



CYFROWY POLSAT S.A.

Annual Report
for the financial year ended
December 31, 2018

Place and date of publication: Warsaw, March 21, 2019
Place and date of approval: Warsaw, March 20, 2019



N E T I A

CONTENT OF THE ANNUAL REPORT

Letter of the President of the Management Board of Cyfrowy Polsat S.A.

Letter of the Chairman of the Supervisory Board of Cyfrowy Polsat S.A.

Report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year ended December 31, 2018

Management Board's representations

Supervisory Board's representations

Report of the independent auditor on the audit of the financial statements for the yearended December 31, 2018

Financial Statements for the year ended December 31, 2018

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD



Ladies and Gentlemen,

It is with great pleasure and satisfaction that I am presenting to you the summary of last year's most important events in Cyfrowy Polsat Group. For me it is a special moment for two reasons – last year's 10th anniversary of Cyfrowy Polsat's listing on Warsaw Stock Exchange and my personal decision to move to the Group's Supervisory Boards from April 1, 2019. I am writing this letter with the feeling of enormous satisfaction, fulfillment and pride from managing, during the past several years, this exceptional and dynamically developing Group and from working with a good team of ambitious and knowledgeable managers and employees.

We have managed to accomplish all our plans and assumptions while at the same time strengthening our position on the pay TV, telecommunication as well as TV broadcasting and production markets. We have been also developing dynamically in the segment of multiplay services, while offering to our customers a wide array of services which include pay TV, mobile LTE and fixed-line Internet access, mobile voice services, banking and insurance services, electricity and gas supply as well as asset monitoring.

Once again we have demonstrated that we have the concept of what the Group should be and we are consistently implementing this concept, which is strongly supported by the competence of our staff, long-running experience from operation on media and telecommunication markets, awareness of the needs and expectations of Poles and also by the assets that we have in our disposal.

Our success is best demonstrated by specific figures – we already have nearly 1.8 million multiplay customers who have already combined in excess of 5 million TV, telephony and Internet access services into service packages. For the first time in history we provide more than 14 million contract services in total. Plus was the leader in the MNP area and was the only infrastructural operator who posted positive MNP balance last year, while the churn ratio was record low, at 7.6%. The total audience share of our TV stations was 24.3%, giving Polsat TV a 27.2% share in the TV advertising and sponsoring market.

Our operations in 2018 were successfully supported by our strategic acquisitions. Adding Netia to Cyfrowy Polsat Group enabled our companies to start cooperation in the key areas of operations. Fiber-optic Internet access, offering transfer rates of up to 900Mbps, was added to our smartDOM loyalty scheme while Netia's TV offer was extended to include the new TV channels from Polsat TV's extensive portfolio as well as the package featuring UEFA Champions League and Europa League matches.

We have acquired a majority stake in Eleven Sports Network Polska which owns broadcasting rights to attractive sports programs and manages four premium sports channels which are dynamically developing on the Polish market. We also started multi-faceted distribution of the rights to the UEFA Champions League matches by launching our new Polsat Sport Premium channels and services which offer coverage of the matches and we introduced offers which provide access to these channels to Cyfrowy Polsat, Plus network, Netia and IPLA, while taking care that the new channels are also present in the offers of other operators.

We also upgraded our LTE network and boosted our pay TV offer. Internet access is provided based on a total of 95 MHz of various LTE carrier frequencies. We were implementing further solutions in LTE Advanced technology, which has enabled us to increase the data transfer rates offered by our Internet access service to 600 Mbps, and the service's coverage footprint to the territory inhabited by 73% of Poland's population. We have been successful in offering LTE Home Internet service while the latest version of the devices, i.e. the Home Internet Set 300 supports LTE Advanced technology and enables data downloading at the rate of even up to 300 Mbps. As regards Cyfrowy Polsat's TV offer, we have introduced two new EVOBOX family set-top boxes – EVOBOX LITE and EVOBOX HD, both of which are manufactured in our InterPhone Service factory in Mielec. The devices combine reception of satellite TV with the possibility of using VOD services over the Internet.

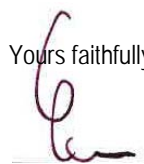
New film productions, "Narzeczony na niby" (Pretended Fiance) and "Serce nie służy" (Love Cannot Be Compelled), which were produced in cooperation with our Group, were shown in cinemas in 2018, while the film entitled "Niepodległość" (Independence), based on archival, restored and colored film recordings, was made on the occasion of the 100th anniversary of Poland's independence, with Polsat TV being the co-producer of that film. We presented the new release of IPLA – our Internet entertainment service. It is not only that the graphical design has changed but also new functions and content have been added, including HBO channels and UEFA Champions League matches.

We ended last year with very good financial results. The Group's revenue exceeded PLN 10 billion, EBITDA increased to PLN 3.7 billion while net profit amounted PLN 0.8 billion. We invariably continued to generate very high levels of free cash flow, which enabled us to pursue further acquisitions with a simultaneous debt reduction.

Our plans for 2019 include, above all, further development and strengthening of our position and value on the media-and-telecommunications market, growth of the number of provided services (RGUs) as well as the number of smartDOM program members, care for high quality of customer service, extensive distribution of our own content as well as assuring top level entertainment, information and sports coverage to our customers. Moreover, our very efficient financial policy has enabled us to propose an attractive, predictable dividend policy to our shareholders. Based on our estimates, the implementation of this policy should not interfere with further debt reduction and generation of top-notch financial results, thus guaranteeing strong and stable foundations for the Group's further development.

Finally, in connection with my moving to the Supervisory Boards of Cyfrowy Polsat Group's companies, I would like to express my gratitude to all those who are turning our dreams into business projects, thanks to which or plans materialize while specific solutions achieve success. I would like to thank all the employees of the entire Group for their hard work and unwavering willingness to tackle new challenges. I would like to thank the Supervisory Board for the approval of the actions we propose and for their support for us in the implementation of our plans. And finally, I would like to thank our customers and shareholders for their trust in us, their loyalty and the long-running relations they maintain with us. Both for me, as well as for the whole Group, the past few years were the time of intense development, with a focus on customer needs and expectations and on the consolidation of the Group's value. I am glad that while working together we have been able to cope with all these challenges while achieving such good results. I am convinced that the Group is ready to tackle further challenges, now under the new leadership of experienced managers with proven track record.

Yours faithfully,



Tobiasz Solorz

President of the Management Board, Cyfrowy Polsat S.A.

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD



Ladies and Gentlemen,

Last year was yet another successful year for Cyfrowy Polsat Group. The Group was able to effectively pursue its most important goal, i.e. the development strategy which is focused on strengthening the position on the entertainment, media and telecommunication markets in Poland. Both, in terms of operational and financial performance.

The finalized acquisitions as well as the organic growth, resulting from the significant potential of the companies constituting the Group, undoubtedly formed the milestones of the Group's development in 2018. The Group owes its strong position to the effective accomplishment of the goals, at Group level as well as by the individual companies, i.e. Cyfrowy Polsat which is the biggest in Poland DTH platform offering TV content and on-line video services, Polkomtel – the operator of Plus and Plush networks and the technology leader on the telecommunication market, as well as Telewizja Polsat – the leading TV broadcaster offering over 30 diversified channels. In addition the Group's potential was further reinforced by Netia and its telecommunication assets as well as by Eleven Sports Polska premium channels.

Thanks to such components the Group can focus on the consistent pursuit of its mission of being the leader on the entertainment and telecommunication markets in Poland. Based on this strategy and while using the best and the most advanced technologies we create and deliver the most attractive TV content, telecommunication services and multiplay services for homes and individual customers as well as for business clients. Launch of fixed-line Internet access by Plus, including the service offering top quality and transfer rates which is provided over fiber-optic lines, was a particularly important development last year. The premium segment in the TV broadcasting and production areas definitely gained strength, with Polsat Sport Premium channel (showing UEFA Champions League and UEFA Europa League matches) and Eleven Sports channels (broadcasting top level sports events from around the world, including top European soccer league matches, Formula 1 races and motorsports) being very well received by viewers.

Year 2018, and the decisions taken during that year, both strategic acquisition decisions and on-going activities related to the offers and programs, enabled us to respond to our customers' needs even better while maintaining customer satisfaction, and hence also their loyalty, at a top level. Universal nature of our offer, which is understood as availability in every Polish household, and the possibility of reception via all potential distribution channels, i.e. the way customers can enjoy our offer, be it the media or the telecommunication offer, is equally important for our customers as it is for us.

The Group's operational and management model enables us to pursue the main goal for our investors, i.e. sustained growth of value for Cyfrowy Polsat's shareholders. We are trying to achieve this goal through consistent pursuit of the assumptions underlying our operational strategy and also in the research and development area. The main components of our strategy include growth of revenue from the services provided to residential and business customers, maximization of the revenue generated from programming content, effective cost base management as well as effective management of the Group's finances. Last year was characterized by high efficiency in this field and by the accomplishment of the targets.

All of the above elements of our strategy and our market activities enable the Group to respond properly to the dynamically evolving market environment, especially in the area of content delivery over the Internet. Expansion of foreign players on the video on-line market is visible also in Poland but our Group demonstrates effectiveness and flexibility in adjusting to the

changing situation and developing its services, which enables it to participate in this increasingly accelerating competitive race.

Own film productions, including cinema movies, have been recently added to our strategy, giving the Group the leadership position on the entertainment market. On the one hand, these productions give us unique, own content, and on the other hand they offer the possibility of exploitation across all fields of distribution. The growth of this segment is also supported by the expansion of the Group's own production center which already today includes several state-of-the-art, very well equipped production studios.

We must also not forget about another area which is essential not only for the Group itself and for its customers but for all inhabitants of Poland. As a Group we are actively involved in the regulatory work which shapes the market and which establishes the grounds for the introduction of the latest global technologies to Poland. Hence the involvement of our companies in the work related to 5G technology and the terms of its implementation in Poland. The way in which the respective frequency bands will be distributed as well as the network roll out model, but also the role played by the state in the whole process, will have influence on Poland's technological development over the next dozen or so if not several dozen years forward. Our Group is ready for intensification of the work associated with the implementation of 5G technology, while at the same time underscoring that the joint activities of state administration and the telecommunication sector seem to be the absolutely necessary requirement for our country to be able to embark on the next state of digital and civilizational development.

On behalf of the Supervisory Board of Cyfrowy Polsat I would like to thank you – our customers, shareholders and business partners – for another good year and for your trust in us. Particular thanks to the Management Boards and the employees of the Group, as well as to the Supervisory Boards of the Group's companies whose effective work – characterized by creativity, full professionalism, innovative approach and deep involvement – has contributed to the accomplishment of our goals. I believe that further cooperation within our globally-unique technology-and-content Group will translate to its further success, growing satisfaction of the employees and customers, as well as consistent consolidation of the Group's shareholder value.

Yours faithfully,



Marek Kapuściński

Chairman of the Supervisory Board
Cyfrowy Polsat S.A.

REPORT OF THE MANAGEMENT BOARD
ON THE ACTIVITIES OF CYFROWY POLSAT S.A.
IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2018



TABLE OF CONTENTS

CONTENT OF THE ANNUAL REPORT	2
LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD	3
LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD	5
REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CYFROWY POLSAT S.A. IN THE FINANCIAL YEAR ENDED DECEMBER 31, 2018.....	7
TABLE OF CONTENTS.....	8
CYFROWY POLSAT AT A GLANCE.....	10
DISCLAIMERS	11
FINANCIAL DATA OVERVIEW	14
1. ORGANIZATION OF CYFROWY POLSAT S.A.	17
1.1. Information on organizational or capital connections with other entities.....	17
1.2. Who we are.....	18
1.3. Strategy of the Group.....	20
1.4. Competitive advantages	21
1.5. Market opportunities	25
1.6. Development prospects.....	26
2. BUSINESS OVERVIEW OF CYFROWY POLSAT	28
2.1. Activities on the pay TV market	28
2.2. Operations on the telecommunications market.....	34
2.3. Activities on the bundled services market.....	38
2.4. Sales and marketing.....	40
2.5. Customer relations and retention management.....	42
2.6. Other aspects of our business	43
3. SIGNIFICANT EVENTS AND AGREEMENTS	47
3.1. Corporate events.....	47
3.2. Business related events.....	49
3.3. Events after the balance sheet date.....	52
4. OPERATING AND FINANCIAL REVIEW OF CYFROWY POLSAT.....	53
4.1. Factors that may impact our operating activities and financial results.....	53
4.2. Key market trends	59
4.3. Major investments in 2018.....	59
4.4. Operating review of the Company	60
4.5. Key positions in the income statement	63
4.6. Review of our financial situation.....	65
5. OTHER SIGNIFICANT INFORMATION.....	82
5.1. Transactions concluded with related parties on conditions differing from market conditions.....	82
5.2. Information on loans granted	82
5.3. Management's opinion regarding the possibility to realize published financial forecasts	82
5.4. Material proceedings at the court, arbitration body or public authorities	82
5.5. Changes to the principle rules of management of our Company.....	82
5.6. Sales markets and dependence on the supplier and client markets	82
5.7. Disclosure of non-financial information	83

6.	RISK FACTORS.....	84
6.1.	<i>Risks related to our business and the sector in which we operate</i>	84
6.2.	<i>Risk factors associated with the Company's financial profile</i>	89
6.3.	<i>Risks related to market environment and economic situation</i>	90
6.4.	<i>Factors relating to market risks</i>	91
6.5.	<i>Risk factors associated with the legal and regulatory environment</i>	95
7.	CYFROWY POLSAT ON THE CAPITAL MARKET	98
7.1.	<i>Cyfrowy Polsat shares</i>	98
7.2.	<i>Shares quotes</i>	99
7.3.	<i>Analysts' recommendations</i>	101
7.4.	<i>Close dialogue with the capital market</i>	103
7.5.	<i>Dividend policy</i>	104
8.	CORPORATE GOVERNANCE STATEMENT.....	107
8.1.	<i>Principles of corporate governance which the Company issuer is subject to</i>	107
8.2.	<i>Internal control systems and risk management applied with respect to the process of preparing financial statements</i>	110
8.3.	<i>Agreements with an entity certified to perform an audit of the financial statements</i>	111
8.4.	<i>Share capital and shareholding structure of Cyfrowy Polsat</i>	112
8.5.	<i>Articles of Association of the Company</i>	113
8.6.	<i>General Shareholders' Meeting</i>	113
8.7.	<i>Management Board of the Company</i>	115
8.8.	<i>Supervisory Board</i>	120
8.9.	<i>Diversity policy applicable to administrative, managing and supervising bodies of the Company</i>	129
	GLOSSARY	131

CYFROWY POLSAT AT A GLANCE

Cyfrowy Polsat is the leading pay TV provider in Poland and one of the largest satellite platforms in Europe. Within the scope of our activities we provide integrated media and telecommunication services comprising pay digital TV services and mobile broadband Internet access.

We offer our customers access to about 170 TV channels as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, pay-per-view, Video On Demand) and Multiroom. We also provide online video services through IPLA, the leader on Poland's online video market, by offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue).

We provide mobile broadband Internet access in state-of-the-art LTE and LTE-Advanced technologies, using the network of our subsidiary Polkomtel. 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.

Cyfrowy Polsat shares are listed in the Warsaw Stock Exchange in Warsaw since May 6, 2008.

DISCLAIMERS

This constitutes the annual report of Cyfrowy Polsat (the "Report") prepared as required by § 60 section 1 and § 70 of the Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information to be submitted by issuers of securities, and the conditions for recognizing equivalence of information required under non-member states regulations (Journal of Laws 2018.757 dated April 20, 2018).

Presentation of financial data and other information

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

Financial and operating data

This Report contains financial statements and financial information relating to the Company. In particular, this Report contains our financial statements for the financial year ended December 31, 2018. The financial statements for the twelve month period ended December 31, 2018 attached to this Report have been prepared in accordance with International Financial Reporting Standards as approved for use in the European Union ("IFRS") and are presented in millions of zlotys. The financial statements have been audited by an independent auditor EY.

Starting from January 1, 2018, the Group is obligated to apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The Group has decided to apply IFRS 15 retrospectively without restating the comparative figures for 2017.

IFRS 9 *Financial Instruments* specifies how an entity should classify and measure financial assets, financial liabilities, and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 15 establishes a single, five-step model for determining and recognizing revenues, which shall be applied to all contracts with customers. It replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

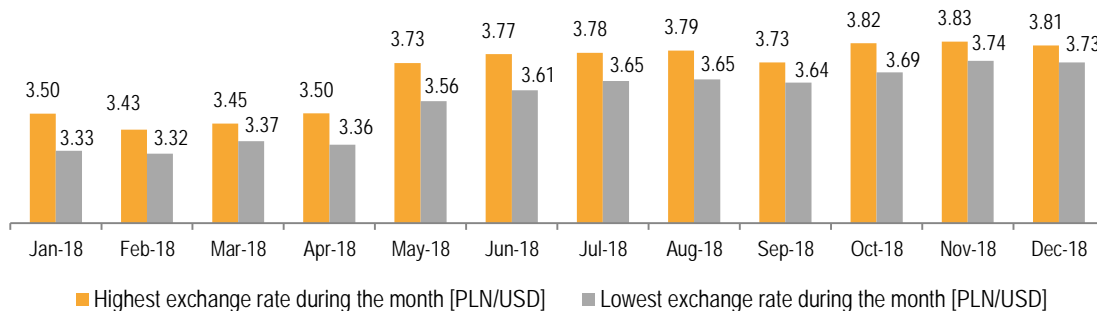
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

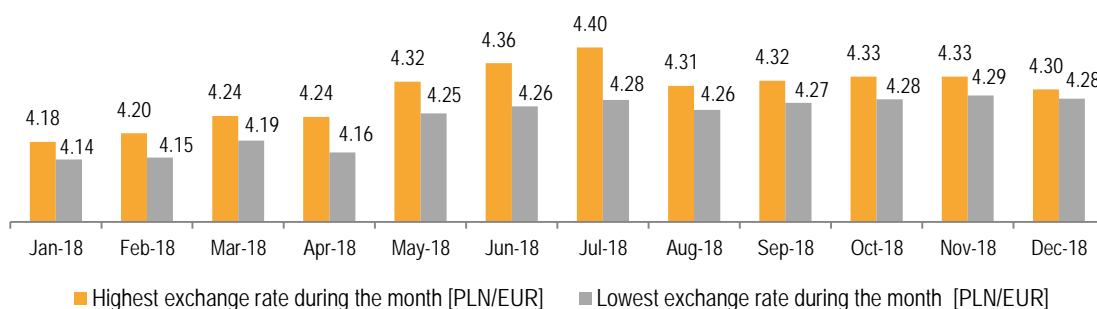
Unless otherwise indicated in this Report, all references to "PLN" or "zloty" in this Report are to the lawful currency of the Republic of Poland, all references to "USD" or "US dollars" are to the lawful currency of the United States and all references to "EUR" or the "euro" are to the lawful currency 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.

The following tables present - for the periods indicated - certain information regarding the average buying/selling rates as published by the National Bank of Poland ("NBP"), for the Polish zloty, expressed in zloty per dollar and zloty per euro. The exchange rates set out below may differ from the actual exchange rates used in the preparation of our consolidated financial statements and other financial information appearing in this Report. Our inclusion of the exchange rates is not meant to suggest that the zloty amounts actually represent such dollar or euro amounts or that such amounts could have been converted into dollars or euro at any particular rate.

Year [PLN per USD 1.00]	2013	2014	2015	2016	2017	2018
Exchange rate at end of period	3.0120	3.5072	3.9011	4.1793	3.4813	3.7597
Period average exchange rate	3.1608	3.1551	3.7701	3.9431	3.7777	3.6134
Highest exchange rate during period	3.3724	3.5458	4.0400	4.2493	4.2271	3.8268
Lowest exchange rate during period	3.0105	3.0042	3.5550	3.7193	3.4813	3.3173



Year [PLN per EUR 1.00]	2013	2014	2015	2016	2017	2018
Exchange rate at end of period	4.1472	4.2623	4.2615	4.4240	4.1709	4.3000
Period average exchange rate	4.1975	4.1852	4.1839	4.3625	4.2576	4.2623
Highest exchange rate during period	4.3432	4.3138	4.3580	4.5035	4.4157	4.3978
Lowest exchange rate during period	4.0671	4.0998	3.9822	4.2355	4.1709	4.1423



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 approval 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.

We disclose important risk factors that could cause our actual results to differ materially from our expectations in item 4 – *Operating and financial review of Cyfrowy Polsat*– and under item 6 - *Key risk and threat factors*, as well as elsewhere in this Report. These cautionary statements qualify to all forward looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial situation and operating results.

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 primarily from industry data providers listed below:

- 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;
- Starcom (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2016-2020);
- Zenith media house;
- Gemius/PBI;
- PMR;
- GfK Polonia;
- Ericsson Mobility Report;
- IQS;
- Fibre to the Home Council Europe; 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 financial data for the 12-month periods ended December 31, 2018 and December 31, 2017. 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 the Company's financial statements for the financial year ended December 31, 2018 (including the notes thereto) attached to this Report and the information included in item 4 of this Report – *Operating and financial review of Cyfrowy Polsat*.

Selected financial data:

- from the income statement and the cash flow statement for the 12-month periods ended December 31, 2018 and December 31, 2017 have been converted into euro at a rate of PLN 4.2617 per EUR 1, being the average of daily average exchange rates announced by the NBP in the reporting period i.e. from January 1, 2018 to December 31, 2018;
- from the balance sheet data as at December 31, 2018 and December 31, 2017 have been converted into euro at a rate of PLN 4.3000 per EUR 1 (average exchange rate published by NBP on December 31, 2018).

Such recalculations 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 financial year ended December 31, 2018 are not fully comparable to data for the financial year ended December 31, 2017 due to the merger of the Company with Eileme 1 AB (publ) on April 28, 2018, the merger of the Company with Cyfrowy Polsat Trade Marks Sp. z o.o. on November 30, 2018 and the merger of the Company with Metelem Holding Company Limited on April 7, 2017. Furthermore, the comparability of figures presented below is affected by the retrospective implementation from January 1, 2018 of IFRS 9 and IFRS 15 without the restatement of the comparative figures.

Balance sheet

	December 31, 2018		December 31, 2017	
	<i>data in accordance with IFRS 15</i>		<i>data in accordance with IAS 18</i>	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents ⁽¹⁾	258.3	60.1	29.5	6.9
Assets	13,833.6	3,217.1	13,536.8	3,148.1
Non-current liabilities	1,644.5	382.4	1,598.7	371.8
Non-current financial liabilities	1,549.4	360.3	1,510.7	351.3
Current liabilities	1,028.0	239.1	1,025.7	238.5
Current financial liabilities	428.7	99.7	422.4	98.2
Equity	11,161.1	2,595.6	10,912.4	2,537.8
Share capital	25.6	6.0	25.6	6.0

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

Cash flow statement

	for the 12-month period ended			
	December 31, 2018		December 31, 2017	
	<i>data in accordance with IFRS 15</i>		<i>data in accordance with IAS 18</i>	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	350.8	82.3	429.9	100.9
Net cash used in investing activities	(87.5)	(20.5)	(290.4)	(68.1)
Net cash used in financing activities	(34.9)	(8.2)	(388.5)	(91.2)
Net increase/(decrease) in cash and cash equivalents	228.4	53.6	(249.0)	(58.4)

Income statement

	for the 12-month period ended December 31			
	2018		2017	
	<i>data in accordance with IFRS 15</i>		<i>data in accordance with IAS 18</i>	
	mPLN	mEUR	mPLN	mEUR
Revenue	2,354.5	552.5	2,280.3	535.1
Retail revenue	2,175.8	510.5	2,134.4	500.8
Wholesale revenue	98.8	23.2	67.8	15.9
Sale of equipment	29.5	6.9	33.4	7.8
Other revenue	50.4	11.8	44.7	10.5
Operating costs	(1,978.5)	(464.3)	(1,994.8)	(468.1)
Content costs	(628.9)	(147.6)	(586.2)	(137.6)
Technical costs and cost of settlements with telecommunication operators	(565.9)	(132.8)	(577.8)	(135.6)
Distribution, marketing, customer relation management and retention costs	(311.1)	(73.0)	(323.3)	(75.9)
Depreciation, amortization, impairment and liquidation	(194.2)	(45.6)	(214.4)	(50.3)
Salaries and employee-related costs	(119.2)	(28.0)	(107.5)	(25.2)
Cost of equipment sold	(30.6)	(7.2)	(34.1)	(8.0)
Cost of debt collection services and bad debt allowance and receivables written off	(9.9)	(2.3)	(13.8)	(3.2)
Other costs	(118.7)	(27.9)	(137.7)	(32.3)
Other operating income, net	6.4	1.5	3.9	0.9
Profit from operating activities	382.4	89.7	289.4	67.9
Gain on investment activities, net	282.6	66.3	452.2	106.1
Finance costs, net	(80.1)	(18.8)	(84.4)	(19.8)
Gross profit for the period	584.9	137.2	657.2	154.2
Income tax	(96.4)	(22.6)	(51.2)	(12.0)
Net profit for the period	488.5	114.6	606.0	142.2
Basic and diluted earnings per share in PLN (not in millions)	0.76	0.18	0.95	0.22

Other financial data

	for the 12-month period ended December 31			
	2018		2017	
	<i>data in accordance with IFRS 15</i>		<i>data in accordance with IAS 18</i>	
	mPLN	mEUR	mPLN	mEUR
EBITDA ⁽¹⁾	576.6	135.3	503.8	118.2
EBITDA margin	24.5%	24.5%	22.1%	22.1%
Operating margin	16.2%	16.2%	12.7%	12.7%
Capital expenditures ⁽²⁾	38.5	9.0	29.6	6.9

- (1) We define EBITDA as net profit/(loss), as determined in accordance with IFRS, before depreciation and amortization, 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 and income taxes. 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 represent payments for our investments in property, plant and equipment and intangible 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.

1.1. Information on organizational or capital connections with other entities

The following table presents shares in other entities that we held directly as at December 31, 2018 and December 31, 2017.

