA) channels, may result in lower demand for our pay TV services and affect our audience share

The analogue to digital switchover in Poland has resulted in a substantial rise in the number of competitive TV providers. It is also probable that the current limits on awarding licences for DTT frequency bands will be lifted. This would be likely to bring about a growth in the number of digital channels available on the Polish TV market and would lead to a corresponding loss of our audience share. Following completion of the digital switchover process in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our DTH and DVB-T pay TV services, leading to a loss of the audience share and customer churn. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

We are exposed to currency risks

Our business is exposed to risk related to fluctuations in foreign exchange rates. While our revenue is denominated mainly in the Polish złoty, part of our operating costs is denominated in other currencies. We have trade payables (including amounts due for access to the catalogues of the leading film and TV studios as well as other suppliers and producers of programming content, purchase of modems, parts of set-top boxes, other hardware and software, as well as lease of transponder capacities) that are denominated in foreign currencies, mainly in euro and US dollars. Significant components of costs, including costs of purchase of handsets, UMTS license fees, costs of purchase of network equipment and IT systems, roaming, as well as the costs of lease of certain office areas and locations of elements of our mobile network infrastructure are denominated in foreign currency, in particular in euro. Fluctuations in foreign exchange rates are outside our control and any adverse changes in the exchange rates of foreign currencies against the Polish złoty may significantly increase our costs and expenses translated into the Polish złoty, which in turn may have a material adverse effect on our business, financial condition, results of operations or prospects.

In a scenario when we draw funds in a currency other than the Polish zloty from the multicurrency Revolving Facility granted to us, we may be exposed to currency risk, since movements in the exchange rate of the euro, dollar or any other currency provided for in the Senior Facilities Agreement dated September 21, 2015 against the złoty may increase the złoty-denominated amounts required to service principal and interest payments under the Revolving Facility Loan.

We are exposed to interest rate risk

Market interest rate fluctuations do not impact the Group's revenue directly, but they do affect our cash flows from operating activities through the amount of interest on current bank accounts and deposits, and also cash flows from financing activities through the Group's costs of servicing debt. In particular, our liabilities under the Combined Senior Facilities Agreement dated September 21, 2015 and our liabilities under the Terms of Issue of Series A Notes are calculated based on variable WIBOR, EURIBOR or LIBOR interest rates subject to periodical changes, increased by a relevant margin.

Despite the fact that the Group intends to maintain certain hedging positions the goal of which is to hedge against WIBOR fluctuations, there is no certainty that such a hedging will be still possible or whether it will be available on acceptable terms.

The Group analyzes its interest rate risk on an on-going basis, including the refinancing and risk hedging scenarios, which are used to estimate the impact of the specific interest rate fluctuations on our financial result.

Interest rate fluctuations may affect our ability to meet our current liabilities, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

6.4 Risk factors associated with the legal and regulatory environment

The complexity, lack of clarity, and frequent amendments of Polish tax laws may lead to disputes with tax authorities

Tax laws in Poland are complex, unclear and subject to frequent and unpredictable changes. Therefore, the application of tax regulations by taxpayers and tax authorities gives rise to controversies and disputes, which are usually finally settled by administrative courts.

Frequent amendments to the tax framework and difficulties in interpreting tax laws applied in practice hinder our day-to-day work and smooth tax planning. This creates uncertainty as to the application of tax regulations in our everyday business and makes it error-prone. In addition, tax laws are often interpreted and applied by tax authorities in an inconsistent manner.

Moreover, there are discrepancies between the way tax authorities apply tax laws in practice and in rulings of administrative courts. There is a risk that tax interpretations and decisions issued by competent authorities may be unpredictable or even contradictory.

Given that Polish tax laws are frequently amended, and that such amendments can be retroactively applied in practice, are inconsistent and lack uniform interpretation, and considering relatively long limitation periods applying to tax liabilities, the risk of misapplication of tax laws in Poland may be greater than in the legal systems of more developed markets. Accordingly, there is a risk that we may fail to bring certain areas of our activity in compliance with the frequently amended tax laws and the ever-changing practice of their application. Therefore, no assurance can be given that there will be no disputes with tax authorities, and, consequently, that tax authorities will not question the correctness of the Group companies' tax settlements on non-statute-barred tax liabilities (including conformity with the taxpayer's obligations), and will not determine the existence of tax arrears of such Group companies. Any unfavorable decisions, interpretations (including changes to any interpretations obtained by the Group companies) or rulings by tax authorities may have a material adverse effect on our business, financial condition, results of operations or prospects.

Tax authorities may question the accuracy of intra-Group and related-party settlements under applicable transfer pricing regulations

In the course of their business, the Group companies enter into transactions with their related parties within the meaning of the Corporate Income Tax Act. Related-party transactions, which guarantee that the Group's business is run efficiently, include inter-company rendering of services and sale of goods. When entering into and performing related-party transactions, the Group companies take steps to ensure that terms and conditions of such transactions are consistent with the applicable transfer pricing regulations. At the same time, no assurance can be given that the Group companies will not be subjected to audits and other inspections by tax authorities and tax inspection bodies with respect to the foregoing. The nature and diversity of transactions with related-parties, the complexity and ambiguity of the regulations governing methods of verifying the prices applied, dynamic changes in market conditions affecting the calculation of prices applied in such transactions, as well as the difficulty in identifying comparable transactions, the risk that the methodology used to determine arm's-length terms for the purpose of such transactions is questioned by tax authorities cannot be excluded, and therefore tax authorities may question the accuracy of settlements between the Group companies and their related parties under applicable transfer pricing regulations, which may have material adverse effect on our business, financial condition, results of operations or prospects.

Assessment of tax effects of the Group's restructuring activities by Polish tax authorities may differ from assessment of such activities by the Group

The current composition of the Group is a result of consolidation, restructuring and other transactions involving assets of considerable value, implemented over the recent years by and between the Group's companies. Those activities had an effect on the tax settlements not only of the companies directly involved in such consolidation, restructuring and other transactions involving assets of considerable value, but also of their respective members or shareholders.

Despite monitoring the risk in individual business areas, with respect to completed and planned restructuring activities, no assurance can be given that Polish tax authorities will not have a different assessment of tax effects of individual restructuring events and transactions, both completed and planned, in particular with respect to the possibility, manner, and timing of the recognition of income and tax-deductible expenses by entities participating in such events and transactions, or that financial terms of such activities will not be questioned, which may have a material adverse effect on our business, financial condition, results of operations or prospects.

The tax regime applicable to our operations and the sector in which we operate creates numerous uncertainties

The tax regime applicable to transactions and events typical for our operations and the sector in which we operate are a source of numerous interpretation uncertainties. In particular, there is uncertainty as to the interpretation of income tax laws with respect to the possibility, manner, and timing of recognition of income and tax-deductible expenses on individual transactions and events and the requirements for their documentation. Also VAT legislation is characterised by vague and complex regulations, particularly where it concerns goods and services subject to the tax, the tax rate, tax base or time at which the tax liability arises with respect to transactions subject to VAT. Further, Polish tax legislation does not provide unequivocal rules regarding imposition of other taxes, including property tax (in particular with respect to the determination of tax base and taxable property) and custom duties.

Given that Polish tax laws are frequently amended, inconsistent, and lack uniform interpretation, and considering the relatively long limitation periods on tax liabilities, there is a risk that our selected operations may not be harmonised with the changing legal (including tax) regulations and their changing application.

Despite monitoring the risk in individual business areas, there can be no guarantee that disputes with tax authorities regarding assessment of tax effects of individual events and transactions typical for our operations and the sector in which we operate will not occur, and consequently that the tax authorities will not question the correctness of tax settlements on non-statute-barred tax liabilities of Polsat Group entities (including conformity with the taxpayer's obligations), and will not determine the existence of tax arrears of these entities. There is also a risk that tax authorities may question financial terms of individual events and transactions. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

Property tax laws give rise to numerous interpretation uncertainties

Polkomtel Group uses a significant number of telecommunications infrastructure facilities located on real property. Property tax laws give rise to numerous interpretation uncertainties, in particular with respect to the tax base and the determination of items subject to tax. The definition of a structure and its practical use under the Local Taxes and Charges Act might lead to disputes with tax authorities. Therefore, no assurance can be given that there will be no disputes between companies from Polkomtel Group and tax authorities as to the amount of the property tax payable, as well as unfavorable rulings in this respect.

The ongoing work on amendments to the Local Taxes and Charges Act aim in particular at clarifying the definitions of a building and of a structure under the act. Given the early stage of the legislative process, the final amendments remain unknown. Please note, however, that the intended amendments to the act (in particular with respect to the tax base and the determination of items subject to property tax) may affect the amount of property tax payable for the telecommunications infrastructure facilities used by Polkomtel Group. Such circumstance may have a material adverse effect on our business, financial condition, results of operations and prospects.

The Group's companies are subject to legal regulations (including tax legislation) in force in the countries in which they operate

Given the international character of the Group, its companies are governed by legal regulations (including tax legislation) in force in the countries in which they operate. Therefore, in view of such dissimilar legal frameworks, there is a risk that the Group will interpret local legal regulations (including tax legislation) in a way which is divergent from their construction by the country's tax authorities. The diversity of legal regulations by which individual companies are bound may give rise to internal problems within the Group, including problems with respect to the law governing legal relations between the Group's entities. Another aspect of the relationship between Polsat Group companies which may raise doubts is the application and interpretation of double-tax treaties concluded between countries in which the companies operate.

At the same time, in many cases the legal regulations (including tax legislation) in countries where the Group conducts its business are frequently ambiguous and there is no single or uniform interpretation or practice followed by local tax authorities. Additionally, such countries' tax legislation (including the provisions of applicable double-tax treaties) may be subject to change. The practice adopted by tax authorities in respect of particular tax regulations may change as well, even retroactively.

Therefore, no assurance can be given that there will be no disputes with tax authorities in countries where the Group conducts its business, and consequently that the tax authorities will not question the correctness of the Group companies' tax settlements on non-statute-barred tax liabilities, and will not determine the existence of tax arrears of such Group companies, which may have an adverse effect on our business, financial condition, results of operations or prospects.

There can be no assurance that in the future the President of the Polish Office of Competition and Consumer Protection (UOKiK) will not deem the practices we use as limiting competition or violating the Polish consumer protection laws

Our operations are reviewed by UOKiK to ensure that we comply with Polish laws prohibiting practices that limit competition or violate the collective interests of consumers, including providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. In addition, the President of UOKiK and natural persons can bring court actions against us to determine whether our standard consumer contracts contain any abusive clauses. If a court finds any of our practices or contract terms to be misleading or in conflict with Polish competition and consumer protection laws, we may be subject to fines and our reputation could be harmed. In addition, if any clauses in our standard consumer contracts are considered abusive by UOKiK, they will be entered in the Register of Abusive Contract Clauses maintained by the President of UOKiK and their application will be no longer possible, which will require amendment to our standard contracts.

If the President of UOKiK determines that any of our practices had the effect of limiting competition or violating consumer rights, we could be required to discontinue the unlawful practice. In addition, the President of UOKiK could impose on us a cash fine of up to 10% of our revenue generated in the financial year immediately preceding the year in which the fine is imposed and additionally,pursuant to the provisions of the amended legislation on consumer and competition protection, can impose on us the obligation to pay compensation to consumers, who were affected by the practises in question. Moreover, if we, even unintentionally, fail to provide the President of UOKiK with the required information or provide misleading information, a fine of up to EUR 50 million may be imposed on us.

Any decisions by the President of UOKiK or by appeals bodies confirming our infringement could also result in claims for damages by consumers, contractors and competitors. The potential amount of such claims is difficult to assess but may be significant. In addition to proceedings pending before the President of UOKiK, consumers can bring court actions against us, claiming that certain provisions of our standard customer contracts violate consumer protection laws. If any of our practices or contract terms are deemed to be misleading or in conflict with Polish consumer protection laws, we may be subject to fines and our reputation could be harmed, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

In addition, expansion of consumer protection legislation, including a newly introduced act that allows for 'group claims', could increase the scope or scale of our potential liability or the scope of consumer rights. For example, there has been an extension of the range of situations in which customers are entitled to terminate their agreements without obligation to pay any contractual penalty. This may happen, among others, in the event of changes in the terms and conditions of agreements even if such amendment is in customers' favor. Such early terminations of agreements with our customers may result in a significant increase in our customer retention costs and churn rate. Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

We may be adversely affected by changes in Polish and European Union regulation of the levels of MTR and roaming charges

As part of telecommunications market regulation in Poland, the President of UKE may determine MTR rates for voice services between telecommunications operators. In recent years, the regulator used this power several times, and reduced MTRs. As a result of decisions of the President of UKE, voice MTRs were reduced by 74% in the period from January 2010 to July 2013. There can be no assurance that there will not be any further MTR reductions in the future, which may directly affect our financial performance.