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2018	December 31, 2017
Polkomtel Sp. z o.o. ⁽¹⁾	Konstruktorska 4, 02-673 Warszawa	telecommunication activities	100%	
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) ⁽²⁾	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	74.98%	12.22%
Netia S.A. ⁽³⁾	Poleczki 13, 02-822 Warszawa	telecommunication activities	65.98%	31.76%
Interphone Service Sp. z o.o. ⁽²⁾	Inwestorów 8, 39-300 Mielec	production of set-top boxes	99%	99%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
INFO-TV-FM Sp. z o.o. ⁽²⁾	Łubinowa 4a, 03-878 Warszawa	Radio and TV activities	73.5%	73.5%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. ⁽²⁾	Ostrobramska 77, 04-175 Warszawa	advertising activities	37.75%	37.75%
Teleaudio Dwa Sp. z o.o. Sp.k. ⁽²⁾	Al. Jerozolimskie 81, 02-001 Warsaw	call center and premium- rate services	99%	99%
TVO Sp. z o.o. ⁽⁴⁾	Batorego 28-32, 81-366 Gdynia	retail sales	45.1%	-
Karpacka Telewizja Kablowa Sp. z o.o. ⁽⁵⁾	Warszawska 220, 26-600 Radom	dormant	99%	99%
Netshare Media Group Sp. z o.o. ⁽⁶⁾	Ostrobramska 77, 04-175 Warsaw	advertising	100%	-
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
Orsen Ltd. ⁽²⁾	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	0.2%	-
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warszawa	technical services	100%	-
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warszawa	technical services	100%	-
Eileme 1 AB (publ) ⁽¹⁾	Stureplan 4C, 114 35 Sztokholm, Szwecja	holding and financing activities	-	100%
Cyfrowy Polsat Trade Marks Sp. z o.o. ⁽⁷⁾	Łubinowa 4a, 03-878 Warszawa	non-current assets and intellectual property rights management	-	100%

(1) On April 28, 2018 the Company completed a merger with Eileme 1 AB (publ). Following the merger, the Company became a direct shareholder of Polkomtel Sp. z o.o.

(2) The Company holds directly and indirectly 100% shares.

(3) On May 22, 2018 Cyfrowy Polsat S.A. took control over Netia S.A.

(4) Shares in associates include shares in TVO Sp. z o.o.

(5) Investment accounted for at cost less any accumulated impairment losses.

(6) On 25 June 2018 the Company acquired shares in Netshare Media Group Sp. z o.o.

(7) The company was merged with Cyfrowy Polsat S.A. on November 30, 2018.

1.2. Who we are

Cyfrowy Polsat is part of Polsat Group - the largest provider of integrated multimedia services in Poland. We offer multimedia services designed for the entire family: pay TV via satellite, terrestrial and online broadcasting, mobile broadband access in LTE and LTE-Advanced technologies and a broad offer of bundled services in the smartDOM program.

Pay TV

Cyfrowy Polsat is 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. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing nearly 5.2 million pay TV services as at December 31, 2018.

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 about 170 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports and esports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to over 80 HD channels and also provide OTT services, such as Cyfrowy Polsat GO, VOD/PPV, online video, catch-up TV and Multiroom HD services.

Currently, we are the only operator in Poland to offer our customers high quality set-top boxes manufactured in our Capital Group's plant in Mielec. We systematically develop the software of our set-top boxes and improve their functionality, so as to better address the changing consumer preferences and video consumption trends.

Online video

The entertainment website IPLA offers the largest database of legal video content and live broadcasts in Poland and over 100 online TV channels, 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 licensors. In 2018 IPLA's sports content offering was expanded with the Polsat Sport Premium package which broadcasts live football matches of the UEFA Champions League and the UEFA Europa League. At present, IPLA offers over 500 hours of live coverage per month from the largest sports events nationwide and worldwide. IPLA provides 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 selected content and view it offline. Nearly 90% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

Access to video materials and channels via the Internet is based on one of three models. The first is a pay model, where a customer makes a fixed payment for the right to access a given video material. The second model consists in access to a package of video materials and channels in exchange for a periodic (e.g. monthly) fee. The third model is based on free access in exchange for viewing advertisements. Approximately 80% of IPLA's total revenue is generated by the advertisement-based model, while about 20% is derived from the purchase of access to content made by users.

Thanks to the <http://www.ipla.tv> website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. Since its inception IPLA's mobile app has been already downloaded more than 10 million times. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs.

Moreover, we offer to our satellite TV customers an access to the video on demand (VOD) "Home Film Rental" service which allows paid access to the latest novelties and film hits through a decoder. The service does not require any additional technological solutions and is available via a TV set.

Mobile broadband Internet

We provide broadband mobile internet access based on the telecommunication network of our subsidiary Polkomtel. 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 allow 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 significant feature for a significant group of consumers. Our LTE Internet and HSPA/HSPA+ Internet covers nearly 100% of Poland's population. Since 2016 we have been offering our customers services in the LTE-Advanced technology.

This technology is being successively developed, as demonstrated by our launch of the 256 QAM and MIMO 4x4 modulation, which allows for increased transmission speed by 33% while using the same radio band. We are also pursuing aggregation of bands in two, three and, selectively, four frequencies which further contributes to increasing the capacity of our network, thus making our mobile Internet faster and more stable. Thanks to the applied technological solutions, in May 2018 the speed of out LTE-Advanced Internet ranged from 300 Mb/s to 500 Mb/s in over 300 locations. Furthermore, the tests of download transmission speed conducted in Białystok on aggregated four bands along with modulation allowed us to achieve data transfer speed above 600 Mb/s. As at December 31, 2018, we provided nearly 2.0 million mobile broadband Internet access services, mostly in the contract model.

Our offering is complemented by a portfolio of dedicated devices (modems, routers, tablets, laptops, ODU-IDU sets, etc.), that support LTE and LTE-Advanced technologies. 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 on the Polish media and telecommunications market. In keeping with the rapidly changing market environment and consumer expectations, we consistently implement our multiplay strategy by offering our customers a complete and unique service package based on pay TV, telephony and broadband Internet access, complemented by additional services, such as financial, banking and insurance services or sale of electric energy and gas. These services can be combined freely on an as-needed basis. Our broad range of bundled services is offered through a diverse array of digital entertainment and communication platforms, such as television sets, mobile handsets, computers and tablets.

As part of our strategy of integrating products and services, Polsat Group promotes its unique savings programs - smartDOM and smartFIRMA - which enable profitable bundling of modern services for the home or company. Our bundled services offer is based on a simple and flexible mechanism - a customer subscribed to one service receives an attractive discount for the entire term of the contract for every additional product or service purchased from the Group's portfolio. Our customers can combine flexibly products such as satellite TV, broadband LTE and fixed-line Internet, mobile and fixed-line telephony, banking and insurance services, energy and gas, home security services or supplies of telecommunications and electronics equipment, saving on each added service or product.

1.3. Strategy of the Group

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 superior 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 customer base value 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 telecoms group by exploiting its inherent synergies and economies of scale, and
- effective management of the Group's finances, including its capital resources.

Growth of revenue from services provided to residential and business customers through consistent building of the customer base value 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

Our goal is to effectively build revenue from the sale of products and services to our customers. Bearing in mind the occurring market changes, we will continue to create products that will satisfy the changing preferences of our customers.

The factor that will have a positive impact on revenue is the possibility of cross-selling of our existing and future products and services to the combined customer base of Cyfrowy Polsat, Polkomtel and Netia. Within our Group we create a unique portfolio of products and services which is simultaneously targeted at customers of both Cyfrowy Polsat and Polkomtel. When properly addressed, both through sale of additional individual products or a multi-play offer, this potential may significantly increase the number of services per individual user, thus increasing the average revenue per customer (ARPU).

The integrated services market is poorly developed in Poland, especially outside big cities and thus it has substantial growth potential. We intend to continue expanding our portfolio of products and services, relying both on own projects, as well as on strategic alliances or acquisitions. We trust that a comprehensive and unique offer of combined services and the possibility of up-selling additional services, e.g. financial and banking products, or sales of electricity, when provided via diversified distribution platforms, will be decisive from the point of view of our competitive edge. It will also enable us to retain our existing customer base and offer an opportunity to acquire new customers, both on the pay TV and telecommunication markets as well as in the area of other services for the home and for residential customers.

We will build our position on the bundled services market by acquiring as many customers as possible for our broadband Internet access services. Based on independent experts' estimates, broadband mobile Internet is the fastest growing Internet access technology in Poland. We trust that mobile technology (LTE in particular) will enable us to offer high quality services in areas inhabited by a majority of our customers, which, combined with the benefits offered by integrated services, should contribute to further improvement of customer satisfaction and growth of ARPU. We seek to attract as many viewers as possible by offering the best-value-for-money TV packages on the Polish market. We also intend to leverage the changes taking place on the Polish pay TV market and take advantage of the opportunities presented by the evolving needs and expectations of Polish consumers (such as increased interest in over-the-top services and growing use of media content on mobile devices), by offering our customers an extensive range of additional services – Cyfrowy Polsat GO, VOD/PPV, catch-up TV, Internet-based video and music services, Multiroom and Mobile TV. By developing our pay TV offer and expanding it to include complementary products and services, we seek to generate higher ARPU and improve customer satisfaction and loyalty.

An effective combination of telecommunication and media services provides new opportunities for distribution of TV content. Thanks to this combination, the attractive content and the wide range of our services will be delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile (LTE and LTE-Advanced) and fixed-line (IPTV, video online) technologies – to all consumer devices; from TV sets through PCs and tablets to smartphones.

Growth of revenue from produced and purchased content by expanding its distribution, maintaining the audience shares of our channels and improving our viewer profile

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. We currently broadcast 33 channels, programmed to appeal to most target groups within the Polish audience. Moreover, there is a group of 8 cooperating channels which are linked with Polsat Group either through ownership relations or through joint broadcasting undertakings. Our goal is to maintain our audience share at a stable level and consistently improve our viewer profile. We believe that by making sensible investments in programming, and wider distribution of our own content, we will be able to gradually improve our viewer profile. This in turn will have a positive effect on the advertising airtime pricing.

Another crucial step in building the segment's value will be to maximize our distribution of produced and purchased TV content, both in terms of the customer groups it reaches (FTA and pay TV) and the technologies they use (terrestrial, satellite, Internet). These efforts, in our opinion, will not only allow us to reap the benefits of wide-scale distribution of our content, but will also ensure a higher level of satisfaction among our customers and viewers, who will have more freedom to decide what, where and when to watch.

Effective management of the cost base of our integrated media and telecoms group by exploiting its inherent synergies

We are convinced that building a closely integrated media and telecoms group offers an opportunity for tangible synergies and for securing significant competitive advantages. We are implementing numerous projects aimed at simplifying the Group's structure by integrating relevant teams and harmonizing business processes and IT systems in the entire Group, which enables us to achieve potential, tangible cost synergies. On a continuous basis we pursue optimization efforts aimed at adapting our cost base to current market conditions and our Group's situation.

Effective management of the Group's finances, including its capital resources

The capital resources management policy adopted by us defines the method of using the funds generated from our operations. To guarantee the continuity and stability of the Group's operations, the generated free cash is used in the first place for financing current operations and for investments indispensable for the development of the Group. Effective debt management and its successive reduction is another of our priorities. The Management Board has set the desirable level of consolidated debt, measured by the net debt/EBITDA ratio, which should be reduced below the level of 1.75x.

Predictable dividend payouts to Shareholders constitute one of important goals underlying our capital resources management policy. In parallel, we consistently aim to reduce our debt, which shall assure attractive profitability levels for the capital employed by our Shareholders.

1.4. Competitive advantages

We are part of the leading integrated media and telecommunications group in the region

Our major competitive advantage is that we have gathered and manage all key assets within our Group. Thanks to this we can efficiently operate a diversified business comprising DTH and IPTV, mobile and fixed-line telephony, mobile and fixed-line broadband Internet, wholesale business as well as TV broadcasting and production and on-line video services.

We are the largest provider of pay TV services in Poland and a leading DTH provider in Europe. Since 2006, Cyfrowy Polsat has been the leader of the Polish pay TV market both in terms of customers and the number of active services and market share. Our subsidiary, Polkomtel, which focuses on provision of mobile telecommunication services under Plus brand, is one of the leading telecommunication operators in terms of the value of generated revenues and the size of the contract base of mobile telephony and the mobile broadband Internet access services. In turn, our subsidiary Netia over which we took control in 2018 is a leading provider in fixed-line services, including broadband Internet offered, among others, in fiber optic technologies. At the same time we are the leading TV group in Poland in terms of growth dynamics of advertising revenues and audience share.

Our pay TV, telephony and Internet access services are sold through a nationwide distribution network consisting of 1,127 stationary points of sale of Cyfrowy Polsat and Polkomtel. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online.

We have strong brand recognition and enjoy good reputation among our customers

Our key brands - "Cyfrowy Polsat" and "IPLA" - are well recognized by Polish consumers and we believe they are associated with high quality and value-for-money services aimed at the entire family. According to a survey conducted by GfK Polonia agency on the Polish pay TV market in November and December 2017 Cyfrowy Polsat is the best recognized pay TV provider in Poland with spontaneous and aided brand recognition on the level of 78% and 95%, respectively.

We believe that our position as the largest pay TV operator in Poland and good relations with programming licenses providers give us a competitive advantage in obtaining high quality content on attractive market terms. We also believe that through offering high quality programming packages at competitive prices we built the attractiveness of our services.

We have a significant customer base to which we can up-sell a broad portfolio of services

Our Capital Group has a significant base of customers, consisting of the individual customers of Cyfrowy Polsat and Polkomtel, business and corporate customers, as well as prepaid users. This base includes 5.7¹ million unique customers, bound by contracts for definite or indefinite periods of time, which entails the generation of regular monthly revenues.

Our strategy assumes up-selling to this base of an extensive portfolio of telecommunication, television and other services by our companies independently or in partnership with other entities, in order to increase the amount of revenues generated by unique customers. We believe that up-selling of services to our own base will enable us to increase the revenue in a cost-effective way, while simultaneously offering to our customers attractive price terms, which should translated into an improvement of customer satisfaction and loyalty.

Following the acquisition of a controlling stake in Netia, we have significantly expanded the potential of cross-selling our products and services, which can currently be addressed to a combined customer base of all companies in the Group. In particular, thanks to the reach of Netia's access infrastructure, a new market of residential customers in large cities and urban areas has opened for us and we can offer them cross-selling of products and services under bundling. Furthermore, thanks to Netia's broad competence in servicing business customers we have strengthened our competitive position on the market of convergent services for business customers.

We offer a unique combination of integrated services

We provide multi-play services combining pay DTH offer, Internet and telecommunication services. In addition, we offer our customers the option to purchase electric energy and gas, electronic equipment, banking, insurance or home security services at attractive prices. The ability to provide comprehensive multi-play services represents our significant competitive advantage on the pay TV market in Poland. At the same time we are the telecommunication operator who offers bundled services comprising pay TV over our own assets and infrastructure, which ensures greater price elasticity and more effective operating activities on the competitive market.

The provision of services in an integrated model enables us to offer attractive price terms to the customers, while simultaneously simplifying the process of customer service, which translates into the improvement of customer satisfaction and loyalty, thus decreasing the churn rate. We believe that, similarly to highly-developed European countries, preferences of Poles will go into integrated services direction, which will strengthen our competitive advantage.

We are the leader of Internet access services in LTE and LTE-Advanced technologies

As the first commercial supplier in Poland we started to provide broadband Internet access service in LTE technology in 2011. The advantage of the LTE technology over HSPA+ or UMTS is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service users to use interactive and multimedia applications requiring high bandwidth and transmission in real time, such as online games, video communication and HD TV over the Internet. Striving to maintain a high quality of provided services, we continue to invest in our telecommunication network roll-out. In particular, upon having approached the level of coverage of over 99% of the population with our LTE network, we are currently focusing on expanding the capacity of our telecommunication network and extending the coverage footprint of LTE-Advanced, which already reaches 73% of Poles, as well as expanding our territory coverage in Poland.

Investments in the development of our LTE network are mainly conducted using spectrum in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands which are owned by our Group. As at the end of 2018 we had over 13.3 thousand active eNodeB nodes in operation in LTE/LTE-Advanced technologies on various bands from our frequency portfolio.

¹ Excluding customer of Netia Group.

We expect that LTE network roll-out, relying mainly on continuous 20 MHz spectrum blocks in the 1800 MHz and 2600 MHz bands as well as using a unique 50 MHz block in the 2600 MHz TDD band, combined with increasing the density of the base station network, distinct growth of the number of operating transceivers as well as the use of the ODU-IDU (Outdoor Unit Indoor Unit) solution will enable us to maintain our competitive advantage in terms of the quality of provided mobile broadband access.

The next crucial phase in the development of our network consisted in the refarming of the 900 MHz and 2100 MHz spectrum, resulting in the allocation of part of the bandwidth previously used for 2G and 3G services to LTE and LTE-Advanced technologies. In particular, we have released the 900 MHz bandwidth, used so far for the provision of services in the 2G technology, on the entire territory of Poland, and migrated traffic provided in new and definitely more effective technologies to this frequency. By the end of 2018 we put into operation for our customers over 6.2 thousand LTE base stations operating based on the 900 MHz band frequency.

Simultaneously, work is in progress throughout Poland with a view of expanding the capacity of our transmission network to support the continuously increasing data transfer volumes. Transmission network roll-out enables us to use our existing towers and other network locations, which have so far operated in 2G and 3G technologies, for the provision of LTE and LTE-Advanced services. We also consistently aggregate spectrum, available at a given site, in the 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bandwidths in successive cities, which – combined with the application of the 256 QAM modulation, MIMO4x4 – allows us to offer our customers increasingly higher service quality.

Multi-platform distribution of online video content and proprietary technology for internet content distribution

Our IPLA online video service is the leader of video content distribution via the Internet in Poland, offering access to video content through a wide range of end-user devices, including computers/notebooks, tablets, smartphones, TV sets with internet connections, set-top boxes, game consoles and home cinemas. Our objective is to provide access to an extensive range of audiovisual content through any type of device for playing online multimedia files. We strive to ensure that each type of platform is supported by all major equipment manufacturers and operating systems.

IPLA, the leader on the 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, which helps us achieve synergies in terms of costs and revenues.

We have also developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions to our IPLA online video platform, which enables us to provide services optimally adjusted to the limited Internet infrastructure in Poland and the capacities of external systems with which our applications are integrated. In this way, we may offer services of higher quality than the widely used solutions, for instance, our system of HD video stream encoding helps reduce the broadband required to deliver the signal by half as compared with the solutions implemented by other operators on the Polish market. Hence, the optimized technology has a direct effect on our projects, increase in their coverage potential and the number of concurrent viewers.

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated November 2018 in the years 2018-2024 data consumption of video content will increase at an average annual rate of 35%, reaching ca. 74% of the entire data traffic in 2024. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

We control the process of production of set-top boxes

As the only operator on the Polish market we produce our own set-top boxes which are manufactured in a plant that belongs to our Capital Group. In 2007, we launched own production of SD set-top boxes, in 2010 we began to produce HD set-top boxes, in 2012 we started to produce DVB-T set-top-boxes, in 2013 we began the production of PVR set-top-boxes, and in 2016 we started producing a PVR set-top box offers the possibility of simultaneous recording of as many as three channels. By the end of 2018, 8.4 million set-top boxes left our production lines. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

New entrants must overcome significant regulatory and operational barriers and acquire access to radio spectrum or incur very significant investment outlays to compete effectively in the markets in which we operate

We believe that we benefit from significant market entry barriers that will aid our Group in maintaining our leadership positions in the competitive Polish pay TV, telecommunication and TV broadcasting markets. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position.

On the other hand, the entry to the telecommunication market requires obtaining the direct access to telecommunication frequencies and very expensive and time-consuming investments into telecommunication network or obtaining a paid access to the radio frequency via one of the four mobile operators. However, the significant majority of the radio spectrum allocated to mobile technologies has been nearly fully distributed among the current market players and a scenario assuming emergence of a new infrastructure operator seems to be very unlikely. Operators who provide mobile services based only on paid access to the existing mobile networks so far have failed to achieve the scale of business in Poland which could create a significant competitive threat to us.

We have strong, stable and diversified cash flows

Revenue from services provided to individual customers, our large customer base, monthly subscription revenue and low churn rates provide us with significant predictability of future revenue and strong recurring cash flows, which have historically proven to be resilient, even during periods of challenging economic conditions.

In the case of our cost base, we focus on improving the efficiency while maintaining the high quality by carrying out the initiatives which are aimed at development of in-house services and systems. Examples include the set-top-box manufacturing plant that is part of our Group, proprietary IT solutions, or the centralization of selected back-office processes within our entire Capital Group.

We have experienced managing staff

Our management team consists of executives who have been members of the management boards or served in other managerial positions within the media, TV and telecommunications industries and have extensive experience in these industries. In addition, our Company is managed by teams of experienced senior managers who provide expertise and a deep understanding of the markets in which we operate. A distinguishing factor is a low factor of rotation among our key managing staff, which positively reflects on the stability of our business and excellent operating results. Our senior managers have a significant track record of increasing our customer base and market share and introducing new products in competitive environments while managing costs and increasing free cash flow.

1.5. Market opportunities

We believe that Poland is an attractive market for our current and planned products and services for a number of reasons. The key reasons are presented below.

Low penetration rate of multi-play services, in particular in low-urbanized areas

In the past integrated services in Poland were provided by cable TV operators and selected fixed-line telecommunication operators and were offered mainly in large and medium-sized cities, which among others results from the geographical coverage of their infrastructure telecommunications and cable infrastructure.

According to the European Commission's report "E-Communications and the Digital Single Market" of July 2018 the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in April 2017 amounted to 38% while the average penetration rate in the European Union reached 59%. The leading European countries in this respect included the Netherlands, Malta or Slovenia, where the level of penetration with bundled services reached 93%, 86% and 84%, respectively. We believe that as a result of the low saturation of integrated services and poor quality of Internet access services offered in low-urbanized areas, Cyfrowy Polsat may become the leading provider of high quality multi-play services in Poland.

Growing importance of convergent services

Currently, convergence, meant as a combination of at least two services from different base groups of telecommunications services, is one of the strongest trends both on the Polish media and telecommunications market and worldwide. Operators develop their bundled offerings in response to changing preferences of customers, who more and more often seek media and telecommunications services provided at competitive prices by a single operator under a single contract, a single invoice and a single fee. With the high saturation of the pay TV and mobile telephony markets, bundled services play an increasingly important role in maintaining the existing customer base.

In the wake of the increasing importance of convergence and bearing in mind the significant level of fragmentation of the broadband access market, it can be expected that the future shape of the Polish telecommunications and media market will be substantially impacted by consolidation trends which have been visible for a long time on more developed foreign markets where mobile and fixed-line operators merge with content providers.

The acquisition transaction of a controlling stake in the fixed-line operator Netia, finalized by the Company in May 2018, can serve as the first example of such consolidation in Poland. Thanks to this transaction Polsat Group possessed all assets necessary to provide fully convergent services which shall facilitate better adjustment of the offering to customers' needs and more effective cost management. Already in June 2018 we offered our customers, under a pilot project, Netia's fixed-line broadband Internet, complemented by TV services based on the Internet as well as voice telephony. We are also working on expanding the offering and availability of our convergent services.

Development of the Internet access market in Poland

Based on data published by the European Commission in the Digital Scoreboard, in 2018 the penetration rate of broadband Internet access services among Polish households was 79.3%. Concurrently, European data demonstrates that fixed-line broadband Internet access penetration was 59.6% in Poland, which was one of the lowest rates among European Union countries. For 28 member states average penetration was 76.6% of households, while in the case of selected countries (the Netherlands, Germany or Great Britain) it exceeded 85%. The low penetration with fixed-line broadband Internet access services in Poland combined with the progressing development of mobile technologies make the broadband access market the fastest growing telecommunication market segment at present.

According to PMR forecasts, in 2018 there were approximately 15.4 million users of broadband Internet, out of which 52% used mobile connections. According to PMR, by 2023 the total number of broadband users, both mobile and fixed-line, is expected to grow by ca. 7% (data on mobile Internet include exclusively customers using modems/dedicated SIM cards and PCs).

The main drivers for growth in the number of mobile Internet users in the long term will include increased speeds of data transmission, increase in the number of mobile devices i.e. laptops, smartphones, tablets, as well as relatively low cost of mobile infrastructure covering low urbanized areas. The driver behind the growth of fixed-line broadband will be the modernization and roll-out of existing infrastructure. In the area of fixed-line broadband access fiber-optical technology (FTTx) is going to rapidly gain importance. To a significant extent it is replacing obsolete copper infrastructure as a result of large scale investments of fixed-line operators.

Growing market for new technologies and equipment and the resultant increase in access to and consumption of audiovisual content

As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report dated November 2018, video content remains the biggest and fastest growing segment of the mobile data transmission. It is expected that in the years 2018-2024 the use of data related to watching video content will grow by 35% per year on average, reaching ca. 74% of the entire mobile data traffic in 2024. Consumers expect service providers to offer them the possibility of watching TV on any screen, anywhere and at any time. We perceive this group as a prospective customer segment for television services, opening also the opportunity for the monetization of our audiovisual content. At the same time, the above mentioned trend will translate into an increased demand of our customers for data transmission services on mobile devices, which will result in a growing stream of revenues from the sale of these devices to our customers.

Development of the online advertising market in Poland

Prospects of the online advertising market are also positive. According to the IAB AdEx report, in the first half of 2018 online advertising expenditures increased at a rate of 16.8% YoY and reached the value of PLN 2.17 billion. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures in the video advertising segment, in which we generate part of our revenue. In the first half of 2018, those expenditures increased by 41% and represented 14% of the total expenditures on online advertising. We believe that thanks to the leading position on the online video market (through IPLA internet television and other services of Cyfrowy Polsat group) we will benefit from the growth of this promising advertising market segment

1.6. Development prospects

We are part of the largest media and telecommunications group in Poland and we have a unique portfolio of products and services that includes pay TV, mobile and fixed-line telephony, data transmission and mobile and fixed-line broadband Internet, as well as a wide array of complementary services, such as modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD Home Movie Rental, TV online, Catch-Up TV), Multiroom. Through our online service IPLA also we provide online video services in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue). In line with our strategy, we focus on marketing and sales activities aimed at cross-selling stand-alone products and services to the customer base of Polsat Group and at selling our integrated services offer.

The Polish bundled services market is characterized by a low level of development. According to research conducted by the European Commission, saturation with bundled services in Poland is significantly lower compared to the average saturation in the European Union. Concurrently, our customers are increasingly interested in bundled services, a trend reflected in the excellent sales results of our integrated offer smartDOM. We are convinced that our unique combination of pay TV and telecommunication services, including in particular high quality LTE mobile Internet access will allow us to benefit from the growth potential of the Polish bundled services market. By increasing the number of services sold to each customer we are able to generate growth of average revenue per customer (ARPU) and effectively increase our customers' loyalty.

LTE Internet offered by us has become the standard for mobile broadband Internet access in Poland, effectively replacing the UMTS standard. We consistently develop our infrastructure in order to improve the parameters that characterize our LTE network, such as coverage, capacity and transfer speed. At the same time we perform the aggregation of frequency bands used by us, as a result of which we were able to offer our customers in selected areas of Poland the LTE-Advanced technology, which offers transmission speed of the range of 600 Mbps.

We believe that in line with the development of modern fixed-line infrastructure and nationwide radio infrastructure, broadband access will revolutionize not only the communication market but also the content distribution market. We believe that our broadband Internet services, both in the LTE/LTE-Advanced mobile technologies and in modern fixed-line technologies, will allow us to grow our customer base, both of single and integrated services.

We consistently strive to strengthen our position as the aggregator and distributor of content. Currently, the attractive content and the wide range of Polsat Group's services are delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through LTE and LTE-Advanced mobile technologies and through fixed-line technologies (FTTH, HFC, ETTH) – to all consumer devices, from TV sets and PCs to tablets and smartphones. We closely study the evolution of our customers' expectations and work to satisfy their growing needs.

We further believe that we can significantly expand the pay TV market by adequately responding to changes in the customers' behaviors and expectations, as well as by addressing new target groups. Thanks to migration to MPEG-4 compression standard we are able to offer a broader range of programs to our existing and potential customers, with a simultaneous improved signal quality. With the development of the market and technologies, the choice of devices, for which we can produce and distribute television content, has expanded significantly. The number of mobile equipment, like laptops, tablets and smartphones, held by customers increases rapidly. In this group we see the perspective market segment, inter alia for TV services. Furthermore, we see the potential for market growth in the group of Polish households equipped in more than one TV set.

2. BUSINESS OVERVIEW OF CYFROWY POLSAT

2.1. Activities on the pay TV market

2.1.1. Pay TV market in Poland

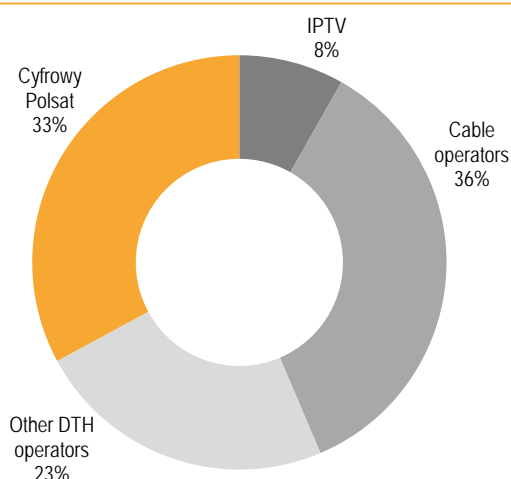
The Polish pay TV market is a mature market characterized by a high degree of penetration and low growth dynamics. According to PMR estimates, in 2017 the market was worth almost PLN 6 billion and remained at a stable level year-on-year.

The process of digitization of terrestrial TV in Poland, completed in July 2013, had been an important negative factor for the development of the Polish pay TV market. Initially, competition from digital terrestrial TV (DVB-T standard) led to an outflow of pay TV customers, which was particularly visible in the case of low-end programming packages. Since 2015 the pace of migration towards digital terrestrial TV has been substantially slower.

Both in terms of the number of subscribers and value, the situation on the Polish pay TV market is stable. On the one hand, a high level of market penetration with pay TV services (estimated by PMR at ca. 72% of households) leads to a very low growth potential. On the other hand, pay TV operators actively loyalize their subscriber bases, most of all through increasingly popular bundling of services, by combining pay TV with telecommunication services (Internet, phone), or developing and offering to customers their own online (*OTT – over the top*) video services, enabling the users to consume content on demand on a wide range of mobile devices. This trend leads to an increasingly strong interpenetration of pay TV and telecommunication markets.

We believe that at present our programming packages offer the best value-for-money on the Polish pay TV market. Moreover, we invest in new, attractive and unique content, as demonstrated, e.g. by the purchase of broadcasting rights to the UEFA Champions League and Europa League for the seasons 2018-2021. This 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, which has a positive impact of the level of loyalty of our customer base and contributes to maintaining a low churn rate.

Pay TV market in Poland in 2018 in terms of subscriber base



Source: Based on own estimates, sector data and PMR forecasts

Pay TV services in Poland are offered by satellite platform operators (DTH) and cable TV operators as well as through IPTV providers. According to our own estimates, sector data and PMR forecasts, in 2018 operators of satellite TV platforms had the dominant share, both in terms of the number of subscribers and revenue, on the pay TV market – approximately 56% in terms of subscriber base, followed by cable TV operators with approximately 36%. Despite strong growth dynamics, the significance of IPTV remains marginal, with market share of approximately 8%.

As a rule pay TV services provided by the operators mentioned above, satellite platforms and cable TV operators in particular, are substitutes. However, DTH providers compete with cable TV operators only to a limited extent given the geographical reach of the services they provide. DTH operators are able to provide their services to customers residing in urban, less densely populated and rural areas without incurring significant additional costs, whereas cable TV operators concentrate on inhabitants of densely

populated areas where highly developed network infrastructure already exists or in locations where the establishment of such infrastructure involves a relatively low cost per customer. Polish towns with up to 20 thousand inhabitants, suburban and rural areas, inhabited by ca. 53% of the Poland's population, are therefore natural target markets for DTH because these areas have poorly developed cable TV infrastructure and are less attractive for cable TV companies to develop cable TV infrastructure there.

Poland has also seen successive development of the video-on-demand market – VOD (*video on demand*) and OTT (*Over the top*). Video content is supplied to customers directly as an independent service, offered via Internet connection, or as an

element of pay TV packages. Improvement of the quality of broadband Internet connections, and consequently of data transfer rates offered to customers, as well as changing preferences of consumers who wish to have access to their favorite content at any time and place of their choice are the factors that have a positive influence on the growth of the OTT and VOD services market in Poland. Several dozen online services operate on the market, including those offered by TV broadcasters, DTH satellite platform operators, cable TV networks or telecommunication operators, as well as global players (like the US giant Netflix or Amazon Prime Video). In terms of the number of users, the most popular services of this type include vod.pl, player.pl, vod.tvp.pl and ipla.tv. A high level of Internet piracy in Poland as well as the low propensity of Poles to pay for video content remain the major barriers to the development of the OTT and VOD segment in Poland. It cannot be excluded that the above mentioned factors were behind a decision of Naspers Group which decided to terminate in 2019 the operators of its Showmax service in Poland. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels. We are also working on development of customer equipment for pay TV services, manufactured by us, in order to widen the distribution of our services beyond a traditional model of satellite TV access.

DTH operators

According to own estimates and PMR forecasts, the subscriber base of the DTH market in Poland is relatively stable and in 2018 it reached approximately 6 million. There are three DTH platforms operating in Poland: Cyfrowy Polsat, nc+ and Orange, while the market is practically divided between the first two. Orange does not offer pay TV as a stand-alone service, but as an add-on to its integrated offer. Orange's offer is based to a significant extent on cooperation with nc+.

Cyfrowy Polsat is the market leader in terms of the number of customers. At the same time we actively expanded our offer, selling paid access to online television in our service Cyfrowy Polsat GO or the Multiroom HD service, as a result of which as at December 31, 2018 we provided over 5 million contract pay TV services (together with services of paid access to online television), including 1.2 million Multiroom services. Based on own and PMR forecasts we estimate that at the end of 2018 our share in the Polish pay TV market, in terms of the number of subscribers, was at the level of approximately 33%.

The second player in terms of subscriber base was nc+ platform, providing services to approximately 2.2 million subscribers at the end of 2018, as reported by Vivendi (shareholder of the platform), which translated into a market share in the pay TV market of ca. 21%. Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV operators

The Polish cable TV market is strongly fragmented as the number of companies operating on it is estimated at ca. 400. The market is dominated by three major players: UPC Polska Sp. z o.o., Vectra S.A. and Multimedia Polska S.A. At the end of 2018 the total combined estimated share in the Polish pay TV market of these three operators did not exceed 30%.

On the cable TV market, there is an ongoing process of migration of cable TV users from analogue services towards digital services. Possibilities of acquiring new subscribers are limited due to a high penetration rate of cable TV in urban areas as well as the reluctance of cable TV operators to make significant investments in cable TV infrastructure in the less-densely populated and rural areas of Poland. As a result, inhabitants of those areas currently have access only to a limited number of Polish terrestrial channels and alternative providers of broadband Internet and mobile telephony services.

There are attempts to consolidate the Polish cable TV market. In October 2016 UPC Polska signed a preliminary agreement to acquire shares in Multimedia Polska, however the transaction has not been finalized. At present, proceedings are being held in the Office of Consumer and Competition Protection concerning the potential acquisition of Multimedia Polska by Vectra.

According to analysts, consolidation of cable TV operators increases chances for larger scale transactions between sectors, namely the construction of convergent offerings (i.e., offerings combining mobile and fixed-line services) by mobile operators. Taking control by Cyfrowy Polsat over Netia in 2018 can serve as an example of such a transaction.

The potential merger of Vectra and Multimedia Polska may be also an opportunity for other telecoms to acquire selected elements of infrastructure. In connection with the previous transaction of this type, concluded between UPC Polska and Aster, in 2013 Netia acquired from UPC certain redundant network resources which could not be used by UPC due to the regulations of the antimonopoly office.

Digital television through the IP protocol (IPTV)

The leading IPTV providers in Poland are Orange Polska and Netia. The remaining part of the IPTV market is divided among Multimedia Polska S.A. and local ISPs. This is the most rapidly growing segment of the pay TV market, among others due to the improving quality of broadband connections, fiber-optic networks in particular, following widespread infrastructural investments.

The IPTV market is developing at a relatively slow rate in Poland, mainly due to technological constraints resulting from the limited reach of modern infrastructure with sufficient capacity to enable a high-quality and effective IPTV services and the associated high costs of implementation of IPTV services. We believe that the introduction of IPTV services by fixed-line telecommunications service providers such as Orange may have a negative impact on cable TV operators in Poland, since these providers plan to launch IPTV services primarily in urban areas, while having less significant effect on DTH providers who are less dependent on customers living in densely populated areas. At present it is difficult to assess if and when fixed-line telecommunication service providers will significantly develop their IPTV offer in rural, suburban areas and small and medium sized towns and the impact of such a development on the operations of DTH providers.

Development forecasts for the pay TV market

According to PMR forecasts, in the years 2018-2023 the pay TV market in Poland will remain stable, both in terms of the number of customers and market value, with little dynamics of changes that will not exceed -2% during the nearest six years. This is mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services.

According to PMR, in the years 2018-2023 satellite platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of around 53% (in terms of subscribers) at the end of the forecast period. Cable TV operators will remain the second major segment, with a market share of approximately 33% at the end of the forecast period. Thanks to the highest growth dynamics IPTV services will systematically gain importance, supported by the development of broadband Internet access networks, especially fiber-optics. According to PMR, by the end of 2023 IPTV operators will have a market share of over 14% in terms of the number of subscribers, however growth of market share measured in terms of market value will be slower.

To attract DVB-T users, pay TV operators will aim to increase their competitiveness and to propose a unique offer to such users. Bundled offers containing telecommunication and content services combined with sales of equipment (tablets, smartphones, laptops, TV sets) and supplementary services as well as an extended offer of exclusive content are of great importance in customer retention policies and increasing customer loyalty. State-of-the-art technologies are rapidly gaining in importance as they enable operators to provide personalized content (such as content on demand) via Internet, to mobile devices in particular.

2.1.2. Pay TV offer

We build customer loyalty by offering a wide array of channels at competitive prices. That is why we make sure that our pay TV packages offer very good value for money. Currently, our Customers have access to as many as 170 TV channels on diverse topics: general, sports, movie, lifestyle, education, music, news/information and children's channels. A number of channels are available exclusively via satellite from Cyfrowy Polsat, such as Polsat Sport HD or Polsat Sport Extra HD sports channels. Exclusive content is a significant element that helps build the value of our pay TV offer, that is why in 2017 Polsat Group acquired from UEFA exclusive rights to broadcasting football competitions of the UEFA Champions League and the UEFA Europa League.

In order to meet the changing trends in television content consumption, in 2016 we launched a new online service - Cyfrowy Polsat GO. This service ensures access to thousands of programs on demand and over 100 linear channels, available according to the satellite television channel chosen by the customer. Access to Cyfrowy Polsat GO via a set-top box is free of charge, but thanks the option On The Go the service is simultaneously accessible on three chosen devices: a personal computer, a tablet or a smartphone.

Programming packages

We offer our customers three basic packages for a period of 24 months:

- Rodzinny HD which provides access to 78 encoded channels;
- Familijny HD which provides access to 106 encoded channels;
- Familijny Max HD which provides access to 133 encoded channels.

Monthly subscription fees for the basic packages range from PLN 20 to PLN 50. Moreover, we offer 6 additional thematic packages, VOD rental on television, and access to popular on-line services: Cyfrowy Polsat GO and HBO GO. By purchasing a thematic package, ex. a sports or film package, our customers can construct an offer tailored to their specific needs for a small additional monthly fee.

In order to help our customers make their choice, we have prepared attractive package sets, such as the Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (156 channels) or the Premium Max Plus + Polsat Sport Premium offer (170 channels) addressed to our most demanding customers, comprising additional channels – HBO together with the online service HBO GO, the Package Eleven Sports HD, the Package Polsat Sport Premium and the option On the Go, which enables to watch over 100 channels on mobile devices in the Cyfrowy Polsat GO service. The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately.

Flexibility

In order to offer our customers a better insight into our programming offer, each of our basic packages comes with a set of bonuses. A customer signing a contract can receive, free-of-charge, access to additional channels, online services or our VOD package for the first few months of the subscription period. This strategy not only helps to better customize the offer to suit the customer's individual needs and expectations, but also constitutes an important tool for supporting the migration of customers to higher-end programming packages.

Set-top boxes

As part of our pay TV offer we lease set-top boxes to our customers. The price of a purchased set-top box depends on the package of pay TV programs purchased by the customer. Typically, the higher the price of the package the lower the price of the set-top box and the higher set-top box subsidy incurred by us. We view the subsidizing of set-top boxes as a necessary component of acquiring new customers. Changes in set-top box prices and the size of the subsidy available for customers are linked to market conditions. We have a set-top box warranty service designed to help ensure customer satisfaction.

All new set-top boxes that we lease to our customers are produced in-house at our manufacturing plant in Mielec. We constantly work on developing the portfolio of available set-top boxes. Therefore, in 2018, we included into our offering two new models with a built-in Wi-Fi module: EVOBOX LITE, including software created by Cyfrowy Polsat which is valued by our subscribers for its simplicity and legibility, and EVOBOX HD, offering an intuitive interface which helps to access content of interest quickly.

Multiroom HD

We also offer our customers the Multiroom HD service, which provides access to the same range of TV channels on several television sets in one household, for a single subscription fee. Customers who decide to purchase the Rodzinny HD Package and higher are offered the possibility to purchase the Multiroom HD service as well, allowing them to view all the channels available in the package on up to 4 TV sets. The promotional price for the service (on one additional set-top box) varies from PLN 5 to PLN 10 per month, depending on the programming package chosen by the customer.

2.1.3. Mobile pay TV offer provided in DVB-T technology

Our service portfolio includes the Mobile TV service in the DVB-T standard. The Mobile TV service enables the reception of the same channels as on television but on mobile devices via a DVB-T set-top box, connecting through the radio network with a smartphone, tablet or laptop. An advantage of this solution is that the service does not require Internet connection, hence using Mobile TV does not generate data transmission and the user does not incur additional costs.

Under the Mobile TV service, we offer access to the Extra Package which includes 12 encrypted TV channels grouped in 4 thematic categories (sports, movies, news and children's channels) and 11 radio channels. The service is available either in a subscription or a prepayment model. Additionally, set-top boxes offered by Cyfrowy Polsat and dedicated to the Mobile TV

service enable the reception of not only encrypted channels included in the Extra Package, but also of all free channels available via digital terrestrial television.

2.1.4. IPLA entertainment website offer

The entertainment website IPLA offers the largest database of legal video content and live broadcasts in Poland and over 100 online TV channels, 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 licensors. In 2018 IPLA's sports content offering was expanded with the Polsat Sport Premium package which broadcasts live football matches of the UEFA Champions League and the UEFA Europa League. At present, IPLA offers over 500 hours of live coverage per month from the largest sports events nationwide and worldwide. IPLA provides 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 selected content and view it offline. Nearly 90% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

Access to video materials and channels via the Internet is based on one of three models. The first is a pay model, where a customer makes a fixed payment for the right to access a given video material. The second model consists in access to a package of video materials and channels in exchange for a periodic (e.g. monthly) fee. The third model is based on free access in exchange for viewing advertisements. Approximately 80% of IPLA's total revenue is generated by the advertisement-based model, while about 20% is derived from the purchase of access to content made by users.

Thanks to the <http://www.ipla.tv> website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. Since its inception IPLA's mobile app has been already downloaded more than 10 million times. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs.

2.1.5. Video on demand offer

Our pay TV customers can 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 technology solutions and can be accessed via a TV set.

VOD - Home Video Rental is based on 7 satellite channels, with as many as 30 films available each month. Our customers may usually choose from a selection of about 7 titles every day, which are updated on a regular basis and can be rented for up to 48 hours. Movie rental fees are paid on a one-off basis and depend on the film category ("Hit," "New," "Catalogue," "For adults") or as monthly fees under the "VOD Package" service, which offers unlimited access to movies within a given catalogue category, available on 4 satellite positions. In selected pay TV packages we provide access to the "VOD Package" within the subscription fee for promotional periods dependent on the basic package.

2.1.6. Technology and infrastructure pay TV services

Conditional access system

Access to TV channels offered in our pay TV packages is secured with a conditional access system that we leased from the company Nagravision SA. We use this system to control access to particular pay programming packages. Upon signing a contract for our services, the customers receive a set-top box together with an access card, which allows them to receive the pay programming offer. We routinely identify unauthorized access to our service because of the significant risks that unauthorized access poses to our business and revenues. According to our agreement with Nagravision, in the event of a breach of our systems, which cannot be remedied, Nagravision is obligated, under certain conditions, to replace the conditional access system together with the cards provided to our customers and, if necessary, to adapt the set-top boxes to the new system. Nagravision is paid a monthly fee on a per-customer basis.

Moreover, we cooperate with another provider of a conditional access system the company Irdeto B.V. Beside securing digital content transmitted using DVB-T technology, Irdeto B.V. provides also security of satellite system (DHT) and IPTV (a new service under implementation in Cyfrowy Polsat). Furthermore, Irdeto B.V. provides us with specialized and complete monitoring of the Internet enabling the collection and analysis of occurrences that may infringe copyrights of entities in our Group.

Satellite

We have signed a long-term contract with Eutelsat S.A. regarding the lease of capacity on Hot Bird satellites. In September 2017 we have prolonged the hitherto lease agreement and we have extended the satellite capacity available to us by 33 MHz. As a result we currently dispose of capacity on 7 transponders dedicated to SD and HD TV channels. Thanks to the technological solutions applied we can place both SD and HD channels within the same satellite capacities (transponders), which enables us to manage the leased capacity more efficiently. Since May 2012 we use part of the transponder on the Eutelsat satellite for mobile television purposes.

Broadcasting center

Our broadcasting center is located in Warsaw and enables us to transmit TV channels to the transponders we use on the Hot Bird satellites. Some TV channels are transmitted by the broadcasters of these channels or by third parties. The center is equipped with up-to-date integrated video, audio and information systems, which allows us to broadcast TV channels in both SD and HD standards.

In 2014, we activated a backup broadcasting center located in Radom, which guarantees broadcasting continuity in the event of bad weather conditions or the necessity to carry out maintenance operations in our broadcasting center.

To mitigate risks of failure or shutdown of our broadcasting center or any of its parts, our broadcasting, transmission and multiplexing equipment has redundancy solutions on critical nodes of our broadcasting network. In addition, Eutelsat S.A. will provide us with a backup transponder, if necessary.

Compression and TV signal multiplexing systems

Compression and TV signal multiplexing systems allow for efficient use of satellite capacity by digital edition of the signal. We use solutions provided by leading market players (Ericsson, Harmonic for satellite systems and Ateme for mobile television systems).

We regularly modernize our compression systems dedicated to service 7 transponders. Thanks to such operations we gain capacity for additional HD channels without incurring additional costs related to transponder capacity lease and we maintain a very high quality of broadcasted programs.

Services for television and radio broadcasters

We provide signal broadcast services to television and radio broadcasters. These services include the provision of transponder bandwidth, broadcasting and encoding the signal and its distribution to networks of other operators, including cable operators.

We also consequently develop our system of broadcasting chosen TV programs to the main Internet Exchange Point in Warsaw – PLIX. Thanks to this solution we can distribute our TV programs to other operators as well as receive TV programs from other broadcasters through optical fiber dedicated lines.

Services provided in DVB-T technology

Our Mobile TV services are provided in DVB-T technology on the multiplex dedicated to mobile television. The service is provided on 470-790 MHz frequencies (assigned to provide mobile audio-visual media services including broadcasting of radio and television nationwide channels) owned by our subsidiary INFO-TV-FM Sp. z o.o. For the broadcasting of channels we use the infrastructure of Emitel Sp. z o.o., which comprises a network of radio transmitters covering 31 largest cities in Poland. Currently, there are around 7.3 million households and 22.5 million people within the technical reach of the multiplex.

Set-top boxes

In order to reduce costs, we began manufacturing our own SD set-top boxes in 2007 and HD set-top boxes in 2010, followed by the DVB-T set-top box in 2012 and the PVR set-top box in 2013. In April 2015 we acquired the company Interphone Service Sp. z o.o., the owner of a factory equipped with a modern machinery stock, which, when additionally equipped with machines used until now, led to increased product flexibility and increased efficiency, while decreasing production costs at the same time. Interphone Service's portfolio includes telecommunications equipment designed for data transmission in the LTE technology, low-line electronic equipment, such as set-top boxes, as well as measurement devices, samples, electronic components and others. The manufacturing plant is located in EURO-PARK MIELEC Special Economic Zone.

Control over the entire process of production of set-top boxes has proved to be more effective and cost-efficient than purchasing set-top boxes manufactured by third parties and has allowed us to offer more competitively priced packages and achieve higher operational efficiency in our business. In-house manufacturing of set-top boxes has allowed us to reduce both unit production costs compared to the purchase of equipment from foreign suppliers as well as the costs of servicing the equipment. Given full control over the software and interface of the set-top boxes, we can maintain the logic of navigation in all our solutions, which is convenient to our customers if they switch between set-top box models. In addition, control over set-top box software guarantees greater flexibility to adapt the software to meet customer needs.

We have the possibility of flexible adjustment of production levels thanks to a chain of international suppliers who are ready to support and service internal and external orders. The production of our STBs relies on proven solutions. As a result of research and development work related to state-of-the-art technologies applied in the products offered by world class manufacturers, we have designed a new line of STBs, in which we implemented multi-tuner solutions based on Digital Unicable (dCSS) technologies offering the possibility of wireless data transmission, via WiFi, directly from the STB. These technologies substantially reduce the time needed to change from one channel to another, allow simultaneously recording of programs aired on many channels, and they also serve as the base for supplementary products and services, which we wish to offer to our customers in the future. The first product from this line, the EVOBOX PVR set-top box, was launched to the market in January 2016.

We equipped all models of set-top-boxes produced in-house, designed to receive high-definition television, with the IPLA application, enabling access to the content of our internet television after connecting the set-top-box to the Internet. As part of our offer customers can also use the Multiroom service on our set-top-boxes.

In 2018, set-top boxes manufactured in-house represented 94.9% of the overall number of set-top boxes leased. As of the end of 2018, we produced a total of 8.4 million set-top boxes. We cooperate with external providers of set-top boxes, mainly Samsung, Echostar and Thomson, but back in 2010 we limited purchases from external providers. We also cooperate with TV producers, such as Sony, Vestel, Panasonic and LG, in order to develop a solution enabling the reception of Cyfrowy Polsat's satellite signal. We also provide services to other operators interested in modern, functional devices at attractive prices.

Internet content distribution

With respect to our IPLA online television, we use our own platform adapted to the leading operating systems and a wide range of consumer devices. We have developed unique technological competencies in encoding and streaming audiovisual content on the Internet, as well as optimizing distribution of this type of signal. Unlike our competitors, we apply proprietary solutions, which enable us to provide services optimally adjusted to the limited Internet infrastructure in Poland and the capacities of external systems with which our applications are integrated. We use our own Origin servers as well as technologies that offer us independence in the choice of a distribution system CDN (*Content Distribution Network*). As a result we can offer services of the highest quality while optimizing transmission costs. This issue becomes especially important in the case of broadcasting over 100 linear channels, PPV or over 2000 single sports events annually. Our platform uses a proprietary system of recommendations that enable us to deliver content tailored to the customer's individual preferences. The protection system (DRM), applied in IPLA, also enables us to offer paid content on different browsers, mobile devices, smartTV sets and independent set-top boxes. Consequently, our platform meets current trends and accommodates all the needs of our customers regarding access to on-line video irrespectively of location, time and the device used.

2.2. Operations on the telecommunications market

2.2.1. Broadband Internet access market in Poland

Broadband Internet access services can be provided through a wide range of different solutions based on fixed-line technologies, including (but not limited to) xDSL, cable modem, LAN-Ethernet, fiber optic links and WLAN, or mobile technologies such as mobile modems or routers operating in the GPRS, EDGE, UMTS, HSPA or LTE, and LTE-Advanced, technologies. In Poland broadband Internet access is provided through fixed-line and wireless networks.

Based on the data from the UKE report, there were 14.5 million subscribers of broadband Internet access services in Poland in 2017, 7.4 million of which used mobile access and 7.1 million used fixed-line access. This translated to a household penetration ratio of 103%. Data published by the European Commission indicate, however, that the level of this ratio is lower, placing it at the level of 79.3% in 2018. At the same time, however, EU data show that fixed-line Internet access saturation was only 59.6% of households in Poland, which consistently remains the lowest level among all European Union countries,

where average penetration reached the level of 76.6% of households and in the case of selected countries (e.g. the Netherlands, Germany and Great Britain) exceeded 85%.

Concurrently, mobile Internet penetration in Poland is significantly better compared to the European Union. According to data published by the European Commission on June 2017 there were 144 mobile subscriptions per 100 inhabitants in Poland, which ranked Poland second among EU member states. Due to the relatively low saturation of the Polish broadband Internet access market and the progressing development of mobile technologies, in particular the roll-out of LTE networks by all mobile operators, mobile data transmission consistently remains the fastest growing segment of the telecommunication market.