Our roaming rates are also regulated. European Union regulators have also imposed price restrictions applicable to all operators in the European Union (both at the retail and wholesale level). At present, the roaming rates in the EU are regulated by the Regulation of the European Parliament and Council of November 25, 2015, which imposed a subsequent reduction of roaming rates as of April 30, 2016. Additionall, the proposal of the regulation on the unified telecommunications market foresees the levelling of retail roaming charges within the EU with domestic charges, which is planned to take place in June 2017. As at the date of publication of the Report consulations regarding these regualtions are underway. The reduction or removal of roaming charges in the EU may have an adverse effect on our revenue, and consequently on our performance and financial standing.

We may violate the acts of law and regulations governing our satellite TV distribution business as well as telecommunications, TV broadcasting, advertising and sponsoring activities, which are subject to periodic amendments

We are required to comply with Polish and EU laws, which impose limitations on the conduct of our business. Our operations are extensively regulated by government authorities and market regulators, especially the President of the Office of Electronic Communications (UKE) and the National Broadcasting Council (KRRiT), the bodies responsible for overseeing compliance with the Polish Act on Television and Radio Broadcasting, the Telecommunications Law, and the terms of our broadcasting licences. Decisions by the President of UKE, the Chairperson of KRRiT, or other regulators may place certain restrictions on the way in which our business can be run.

The President of UKE supervises our telecommunications operations, as well as TV broadcasting and production. As part of our telecommunications services, we mainly provide mobile voice services, broadband Internet access as well as certain wholesale services to other operators. Telecommunications enterprises operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business, both in relations with individual and business customers (for instance, by specifying the scope of customers' rights or the content of standard terms and conditions for the provision of telecommunications services, setting caps for pricing of international roaming services, or restricting the maximum time for which contracts can be concluded with customers) and wholesale customers (for instance, by imposing MTR caps or defining caps for rates used in roaming traffic settlements). Our TV production and broadcasting segment is in turn overseen by the President of UKE for compliance with the terms of licences and frequency allocations assigned by the President of UKE for the purposes of TV broadcasting services. We cannot give any assurance that we will be able to meet the numerous requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, we may face a fine from the President of UKE of up to 3% of our revenue generated in the year proceeding the year in which such fine is imposed.

The KRRiT regulations also pertain to both our business segments, although they have a more direct effect on our TV production and broadcasting segment. As a TV broadcaster operating in Poland, we have to observe a number of legal and administrative requirements related to such matters as broadcasting time, programming content, and advertisements. Furthermore, KRRiT undertakes regular checks to ensure that our operations conform to the terms of our broadcasting licences, provisions of the Polish Act on Television and Radio Broadcasting, and its own internal guidelines. There can be no assurance that we will be able to satisfy numerous regulatory requirements imposed on our TV production and broadcasting segment under the relevant licences. In the event of our non-compliance with any applicable regulations, we may face a fine from KRRiT of up to 50% of the annual fee for the right to use a given frequency.

The regulatory regime for the broadcasting industry is subject to frequent changes, and so there can be no assurance that such future changes will not have an adverse effect on our channel mix, ability to attract advertisers or the way in which our business is run.

In future, our DTH business may be subject to zoning, environmental or other regulations that will place restrictions on where satellite antennas may be deployed. We may also have to deal with pressures from local communities regarding deployment of our satellite antennas. Any such legal restrictions or conflicts with local communities related to the deployment of our satellite antennas may render our DTH services less attractive, leading to a fall in customer numbers.

Non-compliance with valid law or with the regulations issued by regulatory bodies may have material adverse effect on our business, financial condition, or prospects.

Operations of companies belonging to Polkomtel Group are subject to a number of legal regulations and requirements of awarded frequency allocations which could be amended in the future

As a mobile telecommunications network operator, Polkomtel is subject to a number of laws and regulations, in particular those regulating maximum rates charged for specific telecommunications services, those related to ensuring effective competition, non-discrimination, transparency in telecommunication services prices, reporting, data protection and national security. Any potential breach of the applicable laws or terms of frequency allocations may in certain cases result in imposition of penalties on Polkomtel or other companies from Polkomtel Group, loss of reputation, inability to obtain new frequency allocations or even loss of current frequency allocations. Furthermore, future changes in Polkomtel's regulatory environment may be disadvantageous to Polkomtel's business, for instance by increasing its costs.

An important and active role in ensuring the observance of telecommunications laws and regulations by entities operating in the telecommunications market in Poland is played by the regulators of the Polish telecommunications market, including in particular the President of the Office of Electronic Communications (UKE). The President of UKE has a number of regulatory and supervisory powers, including those with respect to provision of electronic communications services and managing radio frequency and orbital slot resources. If the President of UKE determines that a relevant market is not sufficiently competitive, the President may designate one or more telecommunications providers as a provider with significant market power (SMP) in such market and impose on such provider(s) certain regulatory obligations, such as an obligation to accept requests from other telecommunications providers for the provision of telecommunications access and the obligation to prepare and submit a draft framework offer for telecommunications access to serve as a basis for cooperation between a provider with SMP and its competitors. Polkomtel has been designated as holding SMP in certain relevant markets at the wholesale level. As a result, Polkomtel is required to meet strict regulatory obligations in the following markets: (i) call termination to a public mobile telecommunications network; (ii) SMS termination to a public mobile telecommunications network; and (iii) call termination to a public fixed line network. As part of its continued provision of telecommunications services in Poland, Polkomtel is also regularly reviewed by the President of UKE to ensure that it has complied with the terms of the licences and frequency allocations granted by the President of UKE. If the President of UKE was to declare that Polkomtel breached a provision of the Telecommunications Law, the company could be forced to pay a fine of up to 3% of the revenue it generated in the year prior to the imposition of the fine and it could be prohibited from providing further telecommunications services in Poland.

The President of UKE may also designate one or more network operators to guarantee the provision of universal services (including voice and broadband access, and customer network access) which may then apply to the President of UKE to be compensated by the other telecommunications operators, including Polkomtel, on the justified net costs basis.

The Minister of Administration and Digital Technology, responsible for telecommunications, also exercises broad regulatory authority over the telecommunications market in Poland. The powers of the Minister of Administration and Digital Technology include the power to issue regulations concerning, among other things, tenders and contests for the allocation of frequencies, charges for using the domestic numbering resources, the telecommunications charge, specific requirements for the provision of telecommunications access and regulatory accounting and calculations of costs of services, as well as the quality of telecommunications services and the complaint process. Polkomtel's operations are also supervised by the President of the Office of Competition and Consumer Protection, General Inspector for the Protection of Personal Data, and other agencies.

No assurance can be given that Polkomtel will be able to meet all the requirements that have been or might be imposed on it under the Polish or EU laws or regulations, or all the terms and conditions of the frequency allocations granted to Polkomtel, or that it will be able to comply with all the laws or terms of frequency allocations applicable to its business, and that it will not be exposed to costs, penalties, sanctions or claims as a result of potential violation of such requirements or laws that, in turn, could have a material adverse effect on our business, financial condition, results of operations and prospects.

No assurance can be given that we will not breach any personal data protection laws or regulations, or that we will not fail to meet requirements imposed by the Inspector General for the Protection of Personal Data

As part of our activities, we collect, store and use customer data which is subject to legal protection under the Act on Personal Data Protection. Ineffectiveness of the personal data protection solutions applied by us may lead to disclosure of customers' personal data as a result of a human error, premeditated unlawful act by a third party or failure of IT systems, or may otherwise lead to improper use of such data. Any infringement of the personal data protection laws or regulations, or any failure to comply with the requirements imposed by the Inspector General for the Protection of Personal Data may result in fines being imposed on us or in loss of customer confidence, and consequently may have a material adverse effect on our business, financial condition, results of operations or development prospects.

We use third-party suppliers and cooperate with external partners, agents, suppliers and other third parties, and therefore we are not able to eliminate the risk of failure of the systems used to store sensitive information at, or transfer such information to or from, such entities. Any infringement of the personal data protection laws or regulations by us or by these entities may result in the imposition of fines, loss of reputation or loss of customers, and in effect have a material adverse effect on our business, financial condition, and results of operations or development prospects.

6.5 Risk factors associated with the Series A Bonds

A detailed description of risk factors associated with the Series A Bond is included in the Report of the Management Board on the activities of Polsat Group for the financial year ended December 31, 2015 and also in the Information Note regarding the Series A Bonds, available on our website.

Tobias Solorz
President of the Management Board

Tomasz Szeląg
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, August 24, 2016

GLOSSARY

Capitalised terms used herein and not defined in this Report shall have the meaning assigned to them below, unless the context requires otherwise.

Glossary of general terms

Term	Definition
Aero2	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Midas.
AltaLog	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Midas.
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
ATS Rules	Alternative Trading System Rules governing the alternative trading system organized by the WSE, adopted by resolution no. 147/2007 of the management board of the WSE on March 1, 2007, as amended.
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Bonds, Series A Bonds	Dematerialized, interest-bearing, senior and unsecured Series A bearer bonds with the total nominal value of PLN 1 billion and the nominal value of PLN 1,000 each, issued pursuant to the Management Board's Resolution No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks, CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
EBRD	European Bank for Reconstruction and Development, an international organization established by virtue of a treaty signed on May 29, 1990 in Paris, having its registered office in the United Kingdom of Great Britain and Northern Ireland.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Embud	Embud spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000165473.
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.

Term	Definition
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
Litenite	Litenite Limited a company under Cypriot law, registered under No. 240249.
Litenite Notes	Zero-coupon unsecured loan notes 2022 with the total nominal value of PLN 1,524.4 million and the issue price of PLN 782.0 million issued pursuant to the resolution of the management board of Litenite of December 31, 2015.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel.
Metelem Group	Metelem jointly with the following companies: Eileme 1, Eileme 2, Eileme 3, Eileme 4, Polkomtel, Nordisk Polska Sp. z o.o., , Liberty Poland S.A., Polkomtel Finance AB (publ), Polkomtel Business Development Sp. z o.o., TM Rental, LTE Holdings, Plus TM Management. On February 29, 2016, Litenite Ltd., Midas, Aero2, Sferia and AtlaLog joined Metelem Group.
Midas	Midas spółka akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704.
Midas Group	Midas and its indirect and direct subsidiaries - Aero2, Sferia and Altalog.
Midas Notes	Zero-coupon, dematerialized, secured series A bearer notes with the nominal value of PLN 1,000.0 each and the total nominal value of PLN 583.7 million issued pursuant to the resolution of the management board of Midas of March 6, 2013, amended by the resolution of March 28, 2013.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
NDS	National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych, KDPW*).
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Senior Notes	Unsubordinated senior notes with a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, issued by Eileme 2.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 378997.

Term	Definition
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Business Development	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 377416.
Polkomtel Finance	Polkomtel Finance AB (publ), a company under Swedish law, registered under No. 556807-4594.
Polkomtel Group	Polkomtel jointly with the following companies: Nordisk Polska Sp. z o.o., Liberty Poland S.A., Polkomtel Finance, Polkomtel Business Development, TM Rental, LTE Holdings, Plus TM Management. On February 29, 2016, Litenite Ltd., Midas, Aero2, Sferia and AtlaLog joined Polkomtel Group.
Polsat Media Biuro Reklamy	Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. entered in the register of entrepreneurs of the National Court Register under entry No. 0000467579.
Polskie Media	Polskie Media Spółka Akcyjna, previously entered in the register of entrepreneurs of the National Court Register under entry No. 0000049216. On December 31, 2013 Polskie Media merged with Telewizja Polsat.
Refinanced CP Senior Facilities Agreement	The Senior Facilities Agreement of April 11, 2014 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media, and a syndicate of Polish and foreign banks, covering the CP Term Loan and the CP Revolving Facility Loan. Refinanced in full on September 21, 2015.
Refinanced CP Term Loan	The term facility loan of up to PLN 2,500 million, issued under the Refinanced CP Senior Facilities Agreement, with maturity on April 11, 2019. Refinanced in full on September 21, 2015.
Refinanced PLK Senior Facilities Agreement	The Senior Facilities Agreement of June 17, 2013 between Eileme 2, Eileme 3, Eileme 4, Polkomtel and subsidiaries, and a syndicate of banks. Refinanced in full on September 21, 2015.
Refinanced PLK Term Loans	The Term Facility Loans A, B and C issued under the Refinanced PLK Senior Facilities Agreement of up to PLN 2.65 billion, PLN 3.3 billion and PLN 1.7 billion with maturity dates falling in years 2017, 2018 and 2019, respectively. Refinanced in full on September 21, 2015.
Shares	Shares of Cyfrowy Polsat S.A. admitted to trading on the Warsaw Stock Exchange in Warsaw S.A.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
TiVi Foundation	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
TM Rental	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 567976.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
Advertising market share	The Group's revenue from advertising and sponsoring in the overall revenue from TV advertising in Poland (market data according to SMG Poland (previously SMG Starlink).
Audience share	Percentage of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at a given time (based on Nielsen Audience Measurement (NAM), in the "from 16 to 49 years old" demographics throughout the day).
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{W_{rk}}{W_{rp}}\right)^{\left(\frac{1}{rk-rp}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
CDMA	A family of mobile telecommunications standards developed by the 3rd Generation Partnership Project 2, comprising e.g. CDMAOne and CDMA2000. CDMA is mainly used for data transmission services in rural areas. Its maximum transmission speed is 3.1 MB/s. CDMA also supports direct communication between user terminals and restriction of access to selected devices, and the technology is therefore used for digital trunked communications.
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue)
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer, contract customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder)
EDGE	Cellular telecommunications technology supporting faster data transmission as a backward-compatible extension of the 2G network. EDGE increases the capacity of the radio interface and ensures more convenient use of data transmission services. Its maximum design speed is nearly 1 Mb/s (Enhanced Data rates for GSM Evolution).

Term	Definition
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
GPRS	Mobile data transmission service for GSM users (General Packet Radio Service).
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to online video content belonging to Polsat Group.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).
LTE	A standard for faster data transmission for wireless networks (Long Term Evolution). It supports the maximum design transmission speed of 326.4 Mb/s.
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology;
MTR	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
Multiroom	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
Node B	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue)
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).

Term	Definition
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services
VoLTE	Technology which ensures immediate call set-up, high quality of voice and the possibility to provide advanced communication services with the guarantee of quality, such as e.g. HD video streaming based on the standard phone number (*Voice over LTE*).
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

Pursuant to the requirements of the *Regulation of the Minister of Finance of 19 February 2009 on current and periodic information provided by issuers of securities and on conditions under which information required by legal regulations of a non-member state may be recognised as equivalent* the Management Board of Cyfrowy Polsat S.A. represented by:

Tobias Solorz, President of the Management Board,
Tomasz Szeląg, Member of the Management Board
Dariusz Działkowski, Member of the Management Board,
Tomasz Gillner-Gorywoda, Member of the Management Board,
Aneta Jaskólska, Member of the Management Board,
Agnieszka Odorowicz, Member of the Management Board,
Maciej Stec, Member of the Management Board.

hereby represents that:

- to the best of its knowledge the interim condensed consolidated financial statements and interim condensed financial statements for six months ended 30 June 2016 and the comparative information were prepared in accordance with the current effective accounting principles, and they truly and fairly present the financial position of the Group as well as its financial performance, and the semi-annual Management Board's report on the activities contains a true image of the Group's development, achievements, and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has reviewed the interim condensed consolidated financial statements and interim condensed financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the review fulfilled the conditions to prepare a review report on the interim condensed consolidated financial statements and interim condensed financial statements for six months ended 30 June 2016 pursuant to relevant provisions of the national law and industry norms.

Tobias Solorz
President of the Management Board

Tomasz Szeląg
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, 24 August 2016

Report on review of interim condensed consolidated financial statements

To the Shareholders and Supervisory Board of Cyfrowy Polsat S.A.

Introduction

We have reviewed the accompanying interim consolidated balance sheet of Cyfrowy Polsat S.A. and its subsidiaries (the 'Group') as of June 30, 2016 and the related interim consolidated income statement, interim consolidated statement of comprehensive income, interim consolidated statement of changes in equity and interim consolidated cash flow statement for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, '*Review of interim financial information performed by the independent auditor of the entity*'. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'.

PricewaterhouseCoopers Sp. z o.o.

August 24, 2016

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CYFROWY POLSAT S.A. GROUP

Interim Condensed Consolidated Financial Statements
for the 6 months ended 30 June 2016

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

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APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 24 August 2016, the Management Board of Cyfrowy Polsat S.A. approved the interim condensed consolidated financial statements of Cyfrowy Polsat S.A. Group prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting,* as adopted by the European Union, which include:

Interim Consolidated Income Statement for the period
from 1 January 2016 to 30 June 2016 showing a net profit for the period of: PLN 409.4

Interim Consolidated Statement of Comprehensive Income for the period
from 1 January 2016 to 30 June 2016 showing a total comprehensive income for the period of: PLN 413.2

Interim Consolidated Balance Sheet as at
30 June 2016 showing total assets and total equity and liabilities of: PLN 27,581.1

Interim Consolidated Cash Flow Statement for the period
from 1 January 2016 to 30 June 2016 showing a net decrease in cash and cash equivalents amounting to: PLN 568.7

Interim Consolidated Statement of Changes in Equity for the period
from 1 January 2016 to 30 June 2016 showing an increase in equity of: PLN 511.5

Notes to the Interim Condensed Consolidated Financial Statements

The interim condensed consolidated financial statements have been prepared in million of Polish zloty ('PLN') except where otherwise indicated.

Tobias Solorz President of the Management Board	Tomasz Szeląg Member of the Management Board	Dariusz Działkowski Member of the Management Board	Tomasz Gillner-Gorywoda Member of the Management Board
Aneta Jaskólska Member of the Management Board	Agnieszka Odorowicz Member of the Management Board	Maciej Stec Member of the Management Board	

Warsaw, 24 August 2016

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Consolidated Income Statement

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Continuing operations					
Revenue	8	2,442.9	2,469.2	4,806.9	4,798.2
Operating costs	9	(2,042.0)	(1,899.5)	(3,990.0)	(3,808.5)
Other operating income, net		6.6	13.8	13.4	22.5
Profit from operating activities		**407.5**	**583.5**	**830.3**	**1,012.2**
Gain/loss on investment activities, net	10	(21.4)	(11.9)	(56.6)	17.0
Finance costs	11	(133.2)	(222.1)	(315.9)	(483.4)
Share of the profit of jointly controlled entity accounted for using the equity method		(0.8)	0.9	-	1.4
Gross profit for the period		**252.1**	**350.4**	**457.8**	**547.2**
Income tax		(21.2)	(45.9)	(48.4)	(71.9)
Net profit for the period		**230.9**	**304.5**	**409.4**	**475.3**
Net profit attributable to equity holders of the Parent		237.7	304.5	413.2	475.3
Net loss attributable to non-controlling interest		(6.8)	-	(3.8)	-
Basic and diluted earnings per share (in PLN)		**0.37**	**0.48**	**0.64**	**0.74**

Interim Consolidated Statement of Comprehensive Income

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Net profit for the period		**230.9**	**304.5**	**409.4**	**475.3**
Items that may be reclassified subsequently to profit or loss:					
Valuation of hedging instruments	13	2.2	5.9	4.7	5.3
Income tax relating to hedge valuation	13	(0.4)	(1.1)	(0.9)	(1.0)
Items that may be reclassified subsequently to profit or loss		**1.8**	**4.8**	**3.8**	**4.3**
Other comprehensive income, net of tax		**1.8**	**4.8**	**3.8**	**4.3**
Total comprehensive income for the period		**232.7**	**309.3**	**413.2**	**479.6**
Total comprehensive income attributable to equity holders of the Parent		239.5	309.3	417.0	479.6
Total comprehensive income attributable to non-controlling interest		(6.8)	-	(3.8)	-

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Consolidated Balance Sheet - Assets

	Note	30 June 2016 unaudited	31 December 2015
Reception equipment		353.3	371.0
Other property, plant and equipment		2,931.0	2,548.6
Goodwill	16	10,975.2	10,606.4
Customer relationships		3,337.3	3,638.5
Brands		2,068.6	2,080.6
Other intangible assets		3,903.0	2,422.2
Non-current programming assets		156.2	145.0
Investment property		5.2	5.2
Non-current deferred distribution fees		79.7	83.3
Other non-current assets		331.8	272.8
includes derivative instruments assets		-	*6.9*
Deferred tax assets		236.5	87.6
Total non-current assets		**24,377.8**	**22,261.2**
Current programming assets		163.5	192.2
Inventories		270.0	281.0
Trade and other receivables		1,541.1	1,619.1
Income tax receivable		1.4	0.7
Current deferred distribution fees		209.1	212.7
Other current assets		62.8	399.5
includes derivative instruments assets		*3.6*	*10.5*
Cash and cash equivalents		944.5	1,512.0
Restricted cash		10.9	11.7
Total current assets		**3,203.3**	**4,228.9**
Total assets		**27,581.1**	**26,490.1**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Consolidated Balance Sheet - Equity and Liabilities

	Note	30 June 2016 unaudited	31 December 2015
Share capital	12	25.6	25.6
Share premium	12	7,174.0	7,174.0
Other reserves		0.1	(3.7)
Retained earnings		3,467.4	3,054.2
Equity attributable to equity holders of the Parent		**10,667.1**	**10,250.1**
Non-controlling interests		**94.5**	**-**
Total equity		**10,761.6**	**10,250.1**
Loans and borrowings	14	9,752.0	5,379.8
Issued bonds	15	1,795.1	975.3
Finance lease liabilities		23.3	20.9
UMTS license liabilities		686.7	652.8
Deferred tax liabilities		889.1	615.8
Deferred income		21.0	4.7
Other non-current liabilities and provisions		148.9	124.2
includes derivative instruments liabilities		*0.9*	-
Total non-current liabilities		**13,316.1**	**7,773.5**
Loans and borrowings	14	1,251.3	1,230.9
Issued bonds	15	42.3	4,776.7
Finance lease liabilities		4.9	4.3
UMTS license liabilities		123.1	117.0
Trade and other payables		1,365.9	1,485.4
includes derivative instruments liabilities		*3.5*	*72.9*
Income tax liability		39.1	176.1
Deferred income		676.8	676.1
Total current liabilities		**3,503.4**	**8,466.5**
Total liabilities		**16,819.5**	**16,240.0**
Total equity and liabilities		**27,581.1**	**26,490.1**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Consolidated Cash Flow Statement

	Note	for the 6 months ended 30 June 2016 unaudited	for the 6 months ended 30 June 2015 unaudited
Net profit		**409.4**	**475.3**
Adjustments for:		**1,140.0**	**852.7**
Depreciation, amortization, impairment and liquidation	9	951.2	861.4
Payments for film licenses and sports rights		(119.0)	(115.2)
Amortization of film licenses and sports rights		125.3	90.5
Interest expense		285.9	348.5
Change in inventories		11.7	45.6
Change in receivables and other assets		(105.3)	(581.2)
Change in liabilities, provisions and deferred income		(106.7)	69.3
Change in internal production and advance payments		1.0	(7.6)
Valuation of hedging instruments		4.7	5.3
Share of the profit of joint venture accounted for using the equity method		-	(1.4)
Foreign exchange losses, net		276.1	99.2
Income tax		48.4	71.9
Net additions of reception equipment provided under operating lease		(71.2)	(72.2)
Net (gain)/loss on derivatives		(160.2)	33.9
Other adjustments		(1.9)	4.7
Cash from operating activities		**1,549.4**	**1,328.0**
Income tax paid		(186.5)	(44.2)
Interest received from operating activities		13.1	20.5
Net cash from operating activities		**1,376.0**	**1,304.3**
Acquisition of property, plant and equipment		(179.5)	(187.0)
Acquisition of intangible assets		(61.3)	(90.7)
Acquisition of bonds		(323.6)	-
Concession payments		(147.7)	-
Acquisition of subsidiaries, net of cash acquired	16	(145.3)	(29.5)
Proceeds from sale of property, plant and equipment		5.0	13.3
Short-term deposits		-	(42.7)
Granted loans		(9.5)	(8.9)
Other investing activities – derivatives		(4.0)	(2.1)
Proceeds from sale of shares in subsidiaries		0.2	-
Other inflows		1.0	-
Net cash used in investing activities		**(864.7)**	**(347.6)**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Loans and borrowings inflows	14	5,500.0	120.0
Bonds redemption	15	(4,483.8)	-
Repayment of loans and borrowings	14	(1,498.9)	(954.2)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(507.9)	(472.3)
Early redemption fee	15	(262.1)	-
Hedging instrument effect – principal		175.4	-
Finance lease – principal repayments		(2.1)	(3.5)
Other outflows		(0.6)	-
Net cash used in financing activities		**(1,080.0)**	**(1,310.0)**
Net decrease in cash and cash equivalents		**(568.7)**	**(353.3)**
Cash and cash equivalents at the beginning of the period		**1,523.7****	**1,747.9**
Effect of exchange rate fluctuations on cash and cash equivalents		0.4	2.0
Cash and cash equivalents at the end of the period		**955.4*****	**1,396.6**