According to UKE report, in 2017 the number of mobile and fixed-line broadband users remained on a similar level versus the previous year. 2G/3G/4G modems are gaining popularity (growth of market share from 39.4% in 2013 to 51.2% in 2017), while the popularity of the xDSL technology is declining (from 25.7% in 2013 to 16.2% in 2017). According to UKE data, fiber-optic technologies constituted only 5.2% of the broadband access market in 2017 but their share is consistently growing from the level of 1.3% in 2014. The factor stimulating investments in fiber-optic technologies is the execution of the governmental program of constructing broadband fiber-optic networks using subsidies from the European Union funds (Operating Program Digital Poland (Program Operacyjny Polska Cyfrowa – POPC)). Moreover, operators (Orange Polska, Netia, UPC Polska, Inea) are conducting their own investments in FTTH broadband networks.

A dynamic increase in the number of fast links is observed on the market, while the share of lines with lower throughputs is declining. According to the UKE report, in 2017 the number of links with throughput exceeding 100 Mbps increased by 58%. At the same time the share of Internet users using links with throughputs lower than 10 Mbps is shrinking (25% in 2017 as compared to 32% a year earlier), while the share of Internet users connecting with the use of links offering over 30 Mbps increased to 56.2% in 2017 from 46.4% a year earlier.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sales of services, was PLN 4.7 billion in 2017, having recorded negative dynamics of 4.1% compared to the year 2016, which was to a significant extent due to the erosion of revenues obtained from a majority of fixed-line access technologies, excluding optical fiber links. Concurrently, mobile technologies once again increased their share in terms of value in the revenue structure to 35.1% (from 34.0% in 2016). According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 1.0 in 2017 as compared to 2016, down to PLN 27.2. The fall in ARPU was, among others, caused by the increasingly popular bundling of services, as part of which operators often reduce prices on Internet access.

Fixed broadband Internet access

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting primarily from the high cost of build-out of local loops and strategies adopted by leading fixed-line operators. According to the UKE report, cable modems, offered by cable TV operators, have become the most popular fixed-line access technology (18.9% market share in 2017, market defined as comprising both fixed and mobile technologies). In 2017 UPC Polska (41.4% share in terms of user base), Vectra (20.8%) and Multimedia Polska (13.6%) were the major operators on this market.

There are also attempts to consolidate the Polish cable TV market. In October 2016 UPC Polska signed a preliminary agreement to acquire shares in Multimedia Polska, however the transaction has not been finalized. At present, proceedings are being held in the Office of Consumer and Competition Protection concerning the potential acquisition of Multimedia Polska by Vectra.

The second most popular fixed-line access technology in 2017 was xDSL with a market share of 16.0% (down by 7.0 p.p. YoY). Orange is the dominant player operating in xDSL technology, whose share in the total number of xDSL customers amounted to 77.7% in 2017. The second largest xDSL operator is Netia, a company of Cyfrowy Polsat Group, with a market share of 17.3%.

Fiber-optic access (FTTx) is a relatively new though dynamically growing Internet access technology. According to the UKE report, the share of fiber-optic technology in the Internet access market nearly doubled in 2017, and reached 5.2% (up from 3.6% in 2016). The reason for this could be the highest available data throughputs provided by the fiber-optic technologies which currently offer data transfer rates of up to 1 Gbps (Orange Polska), 10 Gbps (Inea) or 900 Mbps (Netia), as well as operators' sales strategies which focus on promoting fiber-optic Internet access also in multiplay offers. Currently fiber-optic technology is also the investment priority for a vast part of telecommunication operators, including Orange Polska. In September 2017, Orange announced that its goal was to feeding fiber-optic technology to 5 million Polish households, i.e. to around 40% of all households in Poland. Netia, in turn, is pursuing an investment plan based on a comprehensive

modernization of its access network, which currently covers over 2.5 million households. According to this plan, fiber-optic technology is ultimately expected to dominate by 2020.

As indicated by the report published by UKE, the market of Internet access relying on fiber-optic technology is currently significantly fragmented, which is demonstrated by the fact that the three largest providers who operate on this market (Orange, Inea and Multimedia) controlled only 40.6% of the market in 2017. Hence, telecommunication operators are seeking possibilities of acquisition of smaller local companies, which is manifested by deals recently announced by such players as Orange Polska, Vectra, or Inea. At the same time, models of commercial cooperation between operators in the field of use of existing fiber-optic network resources are sought, e.g. the agreement signed in July 2017 concerning the purchase of wholesale access to Orange's fiber-optic network by T-Mobile Polska.

According to the ranking published by the FTTH Council Europe, with fiber-optic network penetration of 5.1% Poland ranked very far behind the rest of Europe in September 2018 (27th position) in terms of popularity of Internet access relying on fiber-optic access. In the same period fiber-optic technology was used by 13.9% households in the 28 EU nations, with penetration levels reaching 40-50% in the most advanced European countries (Latvia, Lithuania, Spain, Sweden, Belarus).

Mobile broadband Internet access

The market of broadband Internet access based on mobile technologies (defined as access via modems or dedicated SIM cards integrated with laptop computers or tablets) is dominated by four mobile operators. According to the UKE report the four leading providers of those services (Polkomtel, T-Mobile, Orange and P4) jointly held ca. 80% of the market in 2017. The remaining 20% is divided between MVNO operators, including Cyfrowy Polsat, who actively promotes and sells under its own brand name mobile broadband access in LTE/HSPA+ since 2011.

Compared with other EU Member States, Polish mobile broadband market offers large potential for growth. It is related to relatively low quality of the existing fixed-line infrastructure in Poland, which makes mobile broadband technology more attractive to numerous Internet users as it offers better quality parameters in their respective area of residence. Moreover, Poland's low urbanization level often makes mobile access the only technology available in a given location.

According to the UKE report, in 2017 mobile technologies became the most popular Internet access technology in terms of the number of users (market share of 51.2%). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, affordability, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds, also thanks to the implementation of the new data transmission technologies, e.g. LTE-Advanced. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

Development forecasts for the broadband Internet access market

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will continue to grow. Further investments in the roll-out of last mile by both mobile and fixed-line operators, in particular investments in developing fiber-optic networks as well as further development of the LTE technology, will be the most significant factors. According to PMR forecasts, in 2018-2023 the value of the broadband Internet access market will demonstrate continuous positive average annual dynamics of ca. 0.3%, reaching the level of PLN 5.3 billion in 2023.

In accordance with PMR forecasts, in years 2018-2023 the number of broadband Internet access subscribers in Poland will increase to about 16.5 million, i.e., by 7% (in case of mobile access the forecast does not include users who surf the Internet using their mobile phones but only those who operate in the router/card + computer model), out of which 53% will use mobile technologies.

The advancing popularity of mobile technologies in Poland will be the result of competitive pricing as well as growth of mobile network coverage, which will directly translate to improved quality and continuity of coverage of the purchased service. The fast development of LTE and LTE-Advanced network coverage, as well as 5G in the future is an additional factor stimulating the development of mobile Internet services. These standards will enable the provision of mobile services characterized by transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

In the area of fixed-line broadband access fiber-optical technology (FTTx) is going to rapidly gain importance. To a significant extent it is replacing obsolete copper infrastructure as a result of large scale investments of fixed-line operators. In our opinion in the next years these investments will lead to a gradual growth of users of fixed links characterized by NGA parameters.

2.2.2. Internet access offer

Cyfrowy Polsat Group provides a comprehensive array of data services to both residential and business customers under two main brands: Plus and Cyfrowy Polsat. Internet LTE Plus Advanced from Plus and Cyfrowy Polsat was the winner on the category "2018 Mobile Internet of the year" in the Mobility Trends 2018 competition.

We offer our mobile broadband Internet services in the LTE technology since 2011 and in the latest LTE-Advanced technology since 2016. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today almost 100% of Poles live in areas covered by our LTE Internet network and 73% live within the coverage footprint of our LTE Plus Advanced Internet service. We apply state-of-the-art network solutions which render the Internet connection offered by Cyfrowy Polsat and Plus more stable and faster. Currently, the maximum technological speed of LTE Advanced Plus is above 600 Mbps.

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs. Customers deciding to use our data services may choose between dedicated contract plans, prepaid plans, as well as data packages offered as an addition to voice tariffs.

Dedicated mobile broadband Internet access is offered in contract tariffs. These contract plans are based on a monthly access fee and allow for a defined data transmission limit or, as an additional service, unlimited data transmission in the LTE Plus network. Under our contract plans customers may purchase or lease internet access devices (including dongle modems, fixed and mobile routers, Home Internet Sets). In addition, our offer includes tablets laptops and other devices, which can be purchased in an installment plan, as well as tariffs without equipment - "SIM only."

Our offer includes basic data packages ranging from 30 to 100 GB. After having used up the basic data package in the 45 Gb or more package, the customer can continue to use the LTE Plus Internet thanks to the service *LTE without end*. Monthly subscription fees range from PLN 30 for a 30 GB package in the SIM-only model, to PLN 70 for a 100 GB package. Contracts are usually concluded for a fixed term of 24 months. 12-month contracts with data packs from 15 GB to 50 GB for monthly fees from PLN 30 to PLN 70 are also available.

Thanks to our LTE Plus Internet access service combined with the LTE Home Internet Set, created specifically for Cyfrowy Polsat and Polkomtel, we can offer customers a product that constitutes a substitute for fixed-line Internet. Based on a special technical solution ODU-IDU technology (Outdoor Unit Indoor Unit), the LTE Home Internet Set consists of an external LTE modem (ODU) and a WiFi router (IDU). The latest version of the Home Internet 300 Set also works within the coverage area of LTE Plus Advanced and introduces numerous improvements as compared to its predecessor, the ODU/IDU-200 model. The Home Internet 300 Set works perfectly in non-typical locations where the signal strength is low, as well as in all the places where no fixed-line access to the Internet is offered via cable connection. The modem, which is installed outdoors, improves the strength of the signal by eliminating signal attenuation by walls and other structural elements of buildings, and hence it significantly increases the coverage area of the service. Installation of a modem at a certain height can reduce the adverse influence of some terrain obstacles, e.g. high buildings or elevated areas which exist in the neighborhood. Thanks to this one can enjoy LTE Internet access with the potentially highest parameters available in a given location. ODU/IDU devices can be installed separately, or they can be integrated with the existing satellite or terrestrial TV antenna systems, thus reducing the amount of cabling fed into a home. The signal is transmitted from the ODU-300 modem to a WiFi IDU-300 router over a concentric cable. The router, in turn, distributes the signal to all the rooms, thus ensuring wireless access to the Internet.

The standard LTE Internet access offer is accompanied by various types of bonuses, depending on the value of the subscription fee. Such as strategy supports the promotion of our other services and gives our customers the possibility to test services, which they might purchase in the future. Currently, in selected subscription plans we offer our customers access to three special IPLA packages free of charge for the first two months of the duration of the contract with the possibility of extending the period of using these packages for a monthly fee of PLN 10. In selected tariffs Plus network customers also have the possibility to test for one month, free of charge, the Internet Protection and HBO GO services.

2.2.3. Consumer devices offer

We offer our customers a wide selection of devices used to access broadband Internet. Our equipment portfolio comprises several categories: modems, mobile and fixed-line routers, tablets and laptops. All of the modems and routers offered by us support LTE (data transmission speed of up to 150 Mbps) or LTE-Advanced technology (up to 1 Gbps).

Consumer devices are sold in the installment plan model (with or without an initial fee), while modems and routers are also leased at rental fee. In the installment plan model, the monthly subscription fee for the telecommunication service is increased by an installment for the purchased equipment. The value of the installment depends of the type of chosen device. Customers can chose to pay for the equipment in 24, 36 or 48 installments.

Over half of the contracts sold with equipment comprise the sale of mobile or fixed-line routers. Among the available devices the Home LTE Internet set, based in the ODU-IDU (Outdoor Unit-Indoor Unit) technology, is particularly worth noting. It is a combination of an LTE modem for installation outdoors, which is able to operate in difficult conditions, and a router which distributes the signal inside the house. This solution provides much better signal power and consequently higher quality transfer than traditional modems and routers.

Apart from internet access devices, our offer also comprises other categories of equipment. Television sets, offered only during the Christmas season in previous years now constitute a fixed position of our offer. We offer state-of-the-art LED television sets that support WiFi (smartTV) and hence can connect with other devices (e.g. routers and smartphones). Advanced laptops for gamers and latest models if smart watches are also popular.

2.2.4. Technology and infrastructure of telecommunication services

Network

Our broadband Internet access services are based on a radio infrastructure provided by our subsidiaries. Through our Group we have access to an integrated 2G, 3G and 4G mobile communication network. The Group's network supports GSM/GPRS/EDGE (2G), UMTS/HSPA+/HSPA+ Dual Carrier (3G) and LTE/LTE Advanced (4G) technologies. We also possess as our Group an extensive CDMA network.

Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a significantly greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service customers to use interactive and multimedia applications requiring greater bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. We use a frequency bandwidth dedicated to LTE that enables us to offer services with transmission speed of up to 200 Mbps for download and 50 Mbps for upload. On the other hand, after aggregating selected bandwidths using Carrier Aggregation, with higher MIMO (4x4), we can significantly increase data transmission speed available to end-users (currently above 600 Mbps), while the maximum speed depends on the quantity of aggregated radio bandwidths.

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 200 Mbps (with MIMO2x2) based on a continuous 20 MHz block in the 1800 MHz band which, combined with the clearly intensified roll-out of the LTE 1800 in the second half of 2016, allowed us to increase the coverage of mobile LTE Internet from Cyfrowy Polsat and Plus to the level of 99% of the population in January 2017. Concurrently, we began the aggregation of frequencies, available at a given site, from the 900, 1800, 2100 and 2600 MHz (both FDD and TDD) bandwidths we use. As a result, we offer our customers the LTE-Advanced technology which enables data transmission with maximum speed exceeding 600 Mbps in selected regions of the country. In December 2018 the service LTE Plus Advanced was available to over 73% of Poles.

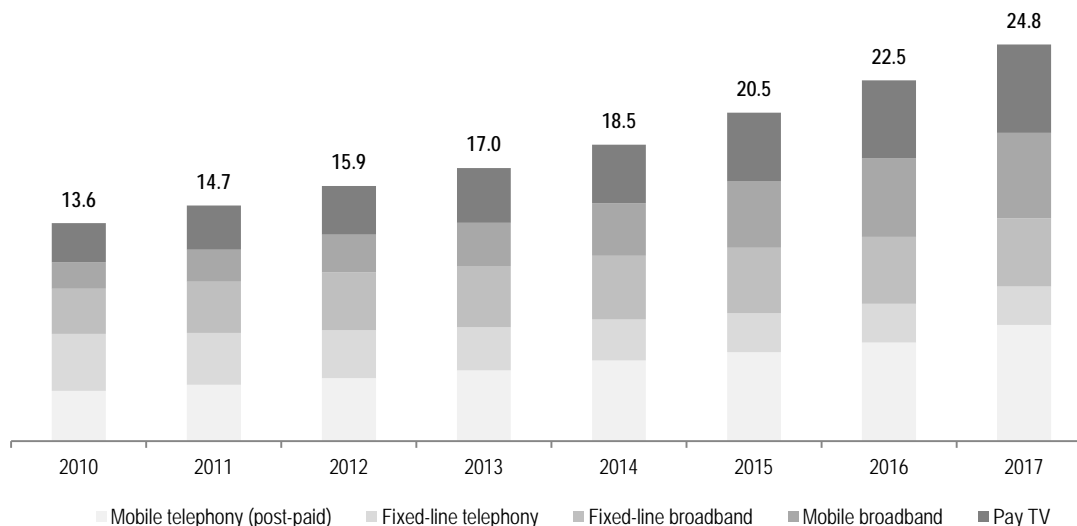
2.3. Activities on the bundled services market

2.3.1. Bundled services market in Poland

Currently, the bundling of services is one of the strongest trends in the polish media and telecommunications market. Operators develop their offers of bundled services in response to the changing preferences of customers, who are increasingly seeking to receive their media and telecommunications services from one provider at affordable prices, under one contract, one subscription fee and one invoice. Given the high level of saturation of the pay TV and mobile telephony markets, bundling of services is rapidly becoming a significant means of retaining existing customers. Offering bundled services allows operators to increase customer loyalty and, consequently, reduce churn rates. It also contributes to the growth of average revenue per customers.

The Polish multi-play services market is systematically growing. According to PMR estimations, as at the end of 2017 the number of services sold in bundles amounted to 24.8 million, recording a 10% annual growth rate. PMR estimates that the total number of subscribers (both residential and business) of bundled services amounted to over 10.5 million in 2017 and each of them had on average 2.35 services.

Number of services sold in bundles in Poland (in millions)



Source: PMR, "Bundled telecommunication services market in Poland 2018" (estimated data)

The multi-play market is consistently growing since 2010 in terms of value. ARPU is characterized by a similar trend – PMR estimates that in 2017 average revenue per customer from sales of multi-play packages increased by 1.1% YoY to PLN 87.6 in 2017 from PLN 86.6 in 2016.

Bundled services in Poland are provided primarily by cable TV operators and telecommunications service providers. According to PMR, in 2016 nearly two thirds of the bundled services market was held by five major players – Orange, Polsat Group, UPC, P4 and T-Mobile. With respect to the number of subscribers the share of Polsat Group on the bundled services market in Poland in 2016 was 17%, according to PMR estimates. Other important players on the market include cable operators Vectra and Multimedia Polska, as well as the fixed-line operator Netia.

Both fixed-line telecommunication operators and cable TV operators offer their bundled services mainly in large and medium sized cities, due in part to the geographical limitations of their infrastructure and the inferior quality of the telecommunications infrastructure in Poland. The multi-play services market in Poland is underdeveloped in less urbanized areas and therefore has the potential to grow rapidly in suburbs, small towns and rural areas. In addition to the low penetration rate of multi-play services in less densely populated areas, Internet services provided by cable operators typically suffer in quality of service due to the severe limitations of the established infrastructure. This creates an opportunity for satellite pay TV providers, such as Cyfrowy Polsat, who are not bound by geographic and fixed network infrastructure limitations as cable TV operators and fixed-line telecommunications service providers, to become the leading providers of high quality multi-play services to consumers in suburbs, small towns and rural areas in Poland.

According to European Commission report "E-Communications and Digital Single Market" published in May 2016, in October 2015 the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland amounted to 37%, while in the European Union average penetration reached 50%, and in the Netherlands and Malta amounted to 87% and 78%, respectively. These data can be underestimated, however, due to the methodology applied in the survey. According to PMR, in the fourth quarter of 2017, 63% of households in Poland declared that they use at least two telecommunication services provided by the same supplier.

Research by PMR demonstrates that a bundle combining two services remains the most popular option. In the fourth quarter of 2017, 56% of Poles chose this option. At that time, 29% of Poles used triple-play services (a bundle comprised of three services), while 12% of customers decided to purchase a bundle containing four services. 3% of customers had a bundled of five services in the fourth quarter of 2017. As for the structure of the bundles, fixed-line Internet access services and pay TV

dominate, followed by mobile telephony. Fixed-line telephony and mobile Internet access is a component of only a third of purchased bundles.

Development forecasts for the bundled services market

According to PMR forecasts, the bundled services market will consistently grow in subsequent years, both in terms of the number of subscribers and value, which results from the fact that service bundling is becoming a strategic goal for telecommunication and pay TV operators. According to PMR expectations the growth rate of the bundled services market in Poland will slow down in coming years and the expected average annual compound growth rate will be 4% in 2018-2022. In 2022 the number of subscribers using bundled services will exceed 12.5 million and the number of services sold in bundles will reach 33.7 million in 2022.

In subsequent years, the development of the Polish market of bundled services will be influenced not only by the low level of saturation of this market with services, but also the systematic roll out of fixed-line infrastructure and improving quality of network access, higher throughput in particular. Operators' strategies based on combining telecommunication and media services with services outside the telecommunications sector are also an important factor. The bundled services offers of leading operators on the Polish market comprise, among others, additional services, such as the sale of electric energy and gas, as well as banking, financial and insurance products. Consolidation trends, observed on the media and telecommunications market, may also affect the development of the bundled services market.

2.3.2. Bundled services offer

Our bundled services offer as an important tool, which helps us to retain existing customers and expand our customer base, while simultaneously increasing customer satisfaction and loyalty. In the long-term, the multi-play offer will enable us to increase ARPU and to further reduce our churn rate. Our bundled services offer is based on the portfolio of services provided both by ourselves, as well as by our subsidiaries, in particular Polkomtel and Netia.

smartDOM and smartFIRMA are unique savings programs offering a wide array of products and services, which enable our customers to create a comfortable, safe and modern home or effectively run a business. They are based on a simple and flexible mechanism – a customer subscribed to one service receives an attractive discount for the entire term of the contract for every additional product or service purchased from the Group's portfolio. This way every customer has the possibility to create a set of services for the family or the company consisting of satellite TV, terrestrial television with additional TV and radio channels, access to LTE and fixed Internet and telephony services (mobile and wireless home telephony).

Currently, the programs smartDOM and smartFIRMA comprise even ten products and services. Apart from our basic, core products and services: mobile telephony (including wireless home telephony), Plus's LTE and fixed Internet and satellite TV from Cyfrowy Polsat, smartDOM and smartFIRMA customers can also buy banking services offered by Plus Bank, comprehensive insurance services and home security services, such as monitoring. Moreover, the offer also comprises telecommunication devices and home electronics. All the products and services offered play an important role in the household and in the company. Thanks to the unique formula of the smartDOM and smartFIRMA programs the customer can purchase all products and services necessary in the household or in the company in one place and generate savings on each additional service bought.

2.4. Sales and marketing

Marketing and branding

Purchasing decisions of a majority of our customers are driven by image and brand recognition. We undertake marketing actions aimed at building a coherent image of Polsat Group, consistent with our strategy, based in particular on our four main brands: "Cyfrowy Polsat", "Plus", "Polsat" and "Netia". We strive to further increase the satisfaction of users of our services, especially with respect to the available range of products and services, the quality, usefulness and availability of customer services and the usefulness of our automatic information and self-service channels.

Our key brands have a long-standing, solid position on the Polish market. According to the Ranking of Most Valuable Polish Brands 2017, prepared by the daily Rzeczpospolita in cooperation with BTFG Advisory, our main brands "Cyfrowy Polsat," "Plus" and "Polsat" were the leading brands in terms of value and awareness in their respective lines of business.

Our primary advertising channels include: TV (commercials, sponsorship billboards and product placement), online advertising and outdoor. We also carry out nationwide advertising campaigns in the radio and cinema. Key nationwide

campaigns are supported by local campaigns. Advertising campaigns related to Cyfrowy Polsat's and Polkomtel's services are additionally supported in social media.

Cyfrowy Polsat's and Polkomtel's commercial websites are an important channel of communication with new and existing customers. In addition, we maintain communication with our existing customers using telemarketing tools, email bulletins, a dedicated customer channel and the Internet Customer Service Center.

Sales network

As at December 31, 2018, the sales network of Cyfrowy Polsat and Polkomtel covered 1,127 stationary points of sale nationwide. Both Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at the majority of those sales points. Most of points of sale offer additional products and services to customers of both operators, such as insurance and banking services or the sale of electric energy and gas. In 2018 the product portfolio offered by 475 points of sale of Cyfrowy Polsat and Polkomtel was enriched with Netia's services.

Sales of Polsat Group's services also take place through remote channels. As at December 31, 2018 Cyfrowy Polsat had 5 telemarketing centers (own and external), whose role was customer retention and the sale of core products.

Our pay TV products and services are also distributed using the direct door-to-door sales channel (D2D), which enables us to directly access selected customer groups, to maintain direct contact with customers, and to expand the reach of the sales network.

Call center

Our call center is an important channel of communication with our customers. We provide Cyfrowy Polsat's call center numbers in materials promoting our products and services placed in various media and our promotional materials to enable potential customers to obtain information about our services, place orders or ask for directions to the nearest point of sale.

Cyfrowy Polsat's call center currently has over 600 operator stands as well as approximately 320 back-office stands handling written requests (including faxes and e-mails). Our call center services are available to our present and potential customers 24 hours a day, seven days a week, and are responsible for providing comprehensive and professional customer service. The call service operators provide information on our services, enter into service agreements with customers, accept customer complaints and provide information on payments, technical support and other support for customers.

Online communication

Online communication plays an important informative role to a growing number of customers, both existing and prospective. It provides users with an opportunity to familiarize themselves with the programming, multimedia and telecommunication offers of companies from Polsat Group, order selected equipment together with a package of their choice or locate our nearest point of sale.

We have commercial websites that contain detailed information on the offers of Cyfrowy Polsat and Polkomtel, as well as on the smartDOM program - the bundled offer of the two operators. On Cyfrowy Polsat's website (<http://www.cyfrowypolsat.pl/>) customers can find information about the current pay TV and telecommunication offer, they can choose a TV or Internet access package they are interested in or select a device (set-top box, tablet, laptop or router). Moreover, our website contains details on various competitions for subscribers, our video on demand offer and the most interesting content available in our VOD Home Video Rental, and the online services Cyfrowy Polsat GO and HBO GO, accompanied by links which transfer the user directly to the webpage of the chosen service.

We provide the users of our website www.cyfrowypolsat.pl with a daily updated TV guide with the programming of over 490 channels. The service is accompanied by an editorial, in which we recommend the most interesting - in our opinion - programming positions, and enables sorting the scheduling according to users' criteria.

We offer our customers access to online accounts through the Internet Customer Service Center. Thanks to this functionality our customers can manage their subscriber accounts through the Internet, where, after logging in, they can check the status of purchased services, payments, subscribed packages, dates of payments or order additional services.

Thanks to the <http://www.ipla.tv> website and dedicated applications the content of IPLA online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL),

set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray. IPLA's mobile application has been downloaded more than 10 million times since its launch. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs.

2.5. Customer relations and retention management

Customer relations management

We consistently improve the quality of our customer service using the latest, cutting edge technologies. An experienced and committed staff with a highly flexible approach and supported by a quick decision making process is our strong side.

We use an advanced customer relationship management IT system developed by our specialists based on an integrated platform handling telephone, fax, e-mail, SMS, TTS (text to speech) communications and mail. Our customer relationship management system makes it possible to comprehensively document and handle all requests placed by customers in a timely and effective manner.

The core of the Group's customer service is the customer service call center. This system comprises seven separate call centers integrated through an intelligent call routing system. It guarantees reliability and an uninterrupted twenty-four hour, seven-day a week phone service. The intelligent distribution system handles calls depending on the subject matter and forwards the call to appropriate agents, which reduces customer service time. The post-sale telephone customer service also involves active up-selling of products and loyalizing.

Cyfrowy Polsat offers its customers the Internet Customer Service Center (ICSC) - an advanced tool which provides secure and free of charge access to back-office resources and on-line technical support. Through the ICSC customers can buy and modify their packages themselves, check their payment balance and payment history, control units available for use within active packages, or make payments (also advance payments for any number of months). Moreover, users of ICSC can modify their contact data, print postal or bank orders, check technical specifications of the equipment owned, print the relevant user manual, restore signal transmission, restore the factory PIN settings of their set-top box, as well as contact us through our contact form.

Customer retention management

In a highly competitive environment customer retention is of extreme importance to us. We constantly develop our offers and our operating methods in order to minimize churn in terms of both volume and value, and consequently to secure revenue from Cyfrowy Polsat's customer base.

Our retention programs include both reactive and proactive efforts. In the reactive approach, the process is initiated by the customer. In particular, when a customer expresses the intention to end the use of our services, a dedicated team of consultants contacts him or her and presents new, attractive terms of further cooperation in order to encourage such a customer to stay with us.

In the case of proactive programs, we, as the service provider, initiate the process. Active retention efforts start before the end of a contract's duration. We analyze the customer's current portfolio of services for the purpose of presenting the best possible offer, tailored to his or her specific needs. A wide range of our products included in our offer allows us not only to propose an enhancement of the service currently owned by the customer, but also to offer attractive terms of use of our remaining services.

Our customers may upgrade the bundle of purchased services at any time, e.g. by adding, on preferential terms, mobile voice services or Internet access to the already purchased pay TV service. Also at any time, the customer can buy a TV package, Multiroom service or an additional package of mobile services. Offers can be ordered via any channel – though the internet, by placing an order by phone with home delivery, or at any point of sales, at the customer's discretion.

2.6. Other aspects of our business

Trademarks

We use a number of trademarks to which we hold copyrights and which are registered with, or have applications pending for registration with the appropriate authorities in order to secure our rights to these trademarks. The most significant trademarks to our business operations are the word and device marks of "Cyfrowy Polsat", "smartDOM" and "IPLA".

Research and development - new services and implementations

In 2018, we continued our efforts in the field of implementation of state-of-the-art technologies and latest technical solutions which offer superior quality and enhanced functionality of services to our customers and enable us to expand our offer by adding new services and products.

In January 2018 Cyfrowy Polsat and Plus introduced to sales the new Home Internet 300 Set. It is the latest generation solution and the next step in the development of this unique product which has been successfully offered by Cyfrowy Polsat Group on the Polish market since 2014. The solution offers high speed LTE Internet access in the locations where other solutions do not work well. The new Home Internet 300 Set supports LTE-Advanced data transmission technology and enables data to be downloaded at the rates of up to 300 mbps. The latest version of the ODU/IDU-300 Home Internet Set introduces numerous improvements compared to its predecessor, the ODU/IDU-200:

- The ODU-300 outdoor modem is a category 6 LTE modem which supports band aggregation, thus enabling a user to enjoy the latest LTE-Advanced technology which is faster and more effective, and which offers data speeds of up to 300 Mbps;
- The device supports more frequency bands: LTE FDD 800, 900, 1800, 2600 and LTE TDD 2600 MHz;
- It has two antenna sockets, thanks to which an additional outdoor antenna can be connected to boost the signal;
- The newer Wi-Fi ac (IDU-300) router enables faster data transmission within the local network.

In February 2019 the Home Internet 300 Set with the LTE Plus Advanced Internet was recognized by customers the "Mobile Internet of the year 2018" and, simultaneously, awarded the Golden Bell prize in the Mobility Trends voting organized by the publisher of "Mobility" specialized magazine since 2010.

In December 2018 we started to implement within the Group, as the first operator in Poland, the TDD technology which operates in the 2600 MHz frequency band. This means that the company offers Internet access to its customers while using a total of 95 MHz of radio spectrum in various LTE carrier frequencies. The implementation of the TDD technology is primarily intended to increase network capacity in specific locations as well as to offer even better Internet access to customers. TDD (Time Division Duplex) and FDD (Frequency Division Duplex) are the two different methods of

implementation of LTE data transmission. The difference consists in the way the spectrum is used for transmitting data to and from a customer: the FDD technology uses two, permanently separated, parts of the bandwidth to transmit data in both directions simultaneously, while the TDD technology uses one, common chunk of the bandwidth for alternating, in time, the transmission of the data in the uplink and downlink directions. Also, slightly different parts of the frequency bands are used for the needs of the TDD and FDD technologies, which has enabled us to offer access to the Internet based on the 60 MHz of spectrum that it holds in the 2600 MHz band (while using the 20 MHz FDD carrier and the 2x20 MHz TDD carriers). Similarly as in the case of other LTE carrier frequencies, the new resources can be also aggregated with other FDD carriers. In parallel, the implementation of the TDD technology in LTE Plus Advanced network requires relevant hardware that supports the technology on the customer's end. The ODU-IDU 300 set introduced to sales in January 2018 supports the LTE TDD technology.

In the process of further operational integration of Polsat Group, and in connection with the strategy of development of bundled services, Polsat Group is currently implementing a new integrated sales-support and customer care system as well as a convergent billing system for products and services. The project is being implemented in cooperation with Huawei. The omnichannel strategy is what underlies the new approach – it is a multichannel approach to sales, customer retention and customer service. The new system will offer even better, simpler and more effective management of sales, as well as the ability to flexibly respond to changing market dynamics – launching of new products and services to the market will become faster and easier.

Furthermore, during 2018 new employee-targeted programs, aimed at building the innovative culture and promoting new methodologies of work related to creation of innovative solutions, were launched in Cyfrowy Polsat Group. These programs are aimed at engaging employees in the implementation of innovations and educating them in the area of new technologies and their impact onto the Group's business.

IT systems

IT systems are crucial in multiple aspects of our business operations. Cyfrowy Polsat uses numerous systems, applications and dedicated software, both developed in-house, as well as by leading local and international suppliers.

We use IT systems facilitating effective and efficient management of our customer base. These systems include, among others, a customer relationship management system, sales support system, the Internet Customer Service Center, and a transaction support system.

With respect to systems designed for set-top boxes, we use applications and software enabling us to offer our products as efficiently as possible. As the owner of the systems and holder of intellectual property rights related to them, we are able to respond quickly and successfully to all the needs of our customers. In the segment of services provided to individual and business customers we use systems licensed from third parties, such as a conditional access system securing access to channels offered in our paid DTH packages. At the same time, while looking for cost optimization in the area of small volume development in the high-end line, we cooperate with experienced suppliers, as in the case of the EVOBOX set-top box, which is a fully integrated hybrid solution with PVR.

Thanks to services developed by our Internet Projects Division, we provide the Group's customers who use Internet links as well broadband mobile Internet access, the possibility of consumption of premium audio, video and text content. The IPLA online TV and Cyfrowy Polsat GO application are available on the majority of popular multimedia devices in Poland, including desktop computers, smartphones and new generation TV sets. The multi-node multimedia distribution network supports simultaneous access to the offered multimedia for tens of thousands of Internet users. The content we distribute is developed, secured and monetized using mainly our proprietary IPLA solutions as well as systems provided by third party suppliers and our business partners.

IT systems are critical to our operations in the field of telecommunication.

With regard to customer service and billing, we use systems that allow for flexible billing for different contract and prepaid plans. Our customer service systems enable us to address the needs of our customers through different communication channels (such as call centers, e-mail, Interactive Voice Response, SMS, points of sales and Internet). Moreover, we use a wide range of applications that support customer segmentation, product definition and the selection of sales channel and communication method.

We use management systems that include, among other things, financial control, revenue assurance, fraud detection, rating and scoring systems and those that support the reporting process for internal and regulatory purposes.

Simplification and modernization of software development processes and their reorientation towards specific business goals has played an important part in improving the efficiency of our IT systems in recent years.

As part of the operational integration within the Group and relying on existing IT solutions, we are executing a project aimed at developing a shared system environment to develop joint multi-product offers comprising the services of both Cyfrowy Polsat and Polkomtel. These efforts will also enable us to achieve further cost optimization and leverage significant synergies in both know-how and resources. The implementation of a new integrated system supporting sales and customer service, as well as a convergent billing system for products and services, are the essential elements of this undertaking.

The implemented system will enable improved, simpler and more efficient management of sales as well as the ability to respond flexibly to market dynamics – launching of new products and services will become easier and faster. A central catalogue of the Group's services and products will be developed with one, consistent and effective sales solution which will be common for all channels of contact with the customer. IT infrastructure will be simplified and will become more flexible, which will enable reduction of the time and the cost of new business implementations.

The implemented solution will contribute to further development of joint sale of numerous services offered by the Group's companies and it will enable flexible response to market changes while offering newer products related to various aspects of life and packaged sale of these products.

Real estate property

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, studios, some offices and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2018, there was a mortgage registered on the real estate property owned by us, established in respect to the Combined SFA. Some insignificant parts of Cyfrowy Polsat's real estate property are encumbered with typical easement rights for electricity cables and other media. Part of our real estate property is being leased from third parties.

In order to secure our liabilities under the Combined SFA, a mortgage was registered in favor of the Security Agent on selected real estate property owned by companies belonging to Cyfrowy Polsat.

Insurance agreements

We maintain insurance coverage for our companies and their operations, substantially against all risks and with sums insured at levels typical of pay TV providers, telecommunication operators and TV broadcasters operating in Poland.

We have motor vehicle insurance policies, all risk property insurance policies, liability on business interruption, third party liability insurance on business operations, professional liability insurance on broadcasting activity, and third-party liability insurance for members of the Company's bodies.

In 2018, Cyfrowy Polsat was party to the insurance agreements described below.

In the scope of property insurance general agreements were concluded for the years 2017-2019 with the possibility of extending the term of the contract for another year with STU Hestia S.A. in co-insurance with TUIR Warta S.A. and TU Generali S.A. regarding the insurance of assets against all risks, electronic equipment insurance, insurance of machinery against damages, loss-of-profit insurance, insurance of assets in domestic and international transport (cargo).

In the scope of third-party liability insurance a general agreement was concluded for the years 2017-2019 with the possibility of extending the term of the contract for another year with TUIR Warta S.A. in co-insurance with STU Ergo Hestia S.A. regarding third-party liability insurance, including professional liability insurance. Furthermore, an agreement regarding bookkeeping liability insurance was concluded with PZU S.A. The following insurers are engaged in the third-party liability insurance for members of the Company's bodies: TUIR Allianz Polska S.A., Colonnade Insurance S.A. Branch in Poland, Chubb Branch in Poland and PZU S.A.

In 2018, our subsidiary Polkomtel continued a general fleet motor insurance agreement with STU Ergo Hestia S.A. (collision, comprehensive and third party insurance, theft insurance, accident insurance and assistance), which extends to the entire motor fleet of Cyfrowy Polsat Group.

In 2018, the international business travel health insurance with Colonnade Insurance S.A. Branch in Poland and personal injury insurance with Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. were continued.

We believe that our insurance coverage is in line with the practice followed by other pay TV providers, TV broadcasters and telecommunication operators in Poland.

Business Contingency Plan

Within the framework of the Business Contingency Plan of Polkomtel and Cyfrowy Polsat kept by us, we examine threats and vulnerabilities in critical processes and services, which we define periodically through the Business Impact Analysis. We constantly perform risks analysis aimed at identifying main threats and defining recommendations with respect to groups of resources, such as locations, human resources, external and internal service providers, office infrastructure, data stored in both an electronic and paper form, the technical and IT infrastructure. The impact from the part of threats on the execution of critical processes and business services is minimized thanks to implementing recommendations for these threats.

Charity and sponsorship activities

Corporate Social Responsibility is inherently connected with our operations on the market, the achievement of our business goals and building of the value of our companies. Although we have not implemented a formal policy with respect to charity and sponsorship activities, both the Company and companies of the Group are engaged in this type of actions. In particular, we are involved life-saving, healthcare and safety-promoting initiatives, as well as in providing support for those in need or those at risk of social or economic exclusion. In this respect we have been cooperating for many years with public benefit institutions, such as Polsat Foundation, Przyjaciółka Foundation as well as with emergency services (TOPR – Tatra Volunteer Search and Rescue, WOPR- Volunteer Water Rescue Service and GOPR - Mountain Volunteer Rescue Service). Apart from charity activities we are also engaged in a series of sponsoring activities.

Details regarding the activities in the scope of charity and sponsorship that we are engaged in are presented in the "Report of Cyfrowy Polsat S.A. Capital Group and Cyfrowy Polsat S.A. on non-financial information for the years 2016-2017," which is available on our website at <http://www.grupapolsat.pl/en/investor-relations> in the tab *Results centre/Non-financial reports*.

3. SIGNIFICANT EVENTS AND AGREEMENTS

3.1. Corporate events

Changes in the shareholding structure

On January 30 and 31, 2018, the Company received notifications issued pursuant to Article 69 of the Act of July 29, 2005 on public offering and the conditions of introducing financial instruments to an organized system of trading and on public companies, containing information on changes in the shares of votes at the General Meeting of the Company held its significant shareholders.

As a result of the disposal of 16,577,107 ordinary bearer shares of the Company by Karswell on January 26, 2018 and the acquisition by Reddev from Sensor of 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat on January 29, 2018, shares of votes at the General Meeting of the Company held directly by the above mentioned entities have changed, as have the shares of votes at the General Meeting of the Company held indirectly by entities controlling these companies. In particular, as a result of the concluded transactions the indirect engagement of Mr. Zygmunt Solorz increased to 57.34% of the share capital of the Company, representing 65.97% of the total number of votes at the General Meeting of the Company. Prior to the transactions, Mr. Zygmunt Solorz held indirectly 56.64% of the share capital of the Company, representing 62.85% of the total number of votes at the General Meeting of the Company.

Details regarding the changes in the structure of ownership of significant numbers of shares of the Company are presented in the Company's current report no. 7/2018 dated January 31, 2018.

Furthermore, on April 27, 2018 the Company received notifications issued pursuant to Article 69 of the Act of July 29, 2005 on public offering and the conditions of introducing financial instruments to an organized system of trading and on public companies from Karswell, Reddev and TiVi Foundation.

As a result of the disposal by Karswell and the acquisition by Reddev of 123,411,161 ordinary bearer shares of Cyfrowy Polsat on April 26, 2018, the shares held directly by these companies in the total number of votes at the General Meeting of the Company, as well as the share held indirectly by TiVi Foundation, an entity controlling Reddev, changed. Following the concluded transaction, Reddev's direct and TiVi Foundation indirect ownership increased to 46.70% of the share capital of the Company, representing 57.66% of the total number of votes at the General Meeting of the Company, while Karswell's ownership decreased to 1.56% of the share capital of the Company, representing 1.22% of the total number of votes at the General Meeting of the Company.

Details regarding the above mentioned changes in the structure of ownership of significant numbers of shares of the Company are presented in item 8.4.1. of this Report – *Corporate governance statement – Share capital and shareholding structure of Cyfrowy Polsat – Shareholders with qualifying holdings of shares of Cyfrowy Polsat* as well as in the Company's current reports no. 13/2018 dated April 27, 2018 and no. 14/2018 dated April 27, 2018.

Decision of the Head of the Malopolska Tax Office in Cracow

On February 15, 2018, the Head of the Malopolska Tax Office in Cracow issued a decision assessing the tax liability from uncollected withholding corporate income tax in 2012 in the amount of PLN 24.2 million increased by interest on tax arrears. The Company informed of the decision of the tax office issued at the first instance in its current report No.11/2018 of March 5, 2018.

In the issued decision the tax authority contested the Company's right to an exemption from the obligation to withhold income tax on certain interest payments in 2012. The Company appealed against the decision of the tax authority on the basis of acquired opinions issued by renowned entities. The Company has not created any provisions encumbering its financial results.

On July 10, 2018 the tax office upheld the previous decision dated February 15, 2018. The Company informed of the decision of the tax authority issued at the second instance in its current report No.27/2018 of July 16, 2018. The Company did not agree with the decision of the tax office in question and appealed against it to the Voivodship Administrative Court in Cracow. In the ruling of February 21, 2019 the Voivodship Administrative Court in Cracow dismissed the appeal. The Company does not agree with the decision of the Voivodship Administrative Court and intends to appeal against it, following the receipt of the written justification, to the Supreme Administrative Court in Warsaw.

Moreover, the tax authority was conducting control activities in the aforesaid matter in relation to 2013 and 2014. Custom and tax control activities have not been transformed into tax proceedings. However, if an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, the tax authority may issue a decision assessing additional tax liabilities in that respect for 2013 and 2014.

At present the Company does not intend to create any provisions encumbering its financial results.

Conclusion of an amendment to the Combined SFA

On March 2, 2018, the Company, acting as the Obligors' Agent, and UniCredit Bank AG, London Branch, acting as the Finance Parties' Agent, executed the Second Amendment and Restatement Deed to the Facilities Agreement of September 21, 2015, amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.

The Second Amendment and Restatement Deed introduced, among others, amendments relating to the termination date of the Term Facility Loan and the Revolving Facility Loan, by changing to September 30, 2022 (originally falling on September 21, 2020) and the level of the ratio of consolidated net debt to consolidated EBITDA, upon achieving of which the Company may request the release of security established in connection with the Facilities Agreement (excluding the release of guarantees granted pursuant to the Facilities Agreement) or after exceeding of which the Company shall re-establish the released security, by revising it to 3.00:1 (originally 1.75:1). Details regarding the Facilities Agreement and changes introduced by the Second Amendment and Restatement Deed are presented in item 4.6.4. of this Report - *Operating and financial review of Cyfrowy Polsat- Review of our financial situation – Liquidity and capital resources – Material financing agreements executed by the Company.*

Decision of the Head of the Mazovian Tax Office in Warsaw

On April 30, 2018 the Director of the Revenue Administration Regional Office in Warsaw issued a decision upholding the appealed decision of the Head of the Mazovian Tax Office in Warsaw of May 25, 2017 determining the value of a tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 million plus accrued penalty. The Company informed of the decision issued by the tax office in its current report no. 12/2017 dated May 29, 2017 and in its financial statements for the year 2017.

The Company does not agree with the decision of the Director of the Revenue Administration Regional Office in Warsaw in question and appealed against it to the Voivodship Administrative Court.

At present the Company does not intend to create any provisions encumbering its financial results.

Distribution of profit for 2017

On June 28, 2018 the Annual General Meeting of Cyfrowy Polsat resolved to allocate the entire net profit earned by the Company in the financial year 2017, amounting to PLN 606.0 million, to the reserve capital. The resolution of the Annual General Meeting is in line with the previous recommendation of the Company's Management Board of May 29, 2018, which received a positive opinion of the Supervisory Board on the same date.

Taking into consideration the strategic investments made by the Company and some of its subsidiaries in 2017 and 2018, which ensure the continuation of the development of the Capital Group of the Company in the long term in accordance with its key strategic goal to sustainably grow the Company's value for its shareholders as well as bearing in mind a relatively high level of the Group's indebtedness, the Management Board of the Company decided not to recommend a dividend payment from the profit for 2017. In the opinion of the Management Board, this will allow to reduce the indebtedness level of the Group, in line with the adopted strategic assumptions, and with the goal of the capital resources management policy in particular, which is to reduce in a possibly short time the total net debt ratio for the Group (net debt to EBITDA) below 1.75x. In parallel, the Management Board of the Company confirmed the dividend policy adopted on November 8, 2016.

Appointment of members of the Supervisory Board

On June 28, 2018 the Annual General Meeting of Cyfrowy Polsat resolved that the Supervisory Board of the new term will consist of seven members and appointed to the Company's Supervisory Board for a subsequent three-year term of office Mr. Józef Birka, Mr. Robert Gwiazdowski, Mr. Marek Kapuściński, Mr. Aleksander Myszka, Mr. Leszek Reksa, Mr. Tomasz Szeląg and Mr. Piotr Żak.

During its meeting held on June 28, 2018, the Supervisory Board elected Mr. Marek Kapuściński as the Chairman of the Supervisory Board and appointed its members to the Audit Committee and the Remuneration Committee. The Audit Committee comprises: Mr. Robert Gwiazdowski, Chairman of the Audit Committee, Mr. Leszek Reksa and Mr. Tomasz Szelaĝ. The Remuneration Committee comprises: Mr. Tomasz Szelaĝ, Chairman of the Remuneration Committee, and Mr. Marek Kapuściński.

3.2. Business related events

Acquisition of a stake in Netia S.A.

On November 29, 2017 the Management Board of the Company took a decision on effecting the acquisition transaction of a controlling block of shares in Netia accounting for not more than 66% of the total number of votes at the General Meeting of Netia for the total amount of PLN 1.33 billion. The transaction was split into two stages.

The first stage, executed on December 4 and 5, 2017, consisted in the Company purchasing in aggregate a block of shares representing 32.99% of the total number of votes at the Netia General Shareholders Meeting.

In the second stage, initiated on December 5, 2017, the Company announced a tender offer for the sale of Netia shares (the "Tender Offer"). The Tender Offer price for one share of Netia was PLN 5.77. The subscription period began on January 30, 2018 and ended on May 14, 2018. As a result of settlement of the Tender Offer, on May 17, 2018 the Company and Karswell Limited jointly acquired, based on the agreement described below, 110,702,444 shares in Netia constituting in total 32.99% of Netia's share capital and representing 32.99% of the total number votes at its general meeting. In particular, the Company acquired 34,662,045 Netia shares constituting in total 10.33% of Netia's share capital and representing 10.33% of the total number votes at its general meeting while Karswell Limited acquired 76,040,399 Netia shares constituting in total 22.66% of Netia's share capital and representing 22.66% of the total number votes at its general meeting (all percentages of shares in Netia's share capital and total number of votes at Netia's general meeting mentioned above are as at March 20, 2019, i.e., including the effect of registered changes in Netia's share capital).

More information regarding the acquisition of a controlling stake in Netia is presented in item 4.3. of the Annual Report of Cyfrowy Polsat S.A. Capital Group for the financial year ended December 31, 2017 published on March 22, 2018 and in the Company's current reports No. 16/2018 of May 11, 2018, No. 17/2018 of May 14, 2018 and No. 18/2018 of May 22, 2018.

Agreement with Karswell Limited

Provisions of the Combined SFA, concluded on September 15, 2015, permitted companies from Polsat Group to allocate a strictly limited amount of funds to acquisitions. Due to those restrictions, which were binding as at the date of the announcement of the Tender Offer, under the Tender Offer Netia shares were acquired by the Company and its affiliate – Karswell Limited.

On December 5, 2017 the Company and Karswell concluded the Agreement on the Joint Acquisition of Shares in a Tender Offer and Preliminary Share Purchase Agreement (the "Acquirers' Agreement"). Immediately after the conditions precedent for the Acquirers' Agreement have been satisfied, i.e. specifically immediately after amending the Combined SFA or its replacement with other financing agreements in a manner making it possible for the Company to acquire all shares under the Tender Offer, Karswell committed to sell to the Company all the shares acquired for the price paid by Karswell for shares under the Tender Offer. In addition, Karswell was to receive an additional premium for the period between the settlement date on which Karswell acquired the last share under the Tender Offer and the date on which the shares acquired by Karswell under the Tender Offer was sold to the Company (the "Interim Period") in an amount equivalent to the average weighted cost of financing of the Company's Capital Group provided by financial institutions, prorated to the specific portion of the price paid by Karswell for shares under the Tender Offer for each day of the Interim Period. The premium is intended to compensate the burden related to committing Karswell's capital to the Tender Offer.

Additionally, during the Interim Period Karswell shall exercise the voting rights attached to the Netia shares acquired in the Tender Offer as instructed by the Company. Other significant terms and conditions of the Acquirers' Agreement are summarized in the Tender Offer document.

On July 2, 2018 the Company and Karswell executed an amendment to the Acquirers' Agreement amending it in such a way that the obligation of the Company to effect one-off acquisition of all Netia shares acquired by Karswell under the Tender Offer was replaced by the obligation of the Company to acquire said shares in subsequent instalments. On July 3, 2018 the

Company repurchased from Karswell 17,331,023 Netia shares which were acquired by Karswell under the Tender Offer. On October 2, 2018, in a subsequent transaction the Company repurchased from Karswell further 58,709,376 Netia shares. As a result of the above mentioned transactions, the total number of Netia shares acquired jointly by Cyfrowy Polsat and Karswell under the Tender Offer remained unchanged.

As at March 20, 2019, Cyfrowy Polsat holds directly 221,404,885 Netia shares constituting in total 65.98% of the share capital of Netia and entitling to 65.98% of the total number of votes at Netia's general meeting while Karswell holds directly null Netia shares.

Details regarding the amendment to the Acquirers' Agreement and the acquisition of Netia shares by the Company from Karswell are presented in the Company's current reports No. 26/2018 of July 2, 2018 and No. 29/2018 of September 26, 2018.

Development of the smartDOM program

In February 2018, we launched a refreshed edition of our strategic bundled offer, the smartDOM program, which comprises a portfolio of products and services for each home. Apart from our basic, core products and services: telephony from Plus, broadband LTE Plus and Plus Advances and Cyfrowy Polsat satellite television, smartDOM customers can also buy electric energy and gas, banking, insurance and home security services as well as telecommunication devices.

One of the main, invariable principles of the smartDOM program is the simple relation – the more products and services a customer has, the more he can save thanks to the obtained discounts. However, an important modification we introduced consisted in eliminating the entry threshold. Currently, every customer can join the smartDOM program irrespectively of the value of his or her monthly subscription fee. The discount system was also changed – for every additional service from the pay TV (including DTT), mobile or wireless home telephony and broadband Internet offer the customer receives a discount of PLN 10 each month.

While consistently pursuing our strategy of developing integrated services for home, in June 2018 we extended the smartDOM discount system by new products – this time by services offered by Netia: fast, fixed-line Internet access, mainly in fiber optic technologies, as well as TV services which are based on it, and fixed-line voice services. Netia services are currently available in over 470 points of sale of Cyfrowy Polsat and Plus. Moreover, at the end of 2018 we launched fixed-line Internet offered under the "Plus" brand which is provided based on Netia's infrastructure.

Introduction of new TV offerings including the Polsat Sport Premium package

In July 2018 we offered our customers a new sports package "Polsat Sport Premium", thanks to which starting from the new 2018/2019 season club football fans are able to enjoy, for the first time in Poland, live coverage of all the UEFA Champions League matches as well as watch the UEFA Europa League games. The package consists of two Super HD channels, i.e. Polsat Sport Premium 1 and Polsat Sport Premium 2, as well as 4 premium PPV services. Each match day means approximately 8 hours of daily live broadcasts (studio commentaries and matches) and a rich offer of accompanying programs: commentaries before and after the matches, in-depth analyses, reporting, interviews, experienced experts and commentators, special guests. The programs are broadcasted from a new studio designed specifically for the UEFA Champions League and the UEFA Europa League tournaments, which is equipped with a 4x4K video wall and visual realization relying on state-of-the-art technologies – augmented reality (AR) and 3D models. It is one of the most technologically advanced objects in Europe of this type and definitely the most modern studio in Poland.