* Includes impact of hedging instruments
** Includes restricted cash amounting to PLN 11.7
*** Includes restricted cash amounting to PLN 10.9

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2016

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	**Total equity**
Balance as at 1 January 2016	**25.6**	**7,174.0**	**(3.7)**	**3,054.2**	**10,250.1**	**-**	**10,250.1**
Acquisition of Litenite	-	-	-	-	-	98.3	**98.3**
Total comprehensive income	-	-	3.8	413.2	417.0	(3.8)	**413.2**
Hedge valuation reserve	-	-	*3.8*	-	*3.8*	-	***3.8***
Net profit for the period	-	-	-	*413.2*	*413.2*	*(3.8)*	**409.4**
Balance as at 30 June 2016 unaudited	**25.6**	**7,174.0**	**0.1**	**3,467.4**	**10,667.1**	**94.5**	**10,761.6**

* The capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Interim Consolidated Statement of Changes in Equity for the 6 months ended 30 June 2015

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	Total equity
Balance as at 1 January 2015 restated	**25.6**	**7,174.0**	**(12.2)**	**1,890.8**	**9,078.2**	**-**	**9,078.2**
Total comprehensive income	-	-	4.3	475.3	479.6	-	**479.6**
Hedge valuation reserve	-	-	*4.3*	-	*4.3*	-	***4.3***
Net profit for the period	-	-	-	*475.3*	*475.3*	-	***475.3***
Balance as at 30 June 2015 unaudited	**25.6**	**7,174.0**	**(7.9)**	**2,366.1**	**9,557.8**	**-**	**9,557.8**

* The capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Interim Condensed Consolidated Financial Statements

1. The Parent Company

Cyfrowy Polsat S.A. ('the Company', 'Cyfrowy Polsat', 'the Parent Company', 'the Parent') was incorporated in Poland as a joint stock company. The Company's shares are traded on the Warsaw Stock Exchange. The Parent Company's registered office is located at 4a, Łubinowa Street in Warsaw.

The Parent operates in Poland as a provider of a paid digital satellite platform under the name of 'Cyfrowy Polsat' and paid digital terrestrial television as well as telecommunication services provider.

The Company was incorporated under the Notary Deed dated 30 October 1996.

The consolidated financial statements comprise the Parent and its subsidiaries ('the Group') and joint ventures. The Group operates in two segments: (1) services to individual and business customers which relates to the provision of services to the general public, including digital television transmission signal, Internet access services, mobile TV services, online TV services, mobile services, production of set-top boxes; and (2) broadcasting and television production which consist mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television channel in Poland.

2. Composition of the Management Board of the Company

- Tobias Solorz	President of the Management Board,
- Tomasz Szeląg	Member of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Tomasz Gillner-Gorywoda	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board,
- Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016),
- Maciej Stec	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

4. Basis of preparation of the interim condensed consolidated financial statements

Statement of compliance

These interim condensed consolidated financial statements for the 6 months ended 30 June 2016 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The Group applied the same accounting policies in the preparation of the financial data for the 6 months ended 30 June 2016 and the consolidated financial statements for the year 2015, presented in the consolidated annual report, except for the EU-endorsed Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2016. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2016 do not have a material impact on these interim condensed consolidated financial statements.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

5. Group structure

These interim condensed consolidated financial statements for the 6 months ended 30 June 2016 include the following entities:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**30 June 2016**	**31 December 2015**
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) [(a)]	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	-	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, Warsaw	advertising activities	100%	100%
Nord License AS	Vollsvseien 13B Lysaker Norway	trade of programming licences	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licences	100%	100%
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, Warsaw	holding activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, Warsaw	other sport relating activities	100%	100%

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2016	31 December 2015
Subsidiaries accounted for using full method (cont.)				
Polsat Brands (einfache Gesellschaft)	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.	238A King Street, W6 0RF London, UK	television broadcasting	100%	100%
Muzo.fm Sp. z o.o. (formerly Radio PIN S.A.)	Ostrobramska 77, Warsaw	radio broadcasting and production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	100%
Gery.pl Sp. z o.o. [(b)]	Al. Stanów Zjednoczonych 61A, Warsaw	web portals activities	-	100%
Netshare Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	electronic media (Internet) advertising broker	100%	100%
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding and financial activities	100%	100%
Eileme 1 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 4 AB (publ)	Stureplan 4C 114 35 Stockholm Sweden	holding activities	100%	100%

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2016	31 December 2015
Subsidiaries accounted for using full method (cont.)				
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ)	Norrlandsgatan 18 111 43 Stockholm Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, Warsaw	other activities supporting financial services	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, Warsaw	intelectual property rights management and rental	100%	100%
LTE Holdings Limited	Kostaki Pantelidi 1 1010, Nicosia Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o. (formerly Plus TM Group Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo-Akcyjna)	Konstruktorska 4, Warsaw	intelectual property rights rental	100%	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

	Entity's registered office	Activity	Share in voting rights (%) 30 June 2016	31 December 2015
Subsidiaries accounted for using full method (cont.)				
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, Warsaw	holding activities	100%	100%
Interphone Service Sp. z o.o.	ul. Inwestorów 8, Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. sp.k.	Al. Jerozolimskie 81, Warsaw	premium rate services	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	*	*
Grab Sarl	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Litenite Ltd. (c)	Kostaki Pantelidi 1 1010, Nikozja Cypr	holding activities	100%	49%**
Midas S.A. (c)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	-
Aero 2 Sp. z o.o.(c)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	-
Sferia S.A. (c)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	-
Altalog Sp. z o.o. (c)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	-

* Cyfrowy Polsat S.A. indirectly holds 100% of certificates.

** Due to restriction related to a dividend and construction of the transactions related to the acquisition, investment in Litenite Limited was accounted for as an investments in associates without equity pick-up as at 31 December 2015

(a) Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) was disposed of on 4 January 2016.

(b) On 30 June 2016 Netshare Sp. z o.o. merged with Gery.pl Sp. z o.o.

(c) Companies consolidated from 29 February 2016 following acquisition of 100% shares of Litenite (see note 16)

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Investments accounted for under the equity method:

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2016	31 December 2015
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	maintenance of loyalty programs	49%	49%

Additionally, the following entities were included in these interim condensed consolidated financial statements for the 6 months ended 30 June 2016

			Share in voting rights (%)	
	Entity's registered office	Activity	30 June 2016	31 December 2015
Karpacka Telewizja Kablowa Sp. z o.o.*	Warszawska 220, Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25E lok. 216, 10-686 Olsztyn	infrastructure projects advisory	6.55%**	-

* Investment accounted for at cost less any accumulated impairment losses

** Altalog Sp. z o.o. holds 9.918% share in voting rights in InPlus Sp. z o.o.

6. Approval of the Consolidated Financial Statements

These interim condensed consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 24 August 2016.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

7. Information on seasonality in the Group's operations

Wholesale revenue includes *inter alia* advertising and sponsoring revenue which tends to be lowest during the third quarter of each calendar year due to the summer holidays period and highest during the second and fourth quarter of each calendar year due to the introduction of a new programming offer.

Within retail revenue category mobile revenue is a subject to slight fluctuations during the year. This revenue stream tends to increase during the summer period (caused by increased usage of roaming services). On the other hand mobile revenue tends to decrease in the first quarter of each year due to fewer number of calendar and business days.

8. Revenue

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Retail revenue	1,586.9	1,652.0	3,152.6	3,289.2
Wholesale revenue	645.0	688.7	1,244.8	1,242.0
Sale of equipment	191.1	106.9	363.9	225.3
Other revenue	19.9	21.6	45.6	41.7
Total	**2,442.9**	**2,469.2**	**4,806.9**	**4,798.2**

Retail revenue mainly consists of pay-TV, telecommunication services, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

Wholesale revenue mainly consists of advertising and sponsorship revenue, settlements with mobile network operators, revenue from rental of infrastructure, roaming revenues, revenue from cable and satellite operator fees, sales of broadcasting and signal transmission services and sales of licenses, sublicenses and property rights.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

9. Operating costs

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Technical costs and cost of settlements with telecommunication operators		456.6	522.4	1,006.9	1,004.7
Depreciation, amortization, impairment and liquidation		527.5	393.5	951.2	861.4
Cost of equipment sold		317.3	291.7	644.1	624.3
Content costs		316.3	274.0	564.8	509.5
Distribution, marketing, customer relation management and retention costs		202.2	193.2	402.7	382.4
Salaries and employee-related costs	a	138.2	140.8	276.1	269.9
Cost of debt collection services and bad debt allowance and receivables written off		16.3	27.8	25.9	46.5
Other costs		67.6	56.1	118.3	109.8
Total		**2,042.0**	**1,899.5**	**3,990.0**	**3,808.5**

a) Salaries and employee-related costs

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Salaries	115.8	117.9	230.5	224.7
Social security contributions	18.8	19.3	38.7	38.6
Other employee-related costs	3.6	3.6	6.9	6.6
Total	**138.2**	**140.8**	**276.1**	**269.9**

10. Gain/(loss) on investment activities, net

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Interest, net	6.4	8.1	14.8	17.6
Other foreign exchange gains/(losses), net	(28.3)	(19.3)	(56.8)	11.3
Other costs	0.5	(0.7)	(14.6)	(11.9)
Total	**(21.4)**	**(11.9)**	**(56.6)**	**17.0**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

11. Finance costs

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Interest expense on loans and borrowings	106.9	91.2	202.3	189.3
Interest expense on issued bonds	32.7	87.9	83.2	175.6
Foreign exchange differences on issued bonds	-	41.5	244.8	115.4
Valuation and realization of hedging instruments	2.0	2.4	3.9	3.6
Valuation and realization of derivatives not used in hedge accounting – relating to interest	(1.9)	(7.4)	(8.9)	(9.6)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	-	-	(203.8)	-
Other	(6.5)	6.5	(5.6)	9.1
Total	**133.2**	**222.1**	**315.9**	**483.4**

12. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 30 June 2016 and 31 December 2015:

Share series	Number of shares	Nominal value of shares	Type of shares
Series A	2,500,000	0.1	preference shares (2 voting rights)
Series B	2,500,000	0.1	preference shares (2 voting rights)
Series C	7,500,000	0.3	preference shares (2 voting rights)
Series D	166,917,501	6.7	preference shares (2 voting rights)
Series D	8,082,499	0.3	ordinary bearer shares
Series E	75,000,000	3.0	ordinary bearer shares
Series F	5,825,000	0.2	ordinary bearer shares
Series H	80,027,836	3.2	ordinary bearer shares
Series I	47,260,690	1.9	ordinary bearer shares
Series J	243,932,490	9.8	ordinary bearer shares
Total	**639,546,016**	**25.6**	

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

The shareholders' structure as at 30 June 2016 and 31 December 2015 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. [1]	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. [2]	154,204,296	6.2	24.11%	306,709,172	37.45%
Sensor Overseas Ltd. [3]	54,921,546	2.2	8.59%	81,662,921	9.97%
Embud Sp. z o.o. [1]	58,063,948	2.3	9.08%	58,063,948	7.09%
Other	214,367,958	8.6	33.52%	214,539,208	26.20%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] Entity is controlled by Mr. Zygmunt Solorz-Żak

[2] Reddev Investments Ltd. is an indirect subsidiary of Mr. Zygmunt Solorz-Żak

[3] Sensor Overseas Ltd. is controlled by EVO Foundation

(ii) Share premium

Share premium includes the excess of issue value over the nominal value of shares issued decreased by share issuance-related consulting costs.