Polsat Group has acquired exclusive rights to broadcast over 1000 matches of UEFA Champions League and UEFA Europa League for three consecutive seasons (from 2018 to 2021) in all distribution channels, including TV, the Internet and mobile devices.

The football matches are available to Cyfrowy Polsat subscribers, Plus mobile network customers as well as to the users of IPLA web TV. For viewers of Cyfrowy Polsat, the new Polsat Sport Premium package is available in bundles with basic packages at monthly prices ranging from PLN 50 to PLN 120 for a two-year contract. The prices of bundles with IPLA Polsat Sport Premium package in Plus mobile network ranges from PLN 70 to PLN 90 per month for a two-year contract. In case of IPLA web service, the package is available, also for external customers, in two variants: as a whole season subscription at PLN 360 and as a 7-day access at PLN 40.

The Polsat Sport Premium channels are broadcast in Poland by part of competing paid TV platforms, including the operator of nc+ and UPC cable TV or Netia, a company from Polsat Group. In this case, Polsat Group's revenue comprises

wholesales fees borne by the above mentioned operators to gain a possibility to broadcast the Polsat Sport Premium channels.

Introduction of new models of set-top boxes

In September 2018 we expanded Cyfrowy Polsat's equipment offering with new satellite TV set-top boxes. EVOBOX LITE and EVOBOX HD represent another high quality equipment of HD class which combines modern design with simple, intuitive operation and easy access to extensive VOD content of Cyfrowy Polsat GO and HBO GO multimedia services. The set-top boxes have a built-in Wi-Fi, which allows for a wireless Internet connection and gives a possibility to use online services and watch thousands of films, series and programs of Cyfrowy Polsat GO and HBO GO always when it suits a viewer, also before their airing on TV. The equipment is produced in Polsat Group's factory.

We are constantly working on expanding our equipment offering. We would like to offer our customers a possibility to choose convenient, adjusted to their needs technology solutions which allow to watch TV in the highest quality thanks to using the modern equipment, providing also access to rich premium content of VOD services. A combination of high quality set-top boxes with a wide variety of multimedia services offering freedom, flexibility and convenience to the users when accessing their favorite content is in our opinion an important element of building a competitive advantage on the pay TV market.

Initial steps taken in connection with potential refinancing of bonds

On October 24, 2018 the Management Board of Cyfrowy Polsat adopted a resolution on taking initial steps in connection with potential refinancing of the Company's indebtedness due to unsecured series A bearer bonds with a total nominal value of PLN 1,000.0 million, maturing on July 21, 2021. The Company's intent is to assess possibilities of refinancing the above mentioned bonds in order to decrease costs of servicing the indebtedness.

The actions initiated by the Company are aimed at evaluating the present market demand for new bonds and proposing potential conditions and a timetable of issuance of new bonds that would enable the Management Board to take a decision whether to establish a program of issuance of bonds under which the new bonds would have been issued.

Merger of Cyfrowy Polsat and CPTM

On October 31, 2018 the Extraordinary General Meeting of the Company adopted a resolution on merging Cyfrowy Polsat and Cyfrowy Polsat Trade Marks Sp. z o.o. ("CPTM"), an entity being the Company's sole subsidiary. Cyfrowy Polsat Group consistently pursues the strategy of simplifying its structure, including the centralization of provided services. The merger of the Company with CPTM is in accordance with the Group's long-term strategy and shall facilitate cost optimization of operations.

Details of the merger are provided in the Company's current report no. 33/2018 dated October 31, 2018.

3.3. Events after the balance sheet date

Changes in the Management Board of Cyfrowy Polsat S.A.

At the meeting of the Supervisory Board of the Company held on January 17, 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective March 31, 2019. Subsequently, the Supervisory Board of the Company adopted resolutions on changes in the Management Board of the Company concerning:

- (i) the appointment of Mr. Mirosław Błaszczuk, the existing President of the Management Board of Telewizja Polsat Sp. z o.o., a subsidiary of the Company, to the position of President of the Management Board of Cyfrowy Polsat S.A., effective April 1, 2019;
- (ii) the appointment of Mr. Maciej Stec, the existing Member of the Management Board of Cyfrowy Polsat S.A., to the position of Vice-President of the Management Board, effective April 1, 2019.

Mr. Tobias Solorz, who was appointed as Member of the Management Board of Polkomtel in 2011 and who has been the President of the Management Board of Polkomtel since 2014, and subsequently has managed the entire group since 2015, will become in future member of the Supervisory Boards of the Group's companies where he will exercising supervision over the group's assets.

On March 14, 2019 Mr. Dariusz Działkowski and Mr. Tomasz Gillner-Gorywoda resigned from the positions of Members of the Management Board of the Company, effective March 31, 2019. On the same date, the Supervisory Board of the Company adopted a resolution concerning the appointment of Mr. Jacek Felczykowski, the existing Member of the Management Board of Polkomtel, to the position of Member of the Management Board of Cyfrowy Polsat S.A., effective April 1, 2019.

Letter from the representative of the majority shareholder on dividend policy

On February 7, 2019 the Management Board of the Company received a letter from Mr. Zygmunt Solorz, acting on behalf of the majority shareholder of Cyfrowy Polsat, with a request that the Management Board considers changes to the dividend policy of the Company.

Mr. Zygmunt Solorz proposed that the dividends to be paid to the Company's shareholders during the nearest three years would amount to at least approximately PLN 1.8 billion in total.

In particular, the request included that an annual dividend amount is set at a level of at least 4% of the average capitalization of the Company from December 2018, i.e., approximately PLN 0.93 per share. The nominal annual amount of the new dividend, calculated in such a manner, could be paid out by the Company in three consecutive years.

In the opinion of Mr. Zygmunt Solorz, Cyfrowy Polsat Group, which has been built for a number of years by joint effort and with significant support from minority shareholders, has today solid foundations represented by sound assets and recurrent cash flows. Simultaneously, the very good relations with the banks and Cyfrowy Polsat's bondholders, which have been built for many years, grant the Company an access to financing of its further development. Furthermore, Mr. Zygmunt Solorz informed that he has received repeated suggestions from the minority shareholders of Cyfrowy Polsat concerning distribution of the Company's profits, which has been on a relatively low level since the moment of acquiring Polkomtel company back in 2014. According to Mr. Zygmunt Solorz, the dividend based on the above assumptions shall represent a sound compromise between fair and recurrent distributions to the Company's shareholders and its further deleveraging.

On March 15, 2019 the Company's Management Board informed that the Company adopted a new dividend policy which meets the expectations of the majority shareholder. The new dividend policy is described in detail in chapter 7.5 – *Cyfrowy Polsat on the capital market – Dividend policy*.

4. OPERATING AND FINANCIAL REVIEW OF CYFROWY POLSAT

4.1. Factors that may impact our operating activities and financial results

4.1.1. 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 Cyfrowy Polsat, 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, as well as demand for end-user devices that we sell, include GDP growth, unemployment rate, changes in salaries in real terms, household consumption, and capital expenditure incurred by enterprises.

Based on data published by the European Commission, a noticeable recovery of economies both of Poland and other EU countries took place in the years 2015-2018. GDP growth for Poland in this period was 3.8%, 2.9% and 4.6%, respectively, and for 2018 it is estimated at approximately 5%. Current forecasts, published by domestic and international institutions, regarding growth prospects of the Polish economy assume that despite the slower growth, the high rate of growth of Poland's GDP, outperforming corresponding indices for the whole European Union nearly twice fold, will be sustained in 2019 and 2020.

We believe that average consumer spending, including spending on pay TV, mobile telephony, video online, broadband access, bundled services and end-user devices generally will grow in line with the overall GDP growth and further growth of the level of wages in Poland, and will support our future revenue growth. We expect that the positive growth dynamics of GDP in the years 2019-2020 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, the pricing of our services and the penetration rate of pay TV in Poland, which we consider saturated.

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

We believe that at present our programming packages offer the best value-for-money on the Polish pay TV market. Moreover, we invest in new, attractive and unique content, as demonstrated, e.g. by the purchase of broadcasting rights to the UEFA Champions League and Europa League for the seasons 2018-2021. This 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, which has a positive impact of the level of loyalty of our customer base and contributes to maintaining a 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 at an early stage of development in Poland as compared to Western Europe or the United States and in our opinion has significant growth prospects, especially in light of the improving quality of broadband links on the market. The launch of services by global players, such as Netflix or Amazon Prime, is proof that Poland is considered an attractive market. In parallel, Naspers' withdrawal of its Showmax service from Poland is, in our opinion, an evidence of large challenges faced by this segment. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels. We are also working on development of customer equipment for pay TV services, manufactured by us, in order to widen the distribution of our services beyond a traditional model of satellite TV access.

Development of the online advertising market in Poland

Prospects of the online advertising market are positive. According to the IAB AdEx report, in the first half of 2018 online advertising expenditures increased at a rate of 16.8% YoY and reached the value of PLN 2.17 billion. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures in the online video advertising segment, in which we generate part of our revenue. In the first half of 2018, those expenditures increased by 41% and represented 14%

of the total expenditures on online advertising. We believe that thanks to the leading position on the online video market, through IPLA internet television and other services of Cyfrowy Polsat Group, we will benefit from the growth of this promising advertising market segment.

Growing importance of convergent services

Currently, convergence, meant as a combination of at least two services from different base groups of telecommunications services, is one of the strongest trends both on the Polish media and telecommunications market and worldwide. Operators develop their bundled offerings in response to changing preferences of customers, who more and more often seek media and telecommunications services provided at competitive prices by a single operator under a single contract, a single invoice and a single fee. With the high saturation of the pay TV and mobile telephony markets, bundled services play an increasingly important role in maintaining the existing customer base.

Last year it was possible to observe increased efforts of big Polish market players, especially among mobile operators, aimed at strong promotion of bundled services for the home and solutions being a combination of mobile and fixed services. Operators pay a lot of attention to high quality broadband access for households, which results in wide-scale investments in the modernization and expansion of the footprint of both mobile LTE and LTE-Advance technologies, and modern fixed-line technologies (NGA – Next Generation Network, FTTH – Fiber to the Home).

Moreover, increasing engagement of mobile operators in the acquisition of content that could differentiate a given offering on the market is visible. For example, thanks to the cooperation with international video online services, such as Netflix, HBO GO or the music service Tidal, mobile operators offer access to those services as an add-on to their subscription tariff plans.

In the wake of the increasing importance of convergence and bearing in mind the significant level of fragmentation of the broadband access market, it can be expected that the future shape of the Polish telecommunications and media market will be substantially impacted by consolidation trends which have been visible for a long time on more developed foreign markets where mobile and fixed-line operators merge with content providers.

The acquisition transaction of a controlling stake in the fixed-line operator Netia, finalized by Cyfrowy Polsat in May 2018, can serve as the first example of such consolidation in Poland. Thanks to this transaction Polsat Group possessed all assets necessary to provide fully convergent services which shall facilitate better adjustment of the offering to customers' needs and more effective cost management. Already in June 2018 we offered our customers, under a pilot project, Netia's fixed-line broadband Internet, complemented by TV services based on the Internet and voice telephony. Then, at the end of 2018 we introduced the service "Plus Internet Stacjonarny", a fixed-line Internet access provided to our customers based on Netia's infrastructure. We are working on expanding further the offering and availability of our convergent services.

Changes within the area of convergent services apply also to our competitive environment. In July 2018 T-Mobile Polska and Orange Polska signed an agreement based on which T-Mobile shall provide its customers the bitstream access (BSA) services through part of Orange's FTTH backbone network. In accordance with Orange's press release, the agreement covers a 10-year period, with a possibility of an extension for further 5 years, and concerns multifamily houses in the areas not covered by the regulated BSA access with ca. 1.7 million homes passed. The transaction has not been entered into on exclusivity basis which, on the one hand, allows other operators to start cooperation related to wholesale access to Orange's infrastructure and, on the other hand, does not preclude T-Mobile from entering into an agreement with other wholesale providers of fixed-line infrastructure. Next, in September 2018 T-Mobile Polska concluded an agreement with another operator, Nexera, who is at present constructing its fiber optic network in four voivodships under the POPC program (*Program Operacyjny Polska Cyfrowa – Operating Program Digital Poland*). According to T-Mobile, based on both agreements signed, by 2020 the operator will increase the reach of available fiber optic networks to 4.5 million households. T-Mobile plans to launch full commercial offering of its convergent services for residential customers in the first quarter of 2019 and is currently conducting tests of FTTH services among its employees.

Information on seasonality

Our revenues are not subject to substantial seasonal fluctuations.

4.1.2. Factors related to the operations of the Company

Growing importance of integrated services

Growing interest in integrated services, observed among our customers, provides us with a possibility to generate growth of average revenue per customer. We carefully follow the evolution of consumption patterns and our customers' expectations striving to meet their growing needs by combining our pay TV, broadband access and mobile telephony services into

attractive packages, complementing them with products and services outside our core activity, such as financial and insurance services or gas and electric energy supply.

Our bundled services offers enable our customers to combine products in a flexible way and benefit from attractive discounts that we offer. The program smartDOM, launched in 2014, yields excellent sales results and is regularly adjusted to meet the needs and expectations of our customers. The possibility of selling additional products and services (cross-selling) to our customer base has a positive impact both on our revenue and the level of ARPU per contract customer and contributes to increasing the loyalty of customers, who use our bundled services.

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

Effective use of the potential in the area of provision of integrated and value added services to our customers, both through up-selling of single products and value added services, as well as through the sale of bundled offers and cross-selling, may significantly increase the number of services per individual customer, thus increasing average revenue per customer (ARPU), concurrently reducing the churn ratio.

Strengthening of our market position in integrated services thanks to the acquisition of Netia

Thanks to the acquisition of a controlling stake in Netia we have expanded our Group's portfolio with a wide range of fixed-line products and services, in particular with fixed-line broadband Internet offered, among others, in fiber optic technologies. Netia's services are being rendered via own access networks with over 2.5 million homes passed in approximately 180 locations. They are also supported by an extensive, nationwide backbone infrastructure. Moreover, Netia offers fixed-line Internet and telephony services based on regulated access to Orange Polska's network.

Netia's fiber-optic, nationwide backbone infrastructure perfectly complements the existing infrastructure of our Group. It will allow for quick and efficient expansion of the capacity of mobile network, thus strengthening our competitive advantage and will improve flexibility in planning the development of our joint telecommunication network in the future. At the same time, the reach of Netia's last mile network, which allows for the provision of fixed-line broadband access in the NGA standard, opens a new market for us – large cities and urban areas. Thanks to this we are gaining a new, attractive base of residential customers, thus increasing significantly our potential for cross-selling products and services as part of the integrated offering.

Development of broadband access services

We provide broadband Internet access services in numerous available mobile technologies, including mainly HSPA/HSPA+ and the latest LTE and LTE-Advanced technologies. Currently, LTE Internet has become the standard of mobile broadband Internet in Poland, successfully replacing the 3G technologies. Rapid technological change combined with investments in network development lead to the constant improvement of the parameters of our LTE network, such as coverage, capacity and transfer speed. As a result of aggregation of frequency bands within our Capital Group, we were able to propose to our customers in selected areas of Poland the LTE-Advanced technology that offers transmission speed of the range of 600 Mbps.

We strongly believe that over the long term, as the necessary radio and modern fixed-line infrastructure develops, broadband access will revolutionize not only the communication market but also the content distribution market. We believe that our broadband LTE Internet services, including data transmission services, will help us to further increase our customer base, both of stand-alone and integrated services.

Development of IPLA

IPLA, the leader on the 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, which helps us achieve synergies in terms of costs and revenues.

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated November 2018 in the years 2014-2024 data consumption of video content will increase at an average annual rate of 35%, reaching ca. 74% of the entire data traffic in 2024. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future. Starting from August 2018 a dedicated sports package "IPLA Polsat Sport Premium" is available in IPLA web service. The package offers live broadcasts, without ads, of all the UEFA Champions League matches as well as the UEFA Europa League games to which

Polsat Group has acquired exclusive broadcast rights. The package will be offered both to the Company's and the Group's current customers as well as other operators' customers in two pricing options.

4.1.3. Financial factors

Exchange rates fluctuations

The Polish 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 made in different areas of our operations. These include, among others, payments for license fees, transponder capacity lease, purchase of content and equipment, or other international agreements.

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 Company has in place a market risk management policy and uses, inter alia, natural hedging and hedging transactions.

Interest rate fluctuations

Market interest rate fluctuations do not impact our 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 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 Company 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 Company 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.

4.1.4. Influence of changes in financial reporting standards

On January 1, 2018, new standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers came into force. Moreover, the standard IFRS 16 Leases is applicable for annual periods beginning on January 1, 2019.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 *Financial Instruments: Recognition and Measurement*.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, at fair value through other comprehensive income and at fair value through profit or loss. The new classification requirements didn't have material impact on accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Loans as well as trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristic of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9.

IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This requires considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Implementation of the forward-looking model did not have a significant effect on the Company's bad debt allowance.

In addition IFRS 9 includes optional hedge accounting requirements. The Company chose as its accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaced in particular the existing standards IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

In the case of the Company, the biggest change caused by the implementation of the standard concerns the recognition of revenues from multi-element contracts, where the range of services is diversified (e.g. providing a wider range of services during the promotional period, when the subscriber is not required to pay subscription fees): the cumulative amount of revenues over the contract term didn't change, but there was a change in the period when the revenue for the services shall be recognized and a change in the allocation of revenues between revenues from the sale of equipment and revenues from services rendered.

Earlier revenue recognition resulted in the recognition of contract assets in the balance sheet representing the Company's right to future remuneration for the products and services provided to the customer. The contract assets are presented as current assets as the Company expects the contracts to be fulfilled within a normal operating cycle.

The implementation of IFRS 15 resulted in a recognition of contract liabilities in the balance sheet. Contract liabilities represent the Company's obligation to transfer goods or services to customers, for which the Company received consideration or an amount of the consideration is due from the customer.

The Company has not identified any material rights in the contracts which should have been separately presented as Company's obligations.

The Company usually sells its services and goods through distributors who act as an agent, which means that they do not assume all the risks associated with the delivery of goods and services, therefore sales revenue are recognized at the time of sale to the end customer.

The implementation of IFRS 15 resulted in a change in the accounting policy regarding the revenue recognition. The Company's process for revenue recognition from multi-element contracts consists of:

- a. assessment of all goods and services provided to the client under the contract and identifying separate performance obligations in that contract
- b. determining and allocating the transaction prices to separate performance obligations in the contract; the allocation is based on the reference to their relative standalone selling prices that could be obtained if the promised goods and services were sold individually in a separate transaction.

IFRS 15 is applied by the Company using the "modified retrospective approach" in which the cumulative effect of initially applying the standard is recognized as an adjustment to retained earnings at the date of initial application.

IFRS 16 Leases

The Company is required to adopt IFRS 16 *Leases* from January 1, 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessee separately recognizes the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 includes recognition exemptions for short-term leases (i.e. leases with a lease term of 12 months or less) and leases of low-value items (e.g. personal computers).

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as set out in IAS 17 and distinguish between operating and finance leases.

Implementation of IFRS 16 will decrease rental costs, increase depreciation and financial costs which will result in an increase of EBITDA, assets and liabilities (due to the recognition of a right-of-use asset and a lease liability) as well as an increase of debt ratio.

As set out in IFRS 16 the lessee is permitted two transition approaches:

- a) full retrospective approach (application of the new standard to all prior periods)
- b) modified retrospective approach (no requirement to restate its prior-period financial information)

The Company plans to adopt the new standard using the modified retrospective approach. Cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance as at January 1, 2019, with no restatement of the comparative information.

The Company has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements. The estimated impact of the adoption of the standard on the Company as at January 1, 2019 is based on assessments undertaken to date. The actual impact of adopting the standard at January 1, 2019 may change because the Company is still in the process of confirming final assumptions required to recognize right-of-use assets and lease liabilities as pursuant to the new standard.

For leases previously classified as operating leases under IAS 17, a lessee measures the lease liability at the date of initial application as the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at that date. The Company measured the right-of-use asset on a lease-by-lease basis at an amount equal to the lease liability (adjusted by prepaid/accrued payments if applicable).

As at January 1, 2019 the estimated value of right-of-use assets and lease liabilities is equal and thus no adjustments to equity are recognized. The estimated impact of IFRS 16 implementation as at January 1, 2019 amounts to approximately PLN 29 million due to recognition of right-of-use assets and lease liabilities.

For leases that were previously classified as finance leases under IAS 17, the Company recognizes a right-of-use asset and a lease liability measured at the previous carrying amount under IAS 17.

4.2. Key market trends

The main trends which we believe to be likely to have a material impact on the Company's development prospects, revenue and profitability before the end of the current financial year include:

- high level of market penetration with services provided by the Company as well as a high level of competitiveness of the markets in which we operate;
- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- growing demand for data transmission and high-speed broadband connectivity driven by changing consumer preferences and the resulting growing complexity of data transmission-based services;
- dynamic development of non-linear video content, distributed via VOD and OTT services, accompanied by growing online ad spending;
- entry of global VOD and OTT players to the Polish market, as well as investments of operators already present on the market in offered content in order to adjust it to the preferences of local viewers;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution, and the growing popularity of *machine-to-machine* solutions;
- consolidation of the pay TV market, in the cable TV segment;
- consolidation of broadband fixed-line Internet;
- ownership changes in the broadcasting and television production market;
- consolidation of the telecommunication markets, manifested by acquisitions of local fixed-line operators by larger telecommunication groups; and
- Significant slowdown of the scale of migration of subscribers towards free of charge digital terrestrial television.

4.3. Major investments in 2018

Acquisition of a stake in Netia S.A.

On November 29, 2017 the Management Board of the Company took a decision on effecting the acquisition transaction of a controlling block of shares in Netia accounting for not more than 66% of the total number of votes at the General Meeting of Netia for the total amount of PLN 1.33 billion. The transaction was split into two stages.

The first stage, executed on December 4 and 5, 2017, consisted in the Company purchasing in aggregate a block of shares representing 32.99% of the total number of votes at the Netia General Shareholders Meeting.

In the second stage, initiated on December 5, 2017, the Company announced a tender offer for the sale of Netia shares (the "Tender Offer"). The Tender Offer price for one share of Netia was PLN 5.77. The subscription period began on January 30, 2018 and ended on May 14, 2018. As a result of settlement of the Tender Offer, on May 17, 2018 the Company and Karswell Limited jointly acquired, based on the agreement described below, 110,702,444 shares in Netia constituting in total 32.99% of Netia's share capital and representing 32.99% of the total number votes at its general meeting. In particular, the Company acquired 34,662,045 Netia shares constituting in total 10.33% of Netia's share capital and entitling to 34,662,045 votes at its general meeting while Karswell Limited acquired 76,040,399 Netia shares constituting in total 22.66% of Netia's share capital and entitling to 76,040,399 votes at its general meeting (all percentages of shares in Netia's share capital and total number of votes at Netia's general meeting mentioned above are as at March 20, 2019, i.e., including the effect of registered changes in Netia's share capital).

More information regarding the acquisition of a controlling stake in Netia is presented in item 4.3. of the Annual Report of Cyfrowy Polsat S.A. Capital Group for the financial year ended December 31, 2017 published on March 22, 2018 and in the Company's current reports No. 16/2018 of May 11, 2018, No. 17/2018 of May 14, 2018 and No. 18/2018 of May 22, 2018.

The acquisition of a controlling stake in Netia is perfectly compatible with the strategy of Polsat Group, according to which we want to deliver the most attractive products and services for the home, as well as residential and business customers using state-of-the-art technologies. It is an amalgamation of two complementary businesses and a natural step in the development of Polsat Group, one that will allow us to offer our existing and future customers new services and add attractive new elements to the offered integrated services package.

Netia's fixed-line Next generation Access (NGA) network is a natural step in the development of Polsat Group's multiplay offer and an attractive addition to it, improving the accessibility of the offer to both individual and business customers. We intend to provide, to the customers of the entire Group new, attractive services at competitive prices and additional benefits, such as lower bills for bundled services, ease to shop in the broad shopping network both through traditional and electronic channels, or a simplified customer service process.

Netia owns an extensive, nationwide fixed-line infrastructure which constitutes a valuable asset to Polsat Group, thanks to which we can offer our customers new services based on new generation fixed-line technologies. The possibility of flexible, cost-efficient and time-to-market roll-out of our mobile network coverage, as well as fiber-based fixed-line coverage to selected areas of Poland allows us to offer attractive terms to our customers in the short-term. The development of an equivalent in scale backbone network using own resources would be a long-term process.

In addition to the backbone network, Netia has a large, nationwide last mile network which passes more than 2.5 million locations in Poland. It provides support in the development of the telecommunication network of Polsat Group by allowing for a cost-efficient increase in the capacity of the Group's mobile network in densely populated areas to the benefit of the customers.

Thanks to the joint resources of Polsat Group and Netia we are able to create a flexible and comprehensive offer for business customers. The B2B offer of enlarged Polsat Group can be fully convergent, while existing fixed-line infrastructure of Netia allows for offering new high-quality services without the necessity to finance costs related to connecting to the network.

What is more, the location of Netia's existing customers, both B2B and B2C, as well as the reach of its last mile infrastructure opens a new market for Polsat Group – large cities and urban areas, a market until now reserved predominantly for large cable network operators. In our opinion, the entry of Polsat Group to these markets would have a positive influence on the level of competitiveness, availability and attractiveness of offers for customers.

4.4. Operating review of the Company

The Company does not publish separate KPIs with respect to its core business. Key performance indicators (KPI) presented below present the operating results of Polsat Group excluding operational data of Netia Group over which Cyfrowy Polsat took control effective May 22, 2018.

Please note that the ARPU figure for the twelve months and for the fourth quarter of 2018 does not include the impact of the implementation of IFRS 15 *Revenue from Contracts with Customers* and was calculated based on the accounting standard in force until December 31, 2017 (IAS 18 in particular). Such an approach is intended to ensure comparability of figures given that the Company has decided to apply IFRS 15 retrospectively without restating the figures for the comparative periods.

The Group plans to modify the method of calculating ARPU in the future in order to adjust it to the requirements of IFRS 15. Applying IFRS 15 shall change the allocation between revenue from the sale of the equipment and retail revenue (a higher portion of total compensation shall be attributed to the equipment delivered in advance), which shall result in a decrease of ARPU. When implementing IFRS 15, contract ARPU would amount to PLN 84.0 in the fourth quarter of 2018 and PLN 83.2 in the twelve-month period ended December 31, 2018, increasing by 2.6% and 2.8%, respectively, as compared to PLN 81.9 in the fourth quarter of 2017 and PLN 81.0 in 2017.