13. Hedge valuation reserve

Impact of hedging instruments valuation on other reserves

	2016	2015
Balance as at 1 January	**(6.7)**	**(12.2)**
Valuation of cash flow hedges	4.7	5.3
Deferred tax	(0.9)	(1.0)
Change for the period	**3.8**	**4.3**
Balance as at 30 June unaudited	**(2.9)**	**(7.9)**

In 2014 in connection with new credit facilities hedging relationship was designated. It was maintained and attached to 2015-incurred credit facilities.

14. Loans and borrowings

Loans and borrowings	30 June 2016 unaudited	31 December 2015
Short-term liabilities	1,251.3	1,230.9
Long-term liabilities	9,752.0	5,379.8
Total	**11,003.3**	**6,610.7**

Change in loans and borrowings liabilities:

	2016	2015
Loans and borrowings as at 1 January	**6,610.7**	**9,006.1**
Loans and borrowings on acquisition of Litenite (see note 16)	380.1	-
Loans and borrowings on acquisition as at 1 April 2015	-	22.2
Facilities agreement	4,800.0	-
Revolving facility loan	700.0	120.0
Repayment of capital	(1,498.9)	(954.2)
Repayment of interest and commissions	(190.9)	(178.9)
Interest accrued	202.3	189.3
Loans and borrowings as at 30 June unaudited	**11,003.3**	**8,204.5**

Amendment, Restatement and Consolidation Deed executed between the parties to the CP Facilities Agreement, PLK Facilities Agreement and certain members of the Group

On 21 September 2015 the Amendment, Restatement and Consolidation Deed was concluded between the Company, Polkomtel Sp. z o.o., Telewizja Polsat Sp. z o.o., Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat License Ltd. and Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Eileme 2 AB (publ), Eileme 3 AB (publ), Eileme 4 AB (publ), Plus TM Management Sp. z o.o., TM Rental Sp. z o.o., Plus TM Group Sp. z o.o. and the consortium of Polish and foreign financing institutions (the “Amendment, Restatement and Consolidation Deed”).

According to the Amendment, Restatement and Consolidation Deed, upon repayment of the Senior Notes Indebtedness, the indebtedness under the PLK Facilities Agreement was refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The Senior Notes Indebtedness were repaid 1 February 2016.

The Amendment, Restatement and Consolidation Deed amended the CP Facilities Agreement as follows:

i. the maximum amount of the CP Term Facility is PLN 11,500, and the maximum amount of the CP Revolving Facility is PLN 1,000;
ii. the Company and other Group members established additional collaterals for the facilities granted on this basis. These collaterals include, in particular, registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of certain members of the Group, registered and financial pledges on shares in the Group members, registered and financial pledges on receivables related to bank accounts kept for certain members of the Group, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares (interests) or assets of members of the Group, to be governed by foreign laws.

The Amendment, Restatement and Consolidation Deed is described in detail in Note 30 “Loans and borrowings” to the consolidated financial statements for the year ended 31 December 2015.

Completion of refinancing

On 26 January 2016, Polkomtel (an indirect subsidiary of the Company) increased utilization of the PLN facility by PLN 4.8 billion (not in million) pursuant to the terms of the Amendment, Restatement and Consolidation Deed.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Early repayment of the loan

On 29 April 2016 Midas Group made an early repayment of the loan granted by Pekao Bank in the amount of PLN 326.3. As a result of the said early repayment Midas group repaid its total indebtedness under the facility agreement and the bank released all the collateral securing the facility.

On 10 May 2016 Midas Group made an early repayment of the loans granted by Plus Bank in the amount of PLN 41.1. As a result of the said early repayment Midas Group repaid its total indebtedness under the facility agreement and the bank released all the collateral securing the facility.

Accession to the loan agreement

On 27 May 2016 Midas and Litenite Ltd. (indirect subsidiaries of the Company) acceded to the facilities agreement dated 21 September 2015 entered into initially by Cyfrowy Polsat, Polkomtel and other Group entities. Midas and Litenite Ltd. also acceded to the respecive Intercreditor Agreement.

On 29 June 2016 Aero 2 (indirect subsidiary of the Company) acceded to the facilities agreement dated 21 September 2015 entered into initially by Cyfrowy Polsat, Polkomtel and other Group entities. Aero 2 also acceded to the respecive Intercreditor Agreement.

15. Issued bonds

	30 June 2016 unaudited	31 December 2015
Short-term liabilities	42.3	4,776.7
Long-term liabilities	1,795.1	975.3
Total	**1,837.4**	**5,752.0**

Change in issued bonds:

	2016	2015
Issued bonds as at 1 January	**5,752.0**	**5,014.6**
Bonds on acquisition of Litenite (see note 16)	1,123.2	-
Bonds redemption	(4,483.8)	-
Repurchase of own bonds by the Group companies	(328.8)	-
Foreign exchange losses	244.8	115.4
Repayment of interest and commission	(285.0)	(243.7)
Early redemption fee	(262.1)	-
Interest accrued	77.1	175.6
Issued bonds payable as at 30 June unaudited	**1,837.4**	**5,061.9**

Completion of refinancing

On 1 February 2016, Eileme 2 (an indirect subsidiary of the Company) redeemed all of its issued Senior Notes in the total nominal value of EUR 542.5 and USD 500 due in 2020.

Purchase of bonds

On 12 May 2016 Cyfrowy Polsat Trademarks (Company's direct subsidiary) purchased Midas' bonds for the total amount of PLN 221,8.

On 12 May 2016 Polkomtel (Company's indirect subsidiary) purchased Midas' bonds for the total amount of PLN 101,8.

16. Acquisition of a subsidiary

Acquisition of shares in Litenite Limited

On 29 February 2016 Polkomtel (Company's indirect subsidiary) acquired 100% shares of Litenite Ltd from Ortholuck Ltd. The consideration for the 100% shares of Litenite Ltd amounted to 1 Euro (not in millions), which takes into account Litenite's net indebtedness.

Litenite Ltd. is a direct owner of shares in Midas S.A. ('Midas'), representing 65.9975% of the total number of votes and share capital in Midas. Following the acquisition on 29 February 2016 the Group assumed control over Midas S.A. and its subsidiaries: Aero 2 Sp. z o.o., Altalog Sp. z o.o. oraz Sferia S.A. Midas Group is involved in telecommunication activities.

Otholuck is controlled by Mr. Zygmunt Solorz-Żak, ultimate controlling party of the Company.

On 29 February 2016 Polkomtel announced a tender offer to purchase 503,124,060 shares of Midas S.A., representing 34.0025% of the total number of votes and share capital of Midas. The price of the Midas shares in the tender offer has been set for PLN 0.81 (not in millions) per one share.

Following the closing of subscription for shares on 19 April 2016, subscriptions were made for the total of 403,054,449 shares, representing 27.2395% of the total number of votes and share capital of Midas. Upon completion of the above transaction Cyfrowy Polsat held indirectly 93.237% of the total number of votes and share capital of Midas.

On 5 May 2016 Polkomtel adopted a resolution to acquire up to 100% shares in Midas S.A. Accordingly, Polkomtel will proceed with announcing and conducting a mandatory squeeze-out of Midas shares.

On 31 May 2016 Polkomtel purchased 100,069,611 shares, representing 6.763% of the total number of votes and share capital of Midas. Upon completion of the above transaction Cyfrowy Polsat holds indirectly 100% of the total number of votes and share capital of Midas.

The Group uses the purchase accounting method for entities acquired under common control with the assumption that the full control over Midas Group (i.e. 100% shares) was acquired on 29 February 2016.

a) Provisional consideration transferred

	Provisional value of transferred
Cash transferred for the 100% shares of Litenite Ltd.	0.0*
Cash transferred for non-controlling interests in Midas S.A.	407.5
Provisional value as at 29 February 2016	**407.5**

* the consideration for the 100% shares of Litenite Ltd. amounted to 1 Euro (not in millions), which takes into account Litenite's net indebtedness

b) Reconciliation of transactional cash flow

Cash transferred	(407.5)
Cash and cash equivalents received*	262.2
Cash increase in the period of 6 months ended 30 June 2016	**(145.3)**

* included restricted cash in the amount of PLN 20.0

c) Provisional fair value valuation of net assets as at acquisition date

The table below presents provisional fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Provisional fair values of assets and liabilities acquired as at 29 February 2016:

	Provisional fair value as at the acquisition date (29 February 2016)
Net assets:	
Property, plant and equipment	542.3
Buildings	86.8
Network systems and equipment	267.1
Assets under construction	188.4
Intangible assets	1,525.9
Software and licenses	2.2
Concessions	1,507.7
Other	0.9
Intangible asset in realization and prepayments	15.1
Other non-current assets	3.7
Deferred tax assets	127.3
Inventory	0.7
Trade receivables and other receivables	101.3
Other current assets	7.7
Cash and equivalents	262.2
Loans and borrowings	(380.1)
Issued bonds (Litenite)	(794.2)
Issued bonds (Midas)	(329.0)
Deferred tax liabilities	(251.6)
Other non-current liabilities and provisions	(19.2)
Trade liabilities and other liabilities	(114.4)
Deferred income	(545.6)
Provisional value of net assets	**137.0**
Provisional value of non-controlling interest in Sferia S.A. and Altalog Sp. z o.o. as at 29 February 2016	98.3
Consideration transferred	407.5
Provisional goodwill	**368.8**

Provisional fair value of assets (excluding concessions) and liabilities (excluding issued bonds liabilities) is estimated at book value as at the acquisition date. As the process of fair valuation has not yet been completed, the fair value of all identifiable acquired assets and liabilities is provisional and is applicable up to final valuation of assets and liabilities will be obtained.

It should be noted that during the provisional purchase price allocation the Group identified key concessions. The provisional fair value of key telecommunication concessions (800 MHz, 900 MHz, 1800 MHz) is estimated based on the market approach. Please note that there is a pending legal dispute in respect to the telecommunication concession for the 1800 mHz frequency granted to Mobyland Sp. z o.o. (now Aero 2 Sp. z o.o.) and Centernet S.A. (now Aero 2 Sp. z o.o.) – provisional fair value of this concession as at 29 February 2016 is equal to PLN 339.9. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated 8 May 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on 23 September 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation". UKE also stated that the 'reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies'. The management board is unable to predict the final outcome of the dispute however in management's opinion this issue should have no negative impact on the results and financial condition of the Group (the Group is able to provide its services using alternative frequencies). Accordingly, no valuation adjustment has been made in these interim condensed consolidated financial statements that might have been necessary should the dispute's outcome be unfavorable for the entity.

During the provisional purchase price allocation the Group analyzed the embedded derivative instrument such as the early redemption option of Midas' and Litenite's bonds – the analysis and the accounting standards applied by the Group do not indicate the necessity to recognize the instrument on the balance sheet. Accordingly, on 30 June 2016 the Group has not recognized the early redemption option on the assets' side and has recognized the issued bonds liabilities in a lower amount (excluding the option).

Goodwill is allocated to the "Services to individual and business customers" operating segment.

The revenue and net loss included in the interim consolidated income statement for the reporting period since 29 February 2016 contributed by Litenite group amounted to PLN 268.3 and PLN 73.8, respectively. Had it been acquired on 1 January 2016 the proforma revenue and net income included in the interim consolidated income statement for would have amounted to PLN 4,727.2 and PLN 359.0, respectively.

17. Operating segments

The Group operates in the following two segments:

1. services to individual and business customers segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services, the Internet access services, the mobile TV services, the online TV services and production of set-top boxes,
2. broadcasting and television production segment.

The Group conducts its operating activities primarily in Poland.

The activities of the Group are grouped into segment with distinguishable scope of operations where services are rendered and merchandise delivered in a specific economic environment. Activities of defined segments are characterized by different risk levels and different investment returns from those of the Group's other segments.

Services to individual and business customers segment includes:

- digital pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by pay-TV subscription fees;
- mobile telecommunication services (postpaid and mix) which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including international and domestic roaming;

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

- online TV services (IPLA) available on computers, smartphones, tablets, SmartTV, game consoles and other TV equipment which generate revenues mainly from subscription fees and advertising on the Internet;
- production of set-top boxes.

Broadcasting and television production segment consists mainly of production, acquisition and broadcasting of information and entertainment programs as well as TV series and feature films broadcasted on television and radio channels in Poland. The revenues generated by the broadcasting and television production segment relate mainly to advertising and sponsorship revenues as well as revenues from cable and satellite operators.

Management evaluates the operating segments' results based on EBITDA. The EBITDA reflects the Group's ability to generate cash in a stable environment. The Group defines EBITDA as profit from operating activities increased by depreciation, amortization, impairment and liquidation. The EBITDA is not an EU IFRS measure and thus its calculations may differ among the entities.