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

	for the 3-month period ended December 31		change / %	for the 12-month period ended December 31		change / %
	2018	2017		2018	2017	
SEGMENT OF SERVICES TO INDIVIDUAL AND BUSINESS CUSTOMERS						
Total number of RGUs (EOP) (contract + prepaid)	16,906,133	16,522,597	2.3%	16,906,133	16,522,597	2.3%
Contract services						
Total number of RGUs (EOP), incl.	14,259,264	13,685,044	4.2%	14,259,264	13,685,044	4.2%
Pay TV, incl.	5,098,917	4,942,640	3.2%	5,098,917	4,942,640	3.2%
<i>Multiroom</i>	1,160,353	1,099,582	5.5%	1,160,353	1,099,582	5.5%
Mobile telephony	7,345,213	6,932,676	6.0%	7,345,213	6,932,676	6.0%
Internet	1,815,134	1,809,728	0.3%	1,815,134	1,809,728	0.3%
Number of customers (EOP)	5,706,147	5,776,598	(1.2%)	5,706,147	5,776,598	(1.2%)
ARPU per customer acc. to IFRS 15 [PLN]	84.0	81.9	2.6%	83.2	81.0	2.8%
ARPU per customer acc. to IAS 18 [PLN]	90.5	89.0	1.7%	89.7	89.0	0.8%
Churn per customer	7.6%	8.8%	(1.2 pp)	7.6%	8.8%	(1.2 pp)
RGU saturation per one customer	2.50	2.37	5.5%	2.50	2.37	5.5%
Average number of RGUs, incl.	14,159,632	13,596,202	4.1%	13,938,900	13,439,272	3.7%
Pay TV, including:	5,070,219	4,905,839	3.4%	5,019,249	4,840,510	3.7%
<i>Multiroom</i>	1,149,795	1,082,951	6.2%	1,128,443	1,057,120	6.7%
Mobile telephony	7,276,732	6,894,295	5.5%	7,109,421	6,822,690	4.2%
Internet	1,812,681	1,796,068	0.9%	1,810,230	1,776,072	1.9%
Average number of customers	5,708,353	5,781,207	(1.3%)	5,729,666	5,821,411	(1.6%)
Prepaid services						
Total number of RGUs (EOP), including:	2,646,869	2,837,553	(6.7%)	2,646,869	2,837,553	(6.7%)
Pay TV	95,685	79,561	20.3%	95,685	79,561	20.3%
Mobile telephony	2,423,774	2,579,613	(6.0%)	2,423,774	2,579,613	(6.0%)
Internet	127,410	178,379	(28.6%)	127,410	178,379	(28.6%)
ARPU per total prepaid RGU [PLN]	20.3	20.1	1.0%	20.4	19.9	2.5%
Average number of RGUs, including:	2,745,638	2,851,766	(3.7%)	2,770,309	2,912,076	(4.9%)
Pay TV	95,346	65,088	46.5%	70,357	59,457	18.3%
Mobile telephony	2,511,226	2,601,552	(3.5%)	2,540,414	2,663,566	(4.6%)
Internet	139,066	185,126	(24.9%)	159,538	189,053	(15.6%)

As at December 31, 2018, in the segment of services to individual and business customers our Group provided a total of 16,906,133 services in the contract and prepaid models, which represents 2.3% growth YoY. It is worth emphasis that the share of contract services in the total number of services that we provide is growing consistently, and has reached the level of 84.3% at the end of the fourth quarter of 2018, as compared to 82.8% recorded at the end of the fourth quarter of 2017. In the twelve months and in the fourth quarter of 2018 we recorded a YoY growth in the number of all our core services provided in the contract model, i.e. pay TV, mobile telephony services, and mobile broadband. At the same time, following several quarters of visible pressure resulting from the entry into force of legal regulations obligating customers of all mobile networks to register prepaid SIM cards, we observed stabilization of the number of provided prepaid services at high growth dynamics of ARPU. In the fourth quarter of 2018 we took a decision about joining customers using prepaid services offered by our subsidiary Aero 2 under the "a2mobile" brand to Premium Mobile, a company in which we hold a minority stake. Due to that, starting from the fourth quarter of 2018 the services used by the customers of the "a2mobile" brand are not included into the above data while we obtain additional wholesale revenue from traffic generated by these customers.

Contract services

As at December 31, 2018, we provided contract services to a total of 5,706,147 customers, i.e. 1.2% less compared to 5,776,598 customers the Group had as at December 31, 2017. The main reason behind the decline of the contract customer base was the merging of contracts under one common contract for the household, which is reflected in the growing RGU saturation per customer ratio (increase by 5.5% YoY). In line with our strategic assumptions, we avoid conducting an aggressive sales policy on individual products and focus 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 contract services provided by us increased by 574,220 in the last 12 months, that is by 4.2%, to 14,259,264 as at December 31, 2018, from 13,685,044 as at December 31, 2017. We recorded growth in the number of all types of services provided in the contract model. The number of pay TV services provided in the contract model amounted to 5,098,917 as at December 31, 2018, which constitutes an increase by 156,277, or 3.2%, compared to 4,942,640 as at December 31, 2017. This increase is mainly due to the growing popularity of our Multiroom service (YoY increase by nearly 61 thousand, to approximately 1.2 million RGUs) and to dynamically increasing sales of paid OTT services. The number of provided mobile telephony services in the contract model increased by 412,537, or 6.0%, reaching the level of 7,345,213 as at December 31, 2018, up from 6,932,676 as at December 31, 2017. This growth was driven by the successful implementation of our strategy of cross-selling and the introduction in February 2018 of new, attractive tariff plans addressed to contract customers, as well as by high demand among business customers for m2m services. In terms of mobile broadband, as at December 31, 2018, we provided 1,815,134 RGUs in the contract model, that is by 5,406, or 0.3%, more than as at December 31, 2017, when we provided 1,809,728 such services. Slower growth dynamics is associated, among others, with the gradual saturation of the market with dedicated mobile Internet access services and constantly growing popularity of data transmission in mobile telephony tariff plans (smartphones). As at December 31, 2018, every customer in our base had on average 2.50 contract services, which constitutes an increase of 5.5% compared to 2.37 contract services per customer as at December 31, 2017. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM to which we consistently add new products, will positively influence the growth of the number of contract RGUs provided by us in the future.

In line with the assumptions of our long-term strategy we aim to maximize revenue per contract customer through cross-selling, i.e., selling additional products and services to our customer base within the framework of our bundled services offer, which has a positive impact on ARPU per contract customer. In 2018, average revenue per contract customer increased by 0.8% to PLN 89.7, from PLN 89.0 in 2017. In the fourth quarter of 2018 the average revenue per contract customer increased by 1.7% to PLN 90.5 as compared to PLN 89.0 in the fourth quarter of 2017. After applying the currently effective IFRS 15 standard, reported contract ARPU grew YoY by 2.8% to PLN 83.2 in 2018 as compared to PLN 81.0 in 2017 and by 2.6% to PLN 84.0 in the fourth quarter of 2018 as compared to PLN 81.9 in the fourth quarter of 2017.

Our churn rate amounted to 7.6% in the twelve-month period ended December 31, 2018, decreasing by 1.2 p.p. as compared to 8.8% in the twelve-month period ended December 31, 2017. This is primarily the effect of the high level of loyalty of our customers of bundled services resulting from the successful implementation of our multiplay strategy.

Our bundled services offer, based on a mechanism of offering attractive rebates on every additional product or service purchased from the Group's portfolio, remains very popular and continues to record very good sales results, which has a positive effect on the churn rate, RGU saturation per customer rate and ARPU per contract customer. It is also the best recognized convergent offering on the Polish market (according to the GFK survey from January 2018). At the end of December 2018, already 1,795,984 customers were using our bundled services, which constitutes an increase of 285,269 customers, or 18.9%, YoY. This means that the saturation of our contract customer base with multiplay services was at the level of 31.5% at the end of December 2018. This group of customers had a total of 5,384,855 RGUs, that is by 865,094, or 19.1%, more than in 2017. In the first quarter of 2018, we lifted entry thresholds for the smartDOM program, thus making our bundled services offering available to all customers on identical terms, which translated positively into the dynamics of growth of our multiplay services customer base and blended ARPU level for the total customer base. Bearing in mind the long-term goal of our Group - the maximization of revenue per contract customer through cross-selling - our bundled services offer is perfectly in line with our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2018 decreased by 190,684, that is by 6.7%, to 2,646,869 from 2,837,553 as at December 31, 2017. We strive to grow the number of customers using our contract services by, among others, encouraging the customers of prepaid services to choose our contract tariff plans. Furthermore, in the fourth quarter of 2018 we decided to join the customers using the prepaid services provided by our subsidiary Aero 2 under the "a2mobile" brand to Premium Mobile, a company in which we hold a minority stake. Due to that, starting from the fourth

quarter of 2018 the services used by customers using the "a2mobile" brand are not included into the above provided data while we obtain additional wholesale revenue from servicing the traffic generated by these customers. In parallel, thanks to the continuous unification of prices between tariff plans for the contract and prepaid customers, a significant portion of them decided to use the contract services offering.

In 2018, average revenue per prepaid RGU (prepaid ARPU) increased by 2.5%, to PLN 20.4 from PLN 19.9 in 2017. In the fourth quarter of 2018, average revenue per prepaid RGU (prepaid ARPU) amounted to PLN 20.3 as compared to PLN 20.1 in the corresponding period of 2017.

4.5. Key positions in the 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) fees for the lease of set-top boxes;
- (v) activation fees;
- (vi) penalties; and
- (vii) 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 the sale of broadcasting and signal transmission services; and
- (iii) 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, 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 purchases 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 primarily of programming license costs, which 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.

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

- (i) commissions due to authorized retail points of sale as remuneration for concluded 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 set-top boxes and other equipment leased to our customers;
- (ii) depreciation of plant and equipment;
- (iii) amortization of intangible assets and IT programs;
- (iv) non-current assets impairment allowance; and
- (v) 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) IT systems maintenance costs;
- (ii) payments for the lease of satellite transponder capacity;
- (iii) payments for the use of conditional access system based on the number of access cards;
- (iv) Interconnection; and
- (v) 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 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, accessories and other equipment 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) legal, advisory and consulting costs;
- (iii) property maintenance costs;
- (iv) taxes and other charges;
- (v) trademark license costs; and
- (vi) 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, 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), bank fees and other charges on borrowings and guarantee fees resulting from indebtedness and discount on borrowings.

4.6. Review of our financial situation

The following review of results for the twelve-month period ended December 31, 2018 was prepared based on the financial statements for the twelve-month period ended December 31, 2018, prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analysis.

All financial data presented in this chapter below are expressed in millions of PLN.

Starting from January 1, 2018, the Company is obligated to apply IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*. The Company has decided to apply IFRS 15 retrospectively without restating the comparative figures for 2017. The below financial figures in the income statement for the twelve-month period ended December 31, 2018 have been presented in accordance with IFRS 9 and IFRS 15 applicable from January 1, 2018.

It should be noted that the financial data for the twelve-month periods ending December 31, 2018 and December 31, 2017 are not fully comparable due to the due to the merger of the Company with Eileme 1 AB (publ) on April 28, 2018, the merger of the Company with Cyfrowy Polsat Trade Marks Sp. z o.o. on November 30, 2018 and the merger of the Company with Metelem Holding Company Limited on April 7, 2017. Furthermore, the comparability of figures presented below is affected by the retrospective implementation from January 1, 2018 of IFRS 9 and IFRS 15 without the restatement of the comparative figures.

4.6.1. Income statement analysis

[mPLN]	for the 12 month period ended December 31		change	
	2018 <i>data in accordance with IFRS 15</i>	2017 <i>data in accordance with IAS 18</i>	[mPLN]	[%]
Revenue	2,354.5	2,280.3	74.2	3.3%
Operating costs	(1,978.5)	(1,994.8)	16.3	(0.8%)
Other operating income, net	6.4	3.9	2.5	64.1%
Profit from operating activities	382.4	289.4	93.0	32.1%
Gain on investment activities, net	282.6	452.2	(169.6)	(37.5%)
Finance costs, net	(80.1)	(84.4)	4.3	(5.1%)
Gross profit for the period	584.9	657.2	(72.3)	(11.0%)
Income tax	(96.4)	(51.2)	(45.2)	88.3%
Net profit for the period	488.5	606.0	(117.5)	(19.4%)
EBITDA	576.6	503.8	72.8	14.5%
EBITDA margin	24.5%	22.1%	-	-

Revenue

Our total revenue increased by PLN 74.2 million, or 3.3%, to PLN 2,354.5 million in 2018 from PLN 2,280.3 million in 2017. The revenue was impacted by factors described below.

[mPLN]	for the 12 month period ended December 31		change	
	2018 <i>data in accordance with IFRS 15</i>	2017 <i>data in accordance with IAS 18</i>	[mPLN]	[%]
Retail revenue	2,175.8	2,134.4	41.4	1.9%
Wholesale revenue	98.8	67.8	31.0	45.7%
Sale of equipment	29.5	33.4	(3.9)	(11.7%)
Other revenue	50.4	44.7	5.7	12.8%
Revenue	2,354.5	2,280.3	74.2	3.3%

Retail revenue

Retail revenue increased by PLN 41.4 million, or 1.9%, to PLN 2,175.8 million in 2018, from PLN 2,134.4 million in 2017. The driver behind this growth was higher revenue from pay TV services, resulting from the migration of customers to higher packages, as well as the growing number of provided services, in particular Multiroom and paid OTT services.

Wholesale revenue

Wholesale revenue increased by PLN 31.0 million, or 45.7%, to PLN 98.8 million in 2018 from PLN 67.8 million in 2017. The increase of wholesale revenue was triggered primarily by higher revenue from the sale of broadcasting and signal transmission services, which was associated mainly with higher revenue from leasing the capacity of a transponder in our use.

Sale of equipment

Revenue from the sale of equipment decreased by PLN 3.9 million, or 11.7%, to PLN 29.5 million in 2018 from PLN 33.4 million in 2017, which was primarily due to a lower volume of sales of end-user devices, which was also reflected in the lower cost of equipment sold.

Other revenue

Other revenue increased by PLN 5.7 million, or 12.8%, to PLN 50.4 million in 2018 from PLN 44.7 million in 2017, primarily due to the recognition of higher revenues from the provision of services to other companies of Polsat Group following the centralization of selected back-office tasks in the Group.

Operating costs

Our operating costs decreased by PLN 16.3 million, or 0.8%, to PLN 1,978.5 million in 2018 from PLN 1,994.8 million in 2017. Operating costs were impacted by the factors set forth below.

[mPLN]	for the 12 month period ended December 31		change	
	2018 data in accordance with IFRS 15	2017 data in accordance with IAS 18	[mPLN]	[%]
Content costs	628.9	586.2	42.7	7.3%
Technical costs and cost of settlements with telecommunication operators	565.9	577.8	(11.9)	(2.1%)
Distribution, marketing, customer relation management and retention costs	311.1	323.3	(12.2)	(3.8%)
Depreciation, amortization, impairment and liquidation	194.2	214.4	(20.2)	(9.4%)
Salaries and employee-related costs	119.2	107.5	11.7	10.9%
Cost of equipment sold	30.6	34.1	(3.5)	(10.3%)
Cost of debt collection services and bad debt allowance and receivables written off	9.9	13.8	(3.9)	(28.3%)
Other costs	118.7	137.7	(19.0)	(13.8%)
Operating costs	1,978.5	1,994.8	(16.3)	(0.8%)

Content costs

Content costs increased by PLN 42.7 million, or 7.3%, to PLN 628.9 million in 2018 from PLN 586.2 million in 2017. This increase was mostly the result of higher programming license costs due to the migration of our customers to higher pay TV packages.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators decreased by PLN 11.9 million, or 2.1%, to PLN 565.9 million in 2018 from PLN 577.8 million in 2017. Higher cost of leasing capacity of satellite transponders was compensated by lower cost of leasing mobile network capacity from our subsidiary Polkomtel.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs decreased by PLN 12.2 million, or 3.8%, to PLN 311.1 million in 2018 as compared to PLN 323.3 million in 2017 as a result of lower distribution costs and lower customer relation management and retention costs.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 20.2 million, or 9.4%, to PLN 194.2 million in 2018 from PLN 214.4 million in 2017, among others as the result of lower costs of depreciation of equipment leased to the customers of our satellite platform.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 11.7 million, or 10.9%, to PLN 119.2 million in 2018 from PLN 107.5 million in 2017, due to, among others, an increase in the average salary per employee (including a bonus provision) as well as increased scope of trainings for employees.

Cost of equipment sold

Cost of equipment sold decreased by PLN 3.5 million, or 10.3%, to PLN 30.6 million in 2018 from PLN 34.1 million in 2017, as a consequence of a lower volume of sales of end-user devices.

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

Cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 3.9 million, or 28.3%, to PLN 9.9 million in 2018 from PLN 13.8 million in 2017

Other costs

Other costs decreased by PLN 19.0 million, or 13.8%, to PLN 19.0 million in 2018 from PLN 137.7 million in 2017, mainly as a result of lower legal, advisory and consulting costs.

Other operating income, net

Other operating income, net amounted to PLN 6.4 million in 2018 as compared to other operating income, net of PLN 3.9 million in 2017.

Gain on investment activities, net

Gain on investment activities, net amounted to PLN 282.6 million in 2018 and decreased by PLN 169.6 million or 37.5%, compared to gain on investment activities, net of PLN 452.2 million in 2017, primarily due to lower dividends received from subsidiaries.

Finance costs, net

Finance costs, net amounted to PLN 80.1 million in 2018 and decreased by PLN 4.3 million, or 5.1%, compared to PLN 84.4 million in 2017. In March 2018 we renegotiated the terms and conditions of the Combined SFA which resulted, among others, in extending the agreement's term. This resulted in a one-time non-cash reduction of finance costs due to extending the amortization period of costs related to acquisition of financing incurred in 2015.

Income tax

Income tax amounted to PLN 96.4 million in 2018 and increased by PLN 45.2 million, or 88.3%, compared to PLN 51.2 million in 2017.

Net profit

As a result of changes mentioned above net profit decreased by PLN 117.5 million, or 19.4%, to PLN 488.5 million in 2018 from PLN 606.0 million in 2017.

EBITDA & EBITDA margin

EBITDA increased by PLN 72.8 million, or 14.5%, to PLN 576.6 million in 2018 from PLN 503.8 million in 2017. In 2018, EBITDA margin increased by 2.4 p.p. to 24.5%, from 22.1% in 2017.

Employment

The average employment of permanent workers not engaged in production in the Company, excluding workers who did not perform work in the reporting period due to long-term absences, amounted to 761 full-time equivalents (FTE) in 2018, i.e., decreased by 31 FTE or 3.9%, compared to 792 FTE in 2017.

4.6.2. Balance sheet analysis

As at December 31, 2018 our balance sheet amounted to PLN 13,833.6 million and increased by PLN 296.8 million, or 2.2%, from PLN 13,536.8 million as at December 31, 2017.

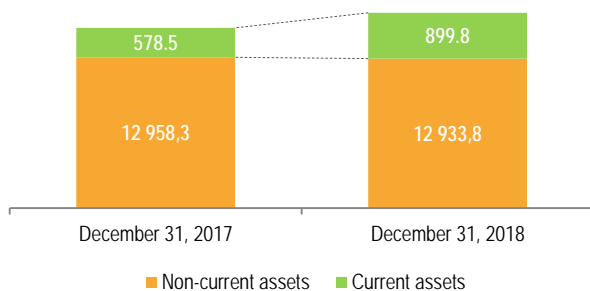
Assets

[mPLN]	December 31, 2018	December 31, 2017	Change	
	<i>data in accordance with IFRS 15</i>	<i>data in accordance with IAS 18</i>	[mPLN]	[%]
Reception equipment	299.1	357.9	(58.8)	(16.4%)
Other property, plant and equipment	116.4	114.6	1.8	1.6%
Goodwill	197.0	197.0	-	-
Brands	7.8	-	7.8	n/a
Other intangible assets	63.1	66.3	(3.2)	(4.8%)
Investment property	40.5	36.3	4.2	11.6%
Shares in subsidiaries and associates	12,151.8	12,125.5	26.3	0.2%
<i>includes shares in associate</i>	4.5	638.7	(634.2)	(99.3%)
Non-current deferred distribution fees	34.4	33.1	1.3	3.9%
Other non-current assets, includes:	23.7	27.6	(3.9)	(14.1%)
<i>includes derivative instruments</i>	-	0.2	(0.2)	(100.0%)
Total non-current assets	12,933.8	12,958.3	(24.5)	(0.2%)
Contract assets	179.7	-	179.7	100.0%
Inventories	130.2	65.6	64.6	98.5%
Trade and other receivables	149.6	273.9	(124.3)	(45.4%)
Income tax receivables	0.3	0.8	(0.5)	(62.5)%
Current deferred distribution fees	75.9	75.0	0.9	1.2%
Other current assets	105.8	133.7	(27.9)	(20.9%)
<i>includes derivative instruments</i>	-	0.4	(0.4)	(100.0%)
Cash and cash equivalents	258.3	29.5	228.8	775.6%
Total current assets	899.8	578.5	321.3	55.5%
Total assets	13,833.6	13,536.8	296.8	2.2%

As at December 31, 2018 and December 31, 2017, our non-current assets amounted to PLN 12,933.8 million and PLN 12,958.3 million, respectively, and accounted for 93.5% and 95.7% of total assets, respectively.

As at December 31, 2018 and December 31, 2017, our current assets amounted to PLN 899.8 million and PLN 578.5 million, respectively, and accounted for 6.5% and 4.3% of the total assets, respectively.

Change in assets [mPLN]



The value of reception equipment amounted to PLN 299.1 million as at December 31, 2018 and increased by PLN 58.8 million, or 16.4%, compared to PLN 357.9 million as at December 31, 2017.

The value of other property, plant and equipment increased by PLN 1.8 million, or 1.6%, to PLN 116.4 million as at December 31, 2018 from PLN 114.6 million as at December 31, 2017

The value of goodwill amounted to PLN 197.0 million as at December 31, 2018 and remained at an unchanged level compared to the balance as at December 31, 2017.

As at December 31, 2018, we recognized the value of brands in the amount of PLN 7.8 million, as a result the Company's merger with its subsidiary.

The value of other intangible assets amounted to PLN 63.1 million as at December 31, 2018 which constitutes a decrease by PLN 3.2 million, or 4.8%, compared to PLN 66.3 million as at December 31, 2017. The main reason behind this decrease is the recognition of amortization for 2018, which was partially offset by expenditures for the purchase and development of software.

Investment property increased by PLN 4.2 million, or 11.6%, to PLN 40.5 million as at December 31, 2018 compared to PLN 36.3 million as at December 31, 2017, among others as a result of the construction of our new recording studio designed to broadcast the UEFA Champions League and the UEFA Europa League football games.

The value of shares in subsidiaries and associates amounted to PLN 12,151.8 million as at December 31, 2018 and remained on a similar level as compared to PLN 12,125.5 as at December 31, 2017.

The value of non-current and current deferred distribution fees increased by PLN 2.2 million, or 2.0%, to PLN 110.3 million as at December 31, 2018 compared to PLN 108.1 million as at December 31, 2017.

The value of other non-current assets amounted to PLN 23.7 million as at December 31, 2018 and decreased by PLN 3.9 million, or 14.1%, compared to PLN 27.6 million as at December 31, 2017 on lower non-current trade receivables.

The value of contract assets amounted to PLN 179.7 million as at December 31, 2018. This item was recognized for the first time as at January 1, 2018 as a result of applying IFRS 15 and represents the Group's right to future remuneration for the products and services provided to the customer.

The value of inventories increased by PLN 64.6 million, or 98.5%, to PLN 130.2 million as at December 31, 2018 from PLN 65.6 million as at December 31, 2017, mainly due to the higher level of inventories of end-user equipment and spare parts used in manufacturing our pay TV set-top boxes.

The value of trade and other receivables amounted to PLN 149.6 million as at December 31, 2018 and decreased by PLN 124.3 million, or 45.4%, from PLN 273.9 million as at December 31, 2017, primarily due to lower trade receivables from unrelated entities.

The value of income tax receivables amounted to PLN 0.3 million as at December 31, 2018 as compared to PLN 0.8 million as at December 31, 2017.

The value of other current assets amounted to PLN 105.8 million as at December 31, 2018, which constitutes a decrease by PLN 27.9 million, or 20.9%, compared to PLN 133.7 million as at December 31, 2017. This change was mainly as a result of a decrease in the value of accruals related to the partial utilization of prepayments on account of the agreement for the purchase of data packages from our subsidiary Polkomtel.

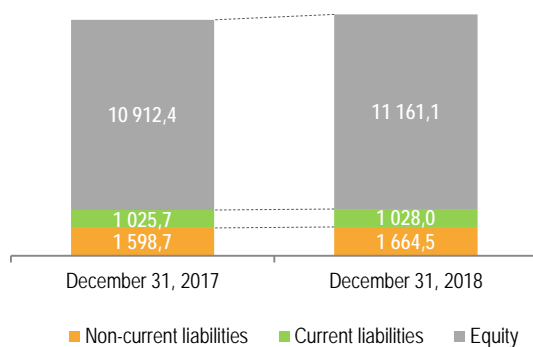
The value of cash and cash equivalents increased by PLN 228.8 million and amounted to PLN 258.3 million as at December 31, 2018 as compared to PLN 29.5 million as at December 31, 2017.

Equity and liabilities

[mPLN]	December 31, 2018	December 31, 2017	change	
	data in accordance with IFRS 15	data in accordance with IAS 18	[mPLN]	[%]
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Hedge valuation reserve	(0.6)	0.1	(0.7)	(700.0%)
Retained earnings	3,962.1	3,712.7	249.4	6.7%
Total equity	11,161.1	10,912.4	248.7	2.3%
Loans and borrowings	572.4	535.0	37.4	7.0%
Issued bonds	976.0	975.7	0.3	0.0%
Finance lease liabilities	1.0	-	1.0	n/a
Deferred tax liabilities	93.5	83.4	10.1	12.1%
Deferred income	-	3.2	(3.2)	(100.0%)
Other non-current liabilities and provisions	1.6	1.4	0.2	14.3%
<i>includes derivative instruments</i>	<i>0.1</i>	<i>-</i>	<i>0.1</i>	<i>n/a</i>
Total non-current liabilities	1,644.5	1,598.7	45.8	2.9%
Loans and borrowings	386.2	379.9	6.3	1.7%
Issued bonds	42.3	42.5	(0.2)	(0.5%)
Finance lease liabilities	0.2	-	0.2	n/a
Contract liabilities	237.1	-	237.1	n/a
Trade and other payables	312.9	351.5	(38.6)	(11.0%)
<i>includes derivative instruments</i>	<i>0.7</i>	<i>0.5</i>	<i>0.2</i>	<i>40.0%</i>
Income tax liability	46.5	19.5	27.0	138.5%
Deposits for equipment	2.8	2.4	0.4	16.7%
Deferred income	-	229.9	(229.9)	(100.0%)
Total current liabilities	1,028.0	1,025.7	2.3	0.2%
Total liabilities	2,672.5	2,624.4	48.1	1.8%
Total equity and liabilities	13,833.6	13,536.8	296.8	2.2%

Equity increased by PLN 248,7 million, or by 2,3%, to PLN 11.161,1 million as at December 31, 2018 from PLN 10.912,4 million as at December 31, 2017, mainly due to the profit generated in the twelve-month period ended December 31, 2018 in the amount of PLN 488.5 million, which was partially compensated by the effect of the merger with Cyfrowy Polsat Trade Marks Sp. z o.o.