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended 30 June 2016:

The 6 months ended 30 June 2016 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,162.7	644.2	-	4,806.9
Inter-segment revenues	15.3	105.2	(120.5)	-
Revenues	**4,178.0**	**749.4**	**(120.5)**	**4,806.9**
EBITDA (unaudited)	**1,499.7**	**281.8**	**-**	**1,781.5**
Depreciation, amortization, impairment and liquidation	931.0	20.2	-	951.2
Profit from operating activities	**568.7**	**261.6**	**-**	**830.3**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	298.0*	14.6	-	312.6
Balance as at 30 June 2016 (unaudited)				
Assets, including:	23,221.1	4,434.3**	(74.3)	**27,581.1**
Investments in joint venture	-	5.8	-	5.8

* This item also includes the acquisition of reception equipment for operating lease purposes.

** Includes non-current assets located outside of Poland in the amount of PLN 17.0.

All material revenues are generated in Poland.

It should be noted that the data for 6 months ended 30 June 2016 is not comparable to the 6 months ended 30 June 2015 as Radio PIN was acquired on 27 February 2015 (allocated to the Broadcasting and television production segment), Orsen Holding Limited was acquired on 1 April 2015 (allocated to the Services to individual and business customers segment) and Litenite Limited was acquired on 29 February 2016 (allocated to the Services to individual and business customers segment).

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 6 months ended 30 June 2015:

The 6 months ended 30 June 2015 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	4,244.4	553.8	-	4,798.2
Inter-segment revenues	16.7	75.4	(92.1)	-
Revenues	**4,261.1**	**629.2**	**(92.1)**	**4,798.2**
EBITDA (unaudited)	**1,639.7**	**233.9**	**-**	**1,873.6**
Depreciation, amortization, impairment and liquidation	842.1	19.3	-	861.4
Profit from operating activities	**797.6**	**214.6**	**-**	**1,012.2**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	337.6*	14.5	-	352.1
Balance as at 30 June 2015 (unaudited)				
Assets, including:	22,942.1	4,275.1**	(75.4)	**27,141.8**
Investments in joint venture	-	4.6	-	4.6

* This item also includes the acquisition of reception equipment for operating lease purposes.

** Includes non-current assets located outside of Poland in the amount of PLN 19.3.

Reconciliation of EBITDA and Net profit for the period:

	for the 6 months ended	
	30 June 2016 unaudited	**30 June 2015 unaudited**
EBITDA (unaudited)	**1,781.5**	**1,873.6**
Depreciation, amortization, impairment and liquidation (note 9)	(951.2)	(861.4)
Profit from operating activities	**830.3**	**1,012.2**
Other foreign exchange rate differences, net (note 10)	(56.8)	11.3
Share of the profit of joint venture accounted for using the equity method	-	1.4
Interest costs, net (note 10 and 11)	(265.7)	(341.3)
Foreign exchange differences on issued bonds (note 11)	(244.8)	(115.4)
Valuation and realization of derivatives not used in hedge accounting – relating to principal (note 11)	203.8	-
Other	(9.0)	(21.0)
Gross profit for the period	**457.8**	**547.2**
Income tax	(48.4)	(71.9)
Net profit for the period	**409.4**	**475.3**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

18. Transactions with related parties

Receivables

	30 June 2016 unaudited	31 December 2015
Joint ventures	1.1	2.6
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	7.3	61.9
Total*	**8.4**	**64.5**

*Amounts presented above do not include deposits paid (30 June 2016 – PLN 3.3, 31 December 2015 – PLN 3.3)

Receivables due from related parties have not been pledged as security.

Other assets

	30 June 2016 unaudited	31 December 2015
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	358.5
Total	**0.1**	**358.5**

Other current assets as at 31 December 2015 comprise mainly accruals related to agreement with Aero 2 Sp. z o.o.

Liabilities

	30 June 2016 unaudited	31 December 2015
Joint ventures	1.1	1.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	19.9	28.7
Total	**21.0**	**30.6**

Loans granted

	30 June 2016 unaudited	31 December 2015
Joint ventures	46.7	43.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	1.2	0.4
Total	**47.9**	**43.4**

Loans and borrowings

	30 June 2016 unaudited	31 December 2015
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	1.4	-
Total	**1.4**	**-**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Issued bonds

	30 June 2016 unaudited	31 December 2015
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	755.0	-
Total	**755.0**	**-**

Liabilities relate to bond issued by Litenite Ltd.

Revenues

	for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Subsidiaries*	84.6	1.8
Joint ventures	0.6	1.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	6.5	228.6
Total	**91.7**	**231.6**

*Concerns transaction with subsidiaries executed prior to their acquisition

In 6 months ended 30 June 2016 and 30 June 2015 the most significant transactions include revenues from sharing base transceiver stations and radio module, services relating to expansion of telecommunication network, sale of advertisements and revenues from audiotext services.

Expenses and purchases of programming assets

	for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Subsidiaries*	120.2	6.5
Joint ventures	2.1	3.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	109.4	299.5
Total	**231.7**	**309.0**

*Concerns transaction with subsidiaries executed prior to their acquisition

In 6 months ended 30 June 2016 the most significant transactions include data transfer services, property rental, cost of electrical energy, expenses for programming assets and advertising services. In 6 months ended 30 June 2015 the most significant transactions include data transfer services, expenses for programming assets, advertising services, property rental, cost of electrical energy, telecommunication services with respect to the Group's customer call center and commission fee.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Gain on investment activities, net

	for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Joint ventures	1.4	1.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.6	-
Total	**2.0**	**1.0**

Finance costs

	for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	24.0	0.2
Total	**24.0**	**0.2**

The acquisition of shares in Litenite Ltd. was presented in note 16.

19. Contingent liabilities

Management believes that the provisions as at 30 June 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer („UOKiK")

On 24 February 2011 the President of UOKiK imposed penalty on Polkomtel (Company's indirect subsidiary) in the amount of PLN 130.7 for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court ("SOKiK"). According to management, during the inspection the company had fully and at all times cooperated with UOKiK within the scope provided by the law. On 18 June 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 (i.e. EUR 1). On 20 October 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. In management's opinion it is more likely than not that the ultimate outcome of the proceedings will be favorable to Polkomtel, thus no provision was recognized.

On 23 November 2011 Polkomtel (Company's indirect subsidiary) received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5. In management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the UOKiK's President regarding the penalty. Following SOKiK's verdict dated 19 June 2015 the penalty has been revoked in full. The verdict is non-binding. The President of UOKiK may appeal against the verdict.

On 27 December 2012 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by presenting misleading slogans in advertising campaigns. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 4.5. The company appealed to SOKiK against the decision. On 15 October 2014 SOKiK issued a decision where the penalty has been reduced to PLN 1.5. On 10 February 2016 SOKiK's decision has been revoked thus re-establishing the penalty back at PLN 4.5. On 15 March 2016 Polkomtel made a payment in the amount of PLN 1.8. The company is waiting for the reconsideration of the case by SOKiK.

On 23 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8 zł. The company appealed to SOKiK against the decision.

On 30 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication clients (which entered into a written agreement) with terms and conditions of the preferential sales offer as well as not informing about the termination of the preferential sales offer. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0 zł. The company appealed to SOKiK against the decision.

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0. Polkomtel appealed against the verdict. In management's opinion the claim is groundless.

In September 2015, Polkomtel (Company's indirect subsidiary) received a claim from P4 Sp. z o.o., in which the company demands compensation of EUR 316.0 (including interest of PLN 85.0), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Poland SA, Polkomtel and T-Mobile Poland SA.
Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

In addition to the matters described above, there are also other proceedings, for which provisions have been made according the best estimates of the management board members as to potential future outflows of the economic benefits required for their settlement. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases.

20. Risk and fair value

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended as at 31 December 2015. There have been no significant changes in the risk management department or in any risk management policies since the end of year 2015.

Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

Fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Presented below are fair values and carrying amounts of financial instruments not measured in fair value.

			30 June 2016 unaudited		31 December 2015	
	Category according to IAS 39	**The level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	61.1	58.4	50.7	47.9
Trade and other receivables	A	*	1,743.0	1,743.0	1,729.0	1,729.0
Cash and cash equivalents and short-term deposits	A	*	944.5	944.5	1,512.0	1,512.0
Restricted cash	A	*	10.9	10.9	11.7	11.7
Loans and borrowings	C	2	(11,104.2)	(11,003.3)	(6,733.1)	(6,610.7)
Issued bonds	C	1,2	(2,036.1)	(1,837.4)	(5,773.0)	(5,752.0)
UMTS licence liabilities	C	2	(881.4)	(809.8)	(836.6)	(769.8)
Finance lease liabilities	C	2	(28.2)	(28.2)	(25.2)	(25.2)
Accruals	C	*	(590.6)	(590.6)	(594.5)	(594.5)
Trade and other payables and deposits	C	*	(510.0)	(510.0)	(540.6)	(540.6)
Total			**(12,391.0)**	**(12,022.5)**	**(11,199.6)**	**(10,992.2)**
Unrecognized loss				**(368.5)**		**(207.4)**

A – loans and receivables
B – derivatives
C - other
* It is assumed that the fair value of trade and other receivables, cash and cash equivalents (including restricted cash), accruals and trade and other payables and short-term deposits is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

When determining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to assumed dates of lease agreements termination were analyzed. The discount rate for each payment was calculated as a WIBOR interest rate plus a margin regarding the Group's credit risk.

Trade and other receivables, accruals and trade and other payables and deposits comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking into account the time value of money, would approximately be equal to their nominal value.

When determining the fair value of UMTS license liability, forecasted cash flows from the reporting date to September 2022 were discounted at EURIBOR market rate.

When determining the fair value of loans granted, forecasted cash flows from the reporting date to assumed dates of repayments of the loans were analyzed. The discount rate for each payment was calculated as an applicable WIBOR, LIBOR or EURIBOR interest rate plus a margin regarding the credit risk.

As at 30 June 2016 as well as at 31 December 2015 loans and borrowings comprised senior facilities and bank loans. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities of Cyfrowy Polsat S.A. and Polkomtel Sp. z o.o as at 30 June 2016 as well as at 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loans) were analyzed.

The fair value of forwards, interest rate swaps and cross-currency interest rate swaps is determined using financial instruments valuation models, based on generally published currency exchange rates, interest rates, forward rate curves and volatility curves for foreign currencies taken from active markets. Fair value of derivatives is determined based on the discounted future cash flows from transactions, calculated based on the difference between the forward price and the transaction price.

The fair value of bonds as at 30 June 2016 as well as at 31 December 2015 was calculated as their last transaction price as at the balance sheet date as quoted by Bloomberg multiplied by the EUR/PLN exchange rate or the USD/PLN rate respectively as at the balance sheet date. The fair value of Midas and Litenite bonds was defined in accordance with generally accepted valuation models based on an analysis of discounted cash flows, while the most significant input data is the discount rate reflecting the counterparty credit risk.

As at 30 June 2016, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value	**30 June 2016 unaudited**	**Level 1**	**Level 2**	**Level 3**
Derivative instruments not designated as hedging instruments:				
Forwards		-	1.8	-
Interest rate swaps		-	1.8	-
Total		**-**	**3.6**	**-**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Liabilities measured at fair value

	30 June 2016 unaudited	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Forwards		-	-	-
Interest rate swaps		-	(0.8)	-
Hedging derivative instruments:				
Interest rate swaps		-	(3.6)	-
Total		**-**	**(4.4)**	**-**

As at 31 December 2015, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	31 December 2015	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Forwards		-	10.5	-
Interest rate swaps		-	6.9	-
Total		**-**	**17.4**	**-**

Liabilities measured at fair value

	31 December 2015	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Forwards		-	(33.3)	-
Interest rate swaps			(31.3)	
Hedging derivative instruments:				
Interest rate swaps		-	(8.3)	-
Total		**-**	**(72.9)**	**-**

21. Important agreements and events

There were no significant events during the 6 months ended 30 June 2016 other than those disclosed in the notes 14, 15 and 16.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

22. Events subsequent to the reporting date

Permission to withdraw from dematerialization of shares

On 26 July 2016 Midas (Company's indirect subsidiary) received a decision from the Polish Financial Supervision Authority dated 19 July 2016 granting permission to restore its shares to a physical document (abolition of dematerialization of shares). Shares of Midas were excluded from trading on the Warsaw Stock Exchange on 9 August 2016.

23. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

The Group entered into a series of agreements establishing collateral under the facilities agreement. Detailed information in respect to the agreements is presented in the Management Report in note 4.3.6.

Commitments to purchase programming assets

As at 30 June 2016 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	30 June 2016 unaudited	**31 December 2015**
within one year	154.2	178.1
between 1 to 5 years	104.8	116.4
Total	**259.0**	**294.5**

The table below presents commitments to purchase programming assets from related parties not included in the consolidated financial statements:

	30 June 2016 unaudited	**31 December 2015**
within one year	9.1	15.9
Total	**9.1**	**15.9**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 129.3 as at 30 June 2016 (PLN 136.3 as at 31 December 2015). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 30 June 2016 was PLN 70.9 (PLN 63.8 as at 31 December 2015).

24. Judgments, financial estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS EU requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. Estimates and underlying assumptions are based on historical data and other factors considered as reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates and assumptions applied in preparation of these interim condensed consolidated financial statements were the same as those adopted in the preparation of consolidated financial statements for the year ended 31 December 2015.

Report on review of interim condensed financial statements

To the Shareholders and Supervisory Board of Cyfrowy Polsat S.A.

Introduction

We have reviewed the accompanying interim balance sheet of Cyfrowy Polsat S.A. (the 'Company') as of June 30, 2016 and the related interim income statement, interim statement of comprehensive income, interim statement of changes in equity and interim cash flow statement for the six-month period then ended and notes, comprising a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, '*Review of interim financial information performed by the independent auditor of the entity*'. A review of interim condensed financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, '*Interim Financial Reporting*'.

PricewaterhouseCoopers Sp. z o.o.

August 24, 2016

PricewaterhouseCoopers Sp. z o.o., International Business Center, Al. Armiii Ludowej 14, 00-638 Warsaw, Poland

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CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for the 6 months ended 30 June 2016

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

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APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

On 24 August 2016, the Management Board of Cyfrowy Polsat S.A. approved the interim condensed financial statements of Cyfrowy Polsat S.A. prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the European Union, which include:

Interim Income Statement for the period	
from 1 January 2016 to 30 June 2016 showing a net profit for the period of:	PLN 345.4
Interim Statement of Comprehensive Income for the period	
from 1 January 2016 to 30 June 2016 showing a total comprehensive income for the period of:	PLN 349.2
Interim Balance Sheet as at	
30 June 2016 showing total assets and total equity and liabilities of:	PLN 13,108.2
Interim Cash Flow Statement for the period	
from 1 January 2016 to 30 June 2016 showing a net decrease in cash and cash equivalents amounting to:	PLN 81.2
Interim Statement of Changes in Equity for the period	
from 1 January 2016 to 30 June 2016 showing an increase in equity of:	PLN 349.2

Notes to the Interim Condensed Financial Statements

The interim condensed financial statements have been prepared in PLN million unless otherwise indicated.

Tobias Solorz President of the Management Board	Tomasz Szeląg Member of the Management Board	Dariusz Działkowski Member of the Management Board	Tomasz Gillner-Gorywoda Member of the Management Board
Aneta Jaskólska Member of the Management Board	Agnieszka Odorowicz Member of the Management Board	Maciej Stec Member of the Management Board	Agnieszka Szatan Chief Accountant

Warsaw, 24 August 2016

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Income Statement

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Revenue	7	557.8	516.2	1,080.2	1,032.3
Operating costs	8	(483.8)	(428.5)	(922.1)	(863.0)
Other operating income, net		3.0	6.3	8.0	9.0
Profit from operating activities		**77.0**	**94.0**	**166.1**	**178.3**
Gain on investment activities, net	9	45.2	54.4	257.3	255.5
Finance costs	10	(26.2)	(26.1)	(52.4)	(51.7)
Gross profit for the period		**96.0**	**122.3**	**371.0**	**382.1**
Income tax		(12.0)	(13.0)	(25.6)	(23.7)
Net profit for the period		**84.0**	**109.3**	**345.4**	**358.4**
Basic and diluted earnings per share (in PLN)		**0.13**	**0.17**	**0.54**	**0.56**

Interim Statement of Comprehensive Income

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Net profit for the period	**84.0**	**109.3**	**345.4**	**358.4**
Items that may be reclassified subsequently to profit or loss:				
Valuation of hedging instruments	2.2	5.9	4.7	5.3
Income tax relating to hedge valuation	(0.4)	(1.1)	(0.9)	(1.0)
Items that may be reclassified subsequently to profit or loss	**1.8**	**4.8**	**3.8**	**4.3**
Other comprehensive income, net of tax	**1.8**	**4.8**	**3.8**	**4.3**
Total comprehensive income for the period	**85.8**	**114.1**	**349.2**	**362.7**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Balance Sheet - Assets

	30 June 2016 unaudited	31 December 2015
Reception equipment	364.3	374.6
Other property, plant and equipment	142.2	143.3
Goodwill	197.0	197.0
Other intangible assets	79.3	81.4
Investment property	12.6	12.9
Shares in subsidiaries	11,424.6	11,424.8
Non-current deferred distribution fees	27.5	32.1
Other non-current assets	38.4	43.0
Total non-current assets	**12,285.9**	**12,309.1**
Inventories	88.6	76.0
Trade and other receivables	370.7	323.4
Income tax receivables	0.6	-
Current deferred distribution fees	81.6	86.9
Other current assets	225.6	161.2
Cash and cash equivalents	55.2	136.4
Total current assets	**822.3**	**783.9**
Total assets	**13,108.2**	**13,093.0**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Balance Sheet - Equity and Liabilities

	Note	30 June 2016 unaudited	31 December 2015
Share capital	11	25.6	25.6
Share premium	11	7,174.0	7,174.0
Hedge valuation reserve	12	(2.9)	(6.7)
Retained earnings		3,096.7	2,751.3
Total equity		**10,293.4**	**9,944.2**
Loans and borrowings	13	887.3	982.0
Issued bonds	14	975.1	975.3
Deferred tax liabilities		97.4	97.3
Deferred income		3.7	4.7
Other non-current liabilities and provisions		10.2	10.6
includes derivative instruments (IRS) liabilities		*0.1*	-
Total non-current liabilities		**1,973.7**	**2,069.9**
Loans and borrowings	13	237.1	504.7
Issued bonds	14	42.2	42.4
Trade and other payables		319.5	299.8
includes derivative instruments (IRS) liabilities		*3.5*	*8.3*
Income tax liability		8.0	6.2
Deposits for equipment		1.8	1.6
Deferred income		232.5	224.2
Total current liabilities		**841.1**	**1,078.9**
Total liabilities		**2,814.8**	**3,148.8**
Total equity and liabilities		**13,108.2**	**13,093.0**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Cash Flow Statement

	Note	for the 6 months ended 30 June 2016 unaudited	for the 6 months ended 30 June 2015 unaudited
Net profit		**345.4**	**358.4**
Adjustments for:		**(192.1)**	**(231.7)**
Depreciation, amortization, impairment and liquidation	8	114.2	114.2
Interest expense		46.9	48.0
Change in inventories		(12.5)	22.1
Change in receivables and other assets		(65.2)	(60.8)
Change in liabilities, provisions and deferred income		26.7	(51.5)
Valuation of hedging instruments		4.7	5.3
Income tax		25.6	23.7
Net increase in reception equipment provided under operating lease		(79.3)	(72.4)
Dividends income and share in the profits of partnerships	9	(251.8)	(260.7)
Other adjustments		(1.4)	0.4
Cash from operating activities		**153.3**	**126.7**
Income tax (paid)/received		(25.1)	15.5
Interest received from operating activities		0.6	0.1
Net cash from operating activities		**128.8**	**142.3**
Received dividends and shares in the profits of partnerships		224.9	227.2
Merger with related entities		-	47.2
Loans granted		(12.2)	(4.5)
Acquisition of property, plant and equipment		(14.9)	(11.2)
Acquisition of intangible assets		(6.4)	(10.9)
Proceeds from sale of shares		0.1	-
Proceeds from sale of property, plant and equipment		3.5	0.4
Loans repaid		5.6	-
Acquisition of shares		-	(34.9)
Net cash from investing activities		**200.6**	**213.3**
Loans and borrowings inflows	13	-	120,0
Net cash from the Cash Management System Agreement with paid interest		(284.9)	(47.1)
Finance lease – principal repayments		-	(0.3)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(45.7)	(42.6)
Repayment of loans and borrowings	13	(80.0)	(302.0)
Net cash used in financing activities		**(410.6)**	**(272.0)**
Net (decrease)/increase in cash and cash equivalents		**(81.2)**	**83.6**
Cash and cash equivalents at the beginning of period		**136.4**	**13.3**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the end of period		**55.2**	**96.9**

* Includes impact of hedging instruments

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Interim Statement of Changes in Equity for the 6 months ended 30 June 2016

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2016	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**
Total comprehensive income	-	-	3.8	345.4	**349.2**
Hedge valuation reserve	-	-	*3.8*	-	**3.8**
Net profit for the period	-	-	-	345.4	**345.4**
Balance as at 30 June 2016 unaudited	**25.6**	**7,174.0**	**(2.9)**	**3,096.7**	**10,293.4**

* The capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Interim Statement of Changes in Equity for the 6 months ended 30 June 2015

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total equity**
Balance as at 1 January 2015 restated	**25.6**	**7,174.0**	**(12.2)**	**2,195.5**	**9,382.9**
Total comprehensive income	-	-	4.3	358.4	**362.7**
Hedge valuation reserve	-	-	*4.3*	-	***4.3***
Net profit for the period	-	-	-	*358.4*	***358.4***
Merger with Redefine Sp. z o.o.	-	-	-	109.7	**109.7**
Balance as at 30 June 2015 unaudited	**25.6**	**7,174.0**	**(7.9)**	**2,663.6**	**9,855.3**

* The capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Interim Condensed Financial Statements

1. The Company

Cyfrowy Polsat S.A. ('the Company', 'Cyfrowy Polsat') was incorporated in Poland as a joint stock company. The Company's shares are traded on the Warsaw Stock Exchange. The Company's registered head office is located at 4a Łubinowa Street in Warsaw.

The Company operates in Poland as a provider of a paid digital satellite platform under the name of 'Cyfrowy Polsat' and paid digital terrestrial television as well as telecommunication services provider.

The Company was incorporated under the Notary Deed dated 30 October 1996.

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (the 'Group'). The Group encompasses the Company, Metelem Holding Company Limited ('Metelem') and its subsidiaries and joint ventures, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Orsen Holding Limited and its subsidiaries and Netshare Sp. z o.o.

2. Composition of the Management Board of the Company

- Tobias Solorz	President of the Management Board,
- Tomasz Szeląg	Member of the Management Board,
- Dariusz Działkowski	Member of the Management Board,
- Tomasz Gillner-Gorywoda	Member of the Management Board,
- Aneta Jaskólska	Member of the Management Board,
- Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016),
- Maciej Stec	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz-Żak	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for the 6 months ended 30 June 2016 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed financial statements should be read together with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS EU).

The Company as the Parent Company prepared the interim condensed consolidated financial statements (approved on 24 August 2016). These interim condensed financial statements should be read together with the interim condensed consolidated financial statements.

The Company applied the same accounting policies in the preparation of the financial data for the 6 months ended 30 June 2016 and the financial statements for the year 2015, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2016. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2016 do not have a material impact on these interim condensed financial statements.

5. Approval of the Interim Condensed Financial Statements

These interim condensed financial statements were approved for publication by the Management Board on 24 August 2016.

6. Information on seasonality in the Company's operations

Retail revenue is not directly subject to any seasonal trend.

7. Revenue

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	**30 June 2015 unaudited**	**30 June 2016 unaudited**	**30 June 2015 unaudited**
Retail revenue	516.3	485.7	1,011.8	971.9
Wholesale revenue	24.1	11.1	35.8	20.8
Sale of equipment	10.9	13.7	19.2	25.4
Other revenue	6.5	5.7	13.4	14.2
Total	**557.8**	**516.2**	**1,080.2**	**1,032.3**

Retail revenue mainly consists of pay-TV, telecommunication services, revenue from rental of reception equipment and contractual penalties related to terminated agreements.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

8. Operating costs

		for the 3 months ended		for the 6 months ended	
	Note	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Content costs		169.4	133.7	299.2	261.2
Technical costs and costs of settlements with mobile network operators		113.0	81.6	218.7	156.5
Distribution, marketing, customer relation management and retention costs		76.7	74.6	153.1	159.1
Depreciation, amortization, impairment and liquidation		56.3	56.4	114.2	114.2
Salaries and employee-related costs	a	23.0	28.7	47.9	60.3
Cost of equipment sold		10.9	17.5	20.9	35.3
Cost of debt collection services and bad debt allowance and receivables written off		4.1	5.5	7.5	14.6
Other costs		30.4	30.5	60.6	61.8
Total		**483.8**	**428.5**	**922.1**	**863.0**

a) Salaries and employee-related costs

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Salaries	19.6	24.2	40.4	50.4
Social security contributions	3.0	3.8	6.6	8.6
Other employee-related costs	0.4	0.7	0.9	1.3
Total	**23.0**	**28.7**	**47.9**	**60.3**

9. Gain on investment activities, net

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Dividends received	30.0	53.9	233.6	260.7
Share in the profits of partnerships	10.8	-	18.2	-
Guarantee fees from related party	2.0	-	2.8	-
Interest	0.4	(0.5)	1.0	(1.8)
Other foreign exchange gains/(losses), net	1.7	1.0	1.7	(3.4)
Other	0.3	-	-	-
Total	**45.2**	**54.4**	**257.3**	**255.5**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

10. Finance costs

	for the 3 months ended		for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited	30 June 2016 unaudited	30 June 2015 unaudited
Interest expense on loans and borrowings	10.9	20.7	22.7	42.6
Interest expense on issued bonds	10.7	-	21.3	-
Valuation and realization of hedging instruments	2.0	2.4	3.9	3.6
Guarantee fees	1.5	1.4	2.7	2.8
Bank and other charges	1.1	1.6	1.8	2.7
Total	**26.2**	**26.1**	**52.4**	**51.7**

11. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 30 June 2016 and 31 December 2015:

Share series	Number of shares	Nominal value of shares	Type of shares
Series A	2,500,000	0.1	preference shares (2 voting rights)
Series B	2,500,000	0.1	preference shares (2 voting rights)
Series C	7,500,000	0.3	preference shares (2 voting rights)
Series D	166,917,501	6.7	preference shares (2 voting rights)
Series D	8,082,499	0.3	ordinary bearer shares
Series E	75,000,000	3.0	ordinary bearer shares
Series F	5,825,000	0.2	ordinary bearer shares
Series H	80,027,836	3.2	ordinary bearer shares
Series I	47,260,690	1.9	ordinary bearer shares
Series J	243,932,490	9.8	ordinary bearer shares
Total	**639,546,016**	**25.6**	

The shareholders' structure as at 30 June 2016 and 31 December 2015 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. [1]	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. [2]	154,204,296	6.2	24.11%	306,709,172	37.45%
Sensor Overseas Ltd. [3]	54,921,546	2.2	8.59%	81,662,921	9.97%
Embud Sp. z o.o. [1]	58,063,948	2.3	9.08%	58,063,948	7.09%
Other	214,367,958	8.6	33.52%	214,539,208	26.20%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] Entity is controlled by Mr. Zygmunt Solorz-Żak

[2] Reddev Investments Ltd. is an indirect subsidiary of Mr. Zygmunt Solorz-Żak

[3] Sensor Overseas Ltd. is controlled by EVO Foundation

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

(ii) Share premium

Share premium includes the excess of issue value over the nominal value of shares issued decreased by share issuance-related consulting costs.

12. Hedge valuation reserve

Impact of hedging instruments valuation on hedge valuation reserve

	2016	2015
Balance as at 1 January	**(6.7)**	**(12.2)**
Valuation of cash flow hedges	4.7	5.3
Deferred tax	(0.9)	(1.0)
Change for the period	**3.8**	**4.3**
Balance as at 30 June unaudited	**(2.9)**	**(7.9)**

In 2014 in connection with new credit facilities hedging relationship was designated. It was maintained and attached to 2015-incurred credit facilities.

13. Loans and borrowings

Loans and borrowings	30 June 2016 unaudited	31 December 2015
Short-term liabilities	237.1	504.7
Long-term liabilities	887.3	982.0
Total	**1,124.4**	**1,486.7**

Change in loans and borrowings liabilities:

	2016	2015
Loans and borrowings as at 1 January	**1,486.7**	**2,773.3**
Revolving facility loan	-	120.0
Repayment of capital	(80.0)	(302.0)
Repayment of interest and commissions	(20.6)	(38.5)
Net cash from the Cash Management System Agreement	(284.4)	(45.1)
Interest accrued	22.7	42.6
Loans and borrowings as at 30 June unaudited	**1,124.4**	**2,550.3**

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

14. Issued Bonds

	30 June 2016 unaudited	31 December 2015
Short-term liabilities	42.2	42.4
Long-term liabilities	975.1	975.3
Total	**1,017.3**	**1,017.7**

Change in issued bonds:

	2016	2015
Issued bonds payable as at 1 January	**1,017.7**	**-**
Repayment of interest and commissions	(21.7)	-
Interest accrued	21.3	-
Issued bonds payable as at 30 June unaudited	**1,017.3**	**-**

15. Transactions with related parties

Receivables

	30 June 2016 unaudited	31 December 2015
Subsidiaries	64.8	41.1
Joint ventures	0.7	0.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.7	0.9
Total	**66.2**	**42.3**

A significant portion of receivables is represented by dividend receivables, receivables related to sale of Polkomtel Sp. z o.o. ('Polkomtel') services and receivables from share of the profits of partnerships.

Other assets

	30 June 2016 unaudited	31 December 2015
Subsidiaries	216.4	160.0
Total	**216.4**	**160.0**

Other current assets comprise mainly deferred costs related to the agreement with Polkomtel for the provision of data transfer services.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Liabilites

	30 June 2016 unaudited	31 December 2015
Subsidiaries	113.9	65.3
Joint ventures	0.5	1.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	1.7	3.1
Total	**116.1**	**69.6**

A significant portion of liabilities is represented by programming licence fees, fees for using 'Cyfrowy Polsat' trade mark and liabilities resulting from purchase of set-top boxes.

Loans granted

	30 June 2016 unaudited	31 December 2015
Subsidiaries	3.4	3.3
Joint ventures	10.9	10.7
Total	**14.3**	**14.0**

Revenues

	for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Subsidiaries	33.5	49.8
Joint ventures	0.3	-
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.7	1.1
Total	**34.5**	**50.9**

In 6 months ended 30 June 2016 the most significant transactions include revenues from subsidiaries from programming fees, advertising, signal broadcast, accounting and property rental services. In 6 months ended 30 June 2015 the most significant transactions include revenues from sale of materials used in set-top boxes' production, accounting services rendered to subsidiaries, interconnect services, programming fees, property rental and signal broadcast services.

Expenses

	for the 6 months ended	
	30 June 2016 unaudited	30 June 2015 unaudited
Subsidiaries	327.9	224.7
Joint ventures	0.3	1.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	9.5	8.8
Total	**337.7**	**234.9**

The most significant transactions include data transfer services.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

The Company also pays license fees for broadcasting programs: Polsat Film HD, Polsat Romans, Polsat Sport, Polsat Sport Extra, Polsat Sport Extra HD, Polsat Film, Polsat News, Polsat Play, Polsat Cafe, Polsat Sport HD, Polsat Sport 2 HD, Polsat Sport 3 HD and Polsat Jim Jam and incurs expenses for using 'Cyfrowy Polsat' trade mark, purchasing advertising time, telecommunication services with respect to the Company's customer call center and commissions for subscribers' acquisitions.

Gain on investment activities, net

	for the 6 months ended	
	30 June 2016 unaudited	**30 June 2015 unaudited**
Subsidiaries	254.7	260.8
Joint ventures	0.2	0.2
Total	**254.9**	**261.0**

Gains and losses on investment activities comprises mostly of dividends and in 6 months ended 30 June 2016 also income from share of the profits of partnerships and guarantees granted by the Company in respect to settlement of Polkomtel's term facilities.

Finance costs

	for the 6 months ended	
	30 June 2016 unaudited	**30 June 2015 unaudited**
Subsidiaries	2.7	2.8
Total	**2.7**	**2.8**

Finance costs comprise mostly of guarantee fees in respect to settlement of term facilities (including loan which was repaid as loan currently taken).

16. Litigations

Management believes that the provisions for litigations as at 30 June 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases.

17. Risk and fair value

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, the risk of changes in cash flows related to interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements. These interim condensed financial statements should be read in conjunction with the Company's annual financial statements for the year ended as at 31 December 2015. There have been no significant changes in the risk management department or in any risk management policies since the end of year 2015.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

Fair value

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Presented below are fair values and carrying amounts of financial instruments not measured in fair value.

			30 June 2016 unaudited		31 December 2015	
	Category according to IAS 39	Level of the fair value hierarchy	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	24.7	24.7	18.3	18.6
Trade and other receivables	A	*	350.2	350.2	315.8	315.8
Cash and cash equivalents	A	*	55.2	55.2	136.4	136.4
Loans and borrowings	C	2	(1,135.8)	(1,124.4)	(1,502.6)	(1,486.7)
Issued bonds	C	2	(1,030.1)	(1,017.3)	(1,031.6)	(1,017.7)
Accruals	C	*	(157.2)	(157.2)	(127.1)	(127.1)
Trade and other payables and deposits	C	*	(140.8)	(140.8)	(142.4)	(142.4)
Total			**(2,033.8)**	**(2,009.6)**	**(2,333.2)**	**(2,303.1)**
Unrecognized loss				**(24.2)**		**(30.1)**

A – loans and receivables
B – hedges
C - other

* It is assumed that the fair value of trade and other receivables, cash and cash equivalents, accruals and trade and other payables and deposits is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

When determining the fair value of loans granted, forecasted cash flows from the reporting date to assumed dates of repayments of the loans were analyzed. The discount rate for each payment was calculated as an applicable WIBOR, LIBOR or EURIBOR interest rate plus a margin regarding the credit risk.

(all cash amounts presented in text are in million with currency specification, all amounts are in PLN million, except where otherwise stated)

Trade and other receivables, accruals and trade and other payables and deposits comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking the effect of time value of money into account, would approximately be equal to their nominal value.

As at 30 June 2016 and 31 December 2015 loans and borrowings comprised senior facility and the Cash Management System Agreement. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Company's credit risk. When determining the fair value of senior facility as at 30 June 2016 and 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan) were analyzed. The fair value of the Cash Management System Agreement is set as the nominal value, which is equal to carrying amount.

The fair value of interest rate swaps is determined using financial instruments valuation models, based on generally published currency exchange rates, interest rates, forward rate curves and volatility curves for foreign currencies taken from active markets. Fair value of derivatives is determined based on the discounted future cash flows from transactions, calculated based on the difference between the forward price and the transaction price.

As at 30 June 2016, the Company held the following financial instruments measured at fair value:

Liabilities measured at fair value	**30 June 2016 unaudited**	**Level 1**	**Level 2**	**Level 3**
IRS		-	(3.6)	-
Total		**-**	**(3.6)**	**-**

As at 31 December 2015, the Company held the following financial instruments measured at fair value:

Liabilities measured at fair value	**31 December 2015**	**Level 1**	**Level 2**	**Level 3**
IRS		-	(8.3)	-
Total		**-**	**(8.3)**	**-**

18. Important agreements and events

Sale of shares

On 4 January 2016 shares in Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) were disposed of by the Company.

Merger

On 30 June 2016 the merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o. was registered. The surviving entity is Netshare Sp. z o.o.

19. Other disclosures

Security relating to loans and borrowings

Establishment of collateral for loan facilities

The Company entered into a series of agreements establishing collateral under the facilities agreement. Detailed information in respect to the agreements is presented in the Management Report in note 4.3.6.

Other securities

The Company provided to its subsidiary a guarantee in the amount of EUR 5.5 in respect to a programming purchase contract.

Contractual liabilities related to purchases of non-current assets

Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 11.5 as at 30 June 2016 (PLN 0.0 as at 31 December 2015). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 30 June 2016 was PLN 0.3 (PLN 0.3 as at 31 December 2015).

20. Events subsequent to the reporting date

There were no material events subsequent to the reporting date.

21. Judgments, financial estimates and assumptions

The preparation of interim condensed financial statements in conformity with IFRS EU requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. Estimates and underlying assumptions are based on historical data and other factors considered as reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates and assumptions applied in preparation on these interim condensed financial statements were the same as those adopted in the preparation of financial statements for the year ended 31 December 2015.