Change in liabilities [mPLN]



As at December 31, 2018 and December 31, 2017 the value of our non-current liabilities amounted to PLN 1.644,5 million and PLN 1.598,7 million, which constituted 61.5% and 60.9% of the Group's total liabilities, respectively.

As at December 31, 2018 and December 31, 2017 the value of our current liabilities amounted to PLN 1.028,0 million and PLN 1.025,7 million, which constituted 38.5% and 39.1% of the Group's total liabilities, respectively.

Loans and borrowings (short- and long-term) increased by PLN 43.7 million, or 4.8%, to PLN 958.6 million as at December 31, 2018 from PLN 914.9 million as at December 31, 2017, which was mainly the effect of increased indebtedness under the Revolving Facility Loan.

Senior Notes liabilities (short- and long-term) amounted to PLN 1,018.3 million as at December 31, 2018 and remained at a similar level compared to PLN 1,018.2 million as at December 31, 2017.

Finance lease liabilities (short- and long-term) amounted to PLN 1.2 million as at December 31, 2018 as compared to null as at December 31, 2017.

Deferred income tax liabilities increased by PLN 10.1 million, or 12.1%, to PLN 93.5 million as at December 31, 2018 from PLN 83.4 million as at December 31, 2017. This item was adjusted in connection with the implementation of IFRS 15 from January 1, 2018.

The value of other non-current liabilities and provisions amounted to PLN 1.6 million as at December 31, 2018 as compared to PLN 1.4 million as at December 31, 2017.

The value of contract liabilities amounted to PLN 237.1 million as at December 31, 2018. This item was recognized for the first time as at January 1, 2018 as a result of applying IFRS 15.

The value of trade and other payables amounted to PLN 312.9 million as at December 31, 2018 which constitutes a decrease by PLN 38.6 million, or 11.0%, compared to PLN 351.5 million as at December 31, 2017. This decrease was driven primarily by lower accruals on costs.

Income tax liabilities amounted to PLN 46.5 million as at December 31, 2018 as compared to PLN 19.5 million as at December 31, 2017.

The value of deposits for equipment amounted to PLN 2.8 million as at December 31, 2018 and remained on a similar level as compared to PLN 2.4 million as at December 31, 2017.

The value of deferred income (short- and long-term) amounted to null as at December 31, 2018 as compared to PLN 233.1 million as at December 31, 2017. This item was adjusted in connection with the implementation of IFRS 15 from January 1, 2018.

4.6.3. Cash flow analysis

The table below presents selected data from the cash flow statement for the 12-month periods ended December 31, 2018 and December 31, 2017.

[mPLN]	for 12 months ended December 31		change	
	2018 <i>data in accordance with IFRS 15</i>	2017 <i>data in accordance with IAS 18</i>	[mPLN]	[%]
Net profit	488.5	606.0	(117.5)	(19.4%)
Net cash from operating activities	350.8	429.9	(79.1)	(18.4%)
Net cash used in investing activities	(87.5)	(290.4)	202.9	69.9%
<i>Capital expenditures</i>	<i>(38.5)</i>	<i>(29.6)</i>	<i>(8.9)</i>	<i>(30.1%)</i>
Net cash used in financing activities	(34.9)	(388.5)	353.6	91.0%
Cash and cash equivalents at the beginning of the period	29.5	278.8	(249.3)	(89.4%)
Cash and cash equivalents at the end of the period	258.3	29.5	228.8	775.6%

Net cash from operating activities

Net cash from operating activities amounted to PLN 350.8 million in 2018 and decreased by PLN 79.1 million, or 18.4%, from PLN 429.9 million in 2017.

A higher level of generated EBITDA and lower expenditures on reception equipment provided under operating lease versus the corresponding year allowed to partly compensate for an increase in the level of inventories and a higher amount of income tax paid.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 87.5 million in 2018 which constitutes a decrease by PLN 202.9 million, or 69.9%, from PLN 290.4 million in 2017. The most important factor impacting the change in the amount of cash used in investing activities in 2018 was the PLN 252.1 million higher effect on the Company's merger with its subsidiaries.

In 2018, capital expenditures on the purchase of property, plant and equipment and intangible assets amounted to PLN 38.5 million, which constitutes an increase by PLN 8.9 million, or 30.1%, compared to PLN 29.6 million in 2017. In 2018 the expenditures included the purchase of equipment and systems for the purpose of developing our services, including OTT services, the modernization of our broadcasting infrastructure and the construction of our new studio designed to broadcast the UEFA Champions League and the UEFA Europa League football games.

Net cash used in finance activities

Net cash used in financing activities amounted to PLN 34.9 million in 2018, which constitutes a decrease by PLN 353.6 million, or 91.0% compared to PLN 388.5 million in 2017. In 2018 we drew net an additional PLN 150.0 million from the Revolving Facility Loan while freezing the repayments under the Combined SFA. In parallel, we incurred current debt-servicing costs, as well as borne one-time costs associated with the amendment of conditions of the Combined SFA.

4.6.4. Liquidity and capital resources

We maintain cash 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, bonds 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 needs related to our operating activities, development of our services, service of our debt as well as for the execution of a majority of investment plans in the field of the Company's activity.

Given the specific nature and construction of the Combined SFA, to which the Company has access as part of Polsat Group, it is not justifiable to consider the Company's indebtedness from a stand-alone point of view. Consequently, the descriptions and information below relate to the indebtedness of the Capital Group, but we indicated, where possible, the information that related directly to the Company.

The table below presents a summary of the indebtedness of the Group as at December 31, 2018.

	Balance value as at December 31, 2018 [mPLN]	Coupon / interest / discount	Maturity date
Combined SFA, incl.	10,198.5	WIBOR + margin	2022 ¹
<i>Revolving Facility Loan</i>	600.0	WIBOR + margin	
Series A Notes	1,018.3	WIBOR + 2.5%	2021
Leasing and other	42.1		
Gross debt	11,258.9	-	-
Cash and cash equivalents ²	(1,178.7)	-	-
Net debt	10,080.2	-	-
EBITDA LTM ³	3,697.7	-	-
Total net debt / EBITDA LTM	2.73	-	-
Weighted average interest cost ⁴	3.3%	-	-

1 Accounting for the provisions of the second amendment and restatement deed to the Combined SFA dated March 2, 2018.

2 This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.

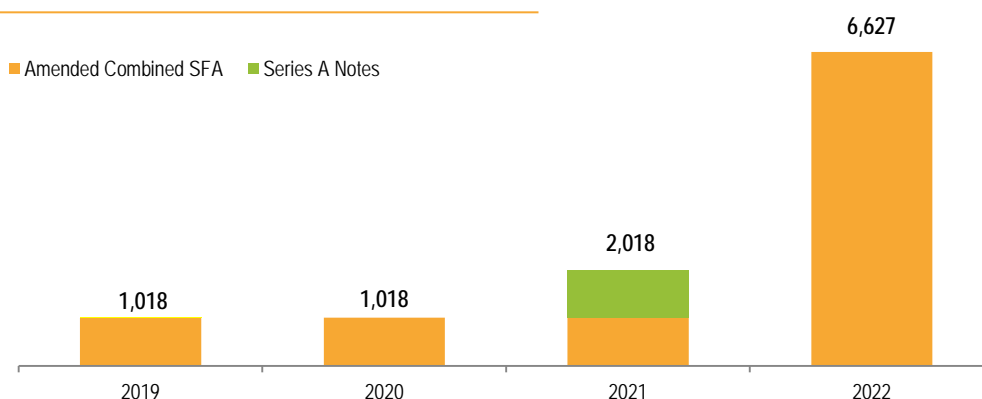
3 In accordance with the requirements of the Combined SFA, EBITDA LTM includes the EBITDA figures calculated according to IFRS 15. In parallel, the definition adopted under the Combined SFA excludes the impact of the introduction of IFRS 16, which will become binding starting from January 1, 2019. The above exclusion concerns both the calculation of EBITDA LTM and the calculation of debt.

4 Prospective average weighted interest cost of the Combined SFA (including the Revolving Facility Loan) and the Series A Notes, excluding hedging instruments, as at December 31, 2018 assuming WIBOR 1M of 1.64% and WIBOR 6M of 1.79%.

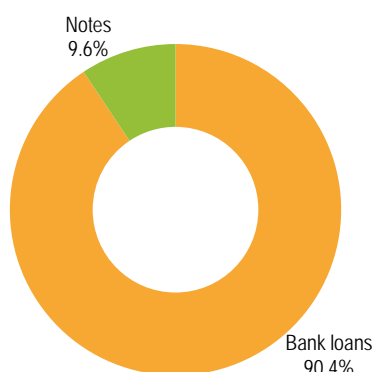
As a result of the conclusion on March 2, 2018 of the second amendment and restatement deed to the Combined SFA, the termination date of the Term Loan and consequently the repayment schedule have changed. The extended repayment schedule resulted, i.a. in the freezing of repayments of capital installments in 2018.

The graphs below present the aging balance of the Group's debt (expressed in nominal values and excluding the indebtedness under the revolving facility loans and leasing) as well as its structure according to instrument type and currency as at December 31, 2018.

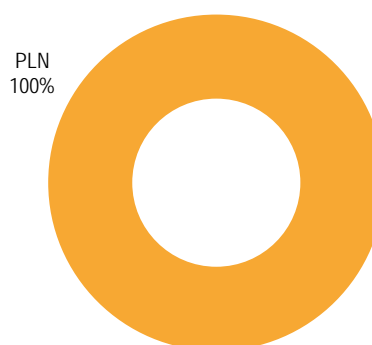
Debt maturing profile as at December 31, 2018 [mPLN]



Debt structure by instrument type as at December 31, 2018



Debt structure by currency as at December 31, 2018



In order to reduce exposure to interest rate risk related to interest payments on the Combined SFA, as amended, based on a floating rate, we actively apply hedging strategies based on derivative instruments, swaps (IRS) in particular. As at December 31, 2018 transactions hedging the WIBOR interest rate changes, opened by companies from the Group, amounted to a maximum of PLN 3,500.0 million with maturity falling in different period in 2019-2021. Additionally, as at December 31, 2018 companies from the Group concluded one transaction for the amount of PLN 250.0 million beginning in March 2019 and two transactions for the total amount of PLN 500.0 million beginning in June 2019, all of them terminating in different periods in 2021.

Material financing agreements executed by the companies from the Group

Below we present 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.

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.

Moreover, on March 2, 2018 the Group concluded the Second Amendment, Restatement and Consolidation Deed incorporating further changes in the CP SFA. The modification related, among others, to the extension of the term of repayment of the Term Loan until September 30, 2022, which entailed a modification of the repayment schedule (details described in the item above) and the modification of the ratio of consolidated net debt to consolidated EBITDA, below which the Company will not be obligated to establish or maintain securities in connection with the CP Facilities Agreement (excluding the release of guarantees granted pursuant to the CP Facilities Agreement), by revising it to from 1.75:1 up to 3.00:1.

We will refer to the CP SFA amended by both aforementioned Amendment, Restatement and Consolidation Deeds as the Combined SFA, and the term loan and revolving facility granted under this agreement as the Term Loan and Revolving Facility, respectively.

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, does not include debt instruments under which capital is repaid not sooner than 6 months after the term of repayment of the Term Facility and Revolving Facility and interest is not paid in cash on a current basis. Pursuant to the provisions of the amended Combined SFA the final repayment date for the Term Facility and the Revolving Facility is September 30, 2022. Starting from 2019, the Term Facility is to be repaid in quarterly installments of variable value according to an established schedule.

Pursuant to the Combined SFA the Company and its Group companies establish, in specified cases, 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 4.6.6. of this Report – *Operating and financial review of Cyfrowy Polsat – Review of our financial situation - Information on guarantees granted by the Company or subsidiaries.*

Pursuant to the provisions of the Combined SFA when the net consolidated indebtedness to consolidated EBITDA ratio falls to or below 3.00:1, 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 3.00:1. 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 CP SFA, PLK SFA and the Amendment and Restatement Deed of September 21, 2015 provided 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.

On July 19, 2018, the Combined CFA was entered into by Netia as an additional borrower and an additional guarantor. Netia's entering into the Combined CFA was based on the resolution of the Management Board of Netia dated June 13, 2018 of which Netia informed in its current report No. 35/2018 dated June 13, 2018.

Furthermore, in the said resolution the Management Board of Netia resolved: (i) to amend the conditions of the previously binding credit facility agreement in the way that the repayment of the indebtedness totaling PLN 200.0 million was made in a single payment on July 26, 2018; and (ii) to terminate the financing agreement signed with European Investment Bank.

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 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 may be exercised based on the Bonds' nominal value together with the accrued interest.

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 certain restrictions, which have been specified in the Information Note regarding the issue of Series A Bonds of July 22, 2015 (the Information Note is available on our corporate website).

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.

On October 24, 2018 the Management Board of the Company adopted a resolution on taking initial steps in connection with potential refinancing of the Company's indebtedness due to 1,000,000 unsecured Series A Bonds with a total nominal value of PLN 1,000 million, maturing on July 21, 2021. The Company informed about the resolution concerned in the current report No. 32/2018 dated October 24, 2018.

The Company's intent is to assess possibilities of refinancing the Series A Bonds in order to decrease costs of servicing the related indebtedness.

The actions initiated by the Company shall be aimed at evaluating the present market demand for new bonds and proposing potential conditions and a timetable of issuance of the new bonds that would enable the Management Board to take a decision whether to establish a program of issuance of bonds under which these new bonds would have been.

The final decision concerning the establishment of the program and its terms shall be taken at the stage of adopting a relevant resolution by the Company's Management Board, about which the Company shall inform in a separate current report.

Contractual obligations

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on property construction and improvements was PLN 2.5 million as at December 31, 2018 (PLN 0.4 million as at December 31, 2017). The amount of deliveries and services committed to under agreements for the purchases of licenses and software as at December 31, 2018 was PLN 0.3 million (PLN 0.3 million as at December 31, 2017).

Ratings

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

Rating agency	Rating / perspective	Previous rating / perspective	Update
Moody's Investor Service	Ba2 / positive	Ba2 / stable	08.08.2017
S&P Global Ratings	BB+ / positive	BB+ / positive	20.12.2017

On August 8, 2017 Moody's Investors Service ("Moody's") revised the rating outlook for Cyfrowy Polsat Group to positive from stable, concurrently affirming the Ba2 corporate family rating. In its justification Moody's stated that the upward revision of the rating outlook reflects in particular the Group's improved leverage metrics and strong cash flows, thanks to which the Group proactively reduced its indebtedness over the past year. The positive outlook reflects Moody's expectations with respect to further deleveraging and consistent improvement of indebtedness ratios over the next two years and it assumes that the Group will not implement significant changes to its dividend and leverage policies.

On December 18, 2018, S&P affirmed the Group's rating at BB+ revising the outlook from stable to positive. In the rationale S&P stated that upward revision of the rating outlook reflects in particular its opinion that the Group has potential and willingness to deleverage to below 3.0x (S&P adjusted) by 2019 supported by the expectation of organic revenue growth and the consolidation of Netia Group. S&P anticipates the Group's organic revenue growth in 2019 given: (i) the expansion in its premium sports content in the pay TV segment, (ii) the increase in advertising revenues, and (iii) revenue stabilization in the mobile segment. In S&P's view, the addition of Netia further strengthens the Group's position as the Polish telecom operator providing a full-scope convergent offering. Concurrently, S&P expects the Group to maintain reported free operating cashflow (FOCF) of about PLN 1.5 billion, despite temporary higher investments to upgrade Netia's access network. S&P may raise the rating of the Group by one notch over the next 12 months if, as a result of a modest growth in revenues and EBITDA, the Group reduces its adjusted debt to EBITDA below 3.0x coupled with FOCF to debt remaining above 15%. On the other hand, a downward revision of the outlook from positive to stable could result from the Group's maintaining its adjusted debt to EBITDA above 3x, which could stem from a lack of return to organic revenue growth, higher-than-expected investments needed to upgrade Netia's network, or higher-than-expected shareholder returns.

4.6.5. 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, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Aero2, Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) and Plus Flota Sp. z o.o., governed by Polish law;
- (ii) financial and registered pledges on shares in Telewizja Polsat (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 2,360,069,800) and Aero2 (with a total nominal value of PLN 91,958,700), 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 and registered pledges on shares in Netia S.A. (with a total nominal value of PLN 110,702,441), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company, the pledged shares represent 32.99% of the share capital of the company;
- (iv) financial and registered pledges on shares in TV Spektrum Sp. z o.o. (with a total nominal value of PLN 2,400,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company, the pledged shares represent 49.48% of the share capital of the company;
- (v) financial and registered pledges on shares in Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.; with a total nominal value of PLN 29,494,600), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company, the pledged shares represent approximately 28.50% of the share capital of the company;
- (vi) financial and registered pledges on receivables under bank account agreements of the Company, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Aero2 and Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.), governed by Polish law;
- (vii) powers of attorney to bank accounts of the Company, Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, 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., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., Aero2, Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) and Plus Flota Sp. z o.o., governed by Polish law;
- (viii) ordinary and registered pledges on protection rights to trademarks vested in Telewizja Polsat and Polsat Brands AG, governed by Polish law;
- (ix) assignment for security of certain property rights in Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., governed by Polish law;
- (x) 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;
- (xi) 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;

- (xii) assignment for security of receivables under hedge agreements of the Company and Polkomtel, governed by English law;
- (xiii) assignment for security of rights under insurance agreements covering the property referred to in item (i) and item (ix) above;
- (xiv) 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;
- (xv) pledge on shares in Litenite (with the total nominal value of EUR 1,800), governed by Cypriot law;
- (xvi) 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;
- (xvii) assignment for security of rights under a license agreement between Polsat Brands AG and Polsat License Ltd. and rights under bank account agreements, governed by the Swiss law;
- (xviii) pledge on bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by Cypriot law.
- (xix) assignment for security of receivables and rights to and in bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by the Swiss law;
- (xx) pledge on shares in Polsat Brands AG (with the total nominal value of CHF 250,074), governed by the Swiss law;
- (xxi) pledge on receivables under bank account agreements of Litenite governed by Swiss law;
- (xxii) statements of the Company, Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością sp.k., Telewizja Polsat, Polkomtel, Aero2 and Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.) on the submission to enforcement on the basis of a notarial deed, governed by Polish law; and
- (xxiii) statements of Litenite and Polsat Brands AG 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 SIGNIFICANT INFORMATION

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

Transactions concluded in 2018 by us or our subsidiaries with entities related to Cyfrowy Polsat have all been concluded on market conditions and are described in Note 43 of the financial statements for the year ended December 31, 2018.

5.2. Information on loans granted

Information on loans granted is presented in Note 35 of the financial statements for the financial year ended December 31, 2018.

5.3. Management's opinion regarding the possibility to realize published financial forecasts

Cyfrowy Polsat had not published any financial forecasts.

5.4. Material proceedings at the court, arbitration body or public authorities

Management believes that the provisions for litigations as at September 30, 2018 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.

Proceedings before the Office of Competition and Consumer Protection (UOKiK)

On December 30, 2016 the President of UOKiK issued a decision stating that the Company's operations were allegedly infringing collective consumer interests by presenting advertising slogans, which in the opinion of the authorities were misleading and suggested that the LTE data transmission will not be limited. Pursuant to the decision of the President of UOKiK the Company was charged with a penalty in the amount of PLN 5.3 million. The Company appealed to SOKiK against the decision.

On December 30, 2016 the President of UOKiK issued a decision stating that the Company's operations were allegedly infringing collective consumer interests by presenting sale offers, which in the opinion of the authorities were impossible to conclude. Pursuant to the decision of the President of UOKiK the Company was charged with a penalty in the amount of PLN 4.4 million. The Company appealed to SOKiK against the decision.

Other proceedings

On April 28, 2017, ZASP filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3 million. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On January 10, 2018 the Court issued a decision to refer the case to mediation proceedings. Mediation ended without a settlement. The date of the next hearing was scheduled for May 9, 2019.

5.5. Changes to the principle rules of management of our Company

There were no changes to the principle rules of management of our Company in the year 2018.

5.6. Sales markets and dependence on the supplier and client markets

All our services are offered in Poland. The share of any of our suppliers or customers does not exceed 10% of our operating revenues.

5.7. Disclosure of non-financial information

On March 21, 2019, the Company published, as a separate document, the "Report of Cyfrowy Polsat S.A. Capital Group and Cyfrowy Polsat S.A. on non-financial information for the year 2018", which comprehensively addresses key non-financial issues for both the Group and Cyfrowy Polsat, and demonstrates how we aim to achieve our goals in a sustainable and responsible manner. The publication complies with the Global Initiative Reporting Standard, in the Core option, as well as the amended Accounting Act and contains detailed information relating to environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters with respect to both Polsat Group and Cyfrowy Polsat as the dominant entity of the Group.

The "Report of Cyfrowy Polsat S.A. Capital Group and Cyfrowy Polsat S.A. on non-financial information for the year 2018" is available on Polsat Group's corporate website at <http://www.grupapolsat.pl/en/investor-relations> in the tab Results centre/Non-financial reports.

6. RISK FACTORS

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

Our performance depends on our customers' satisfaction, the acceptance of our programming content by viewers

We operate on markets where commercial success primarily depends on customer satisfaction and acceptance of programming content which 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.

Demand for TV programs and programming preferences change frequently, irrespective of the media on which they are carried. We might not be able to attract customers to or retain customers for our pay TV services, if we are not able to effectively predict the demand for programs or changes in audience tastes, or if our competitors prove better at such predictions. This may bring about an increase in customer churn.

To some extent, the profitability of our operations depends on our ability to produce or obtain broadcasting rights to the most attractive programs in a cost-effective manner.

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

We may be unable to attract or retain customers 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 programs. Our pay TV customers' access to television channels depends entirely on our purchase of licenses from TV broadcasters. Our license agreements are usually concluded for definite periods, usually two to three years for films and TV series, and three to seven years for sports programs. Under certain circumstances, a licensor may terminate a license agreement before it expires without our consent. This is particularly likely if we fail to fulfil our obligations, including the obligation to pay license fees. In order to acquire and retain customers, it is necessary to maintain an attractive selection of TV programs. There can be no assurance that our license 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 license agreement before its agreed expiry date. Our inability to obtain, maintain, or extend important program licenses may make it difficult for us to provide and offer new attractive channels and programs, which may result in losing our ability to acquire and retain customers. This in turn may have a material adverse effect on the results of our operations, financial condition and prospects.

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

We operate an organized and specialized Poland-wide sales network, which distributes the products and services offered by our Company. Because of growing competition with other pay TV providers and telecommunications services providers, as well as rapid increase in wages observed on the domestic labor market 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 in 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 reorganization 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 the results of our operations, financial condition and 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 be delayed or even suspended

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.

We collaborate with a number of third parties in providing our pay TV, broadband Internet access. 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.

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.

If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Company's companies, or are unable or refuse to provide services or deliver infrastructure or equipment, on which the possibility of timely and economically justified provision of certain services and products to our customers depends, 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 Company's companies, thus affecting the results of our operations, financial condition and prospects.

We may be unable to keep pace with new technologies used on markets, on which we operate

The technologies used in broadcasting and delivering pay TV and broadband Internet access develop extremely quickly, which is why there can be no assurance that we will be able to introduce new and/or enhanced technologies, services and products in a fast and efficient enough way.

Compression, signal encoding and customer management systems vital to the correct functioning of our satellite center, software of 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 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 any chosen 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 that certain communications technologies that are currently under development, including LTE-Advanced or 5G, as well as fiber optics technology allowing for faster data transmission at lower unit costs, 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 Company's operations, nor can we predict whether new technologies required to support our planned services will be available when expected, if at all.

Furthermore, fixed-line broadband services are associated with a need for investments in modernization of access networks. Some market players are currently conducting large investments programs which allow to significantly increase throughput provided to end-users. In particular, Orange Polska plans to cover with its FTTH (Fiber To The Home) network ca. 5 million households by year 2020 and, moreover, a governmental program of construction of broadband fiber optic networks using subsidies from the European Union funds (POPC – Operating Program Digital Poland) is underway. We are not able to guarantee that the demand for our broadband services will be sufficient to reach our revenue targets.

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 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 engage 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 the results of our operations, financial condition and prospects.

We might be unable to maintain good name of the Cyfrowy Polsat and IPLA

The good name of the "Cyfrowy Polsat" and "IPLA" brands is a significant component of Group's value. Maintaining their good name is fundamental for acquiring new and retaining existing customers. 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 our most important brands, will not materialize in the future. Any damage to our good name may have a material adverse effect on the results of our operations, financial condition and prospects.

Goodwill and brand values may be impaired

Following the acquisitions made in the past, in particular of Telewizja Polsat, Polkomtel, Netia and Aero2, 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 the 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 may have a material adverse effect on the results of our operations, financial condition and 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 or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at the manufacturing plant in Mielec that belongs to our subsidiary Interphone Service Sp. z o.o. Set-top boxes manufactured by our Group accounted for a majority of all the set-top boxes 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. Furthermore, the withdrawal of reception equipment due to a confirmed epidemic defect 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 expenses. 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 the results of our operations, financial condition and prospects.

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

The pay TV business depends on providing customers with both reliable service, based among other on the security of our infrastructure. 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.

In order to provide pay TV services to our customers, we rely primarily on our satellite center, 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 center, 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 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. Such interruptions could also result in an obligation to pay contractual penalties or cause our customers to terminate their agreements. They might also result in a need to incur significant expenditure to restore the functionality of the our infrastructure and guarantee reliable services to customers.

Such events may have a material adverse effect on the results of our operations, financial condition and 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 the results of our operations, financial condition 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 organizations for collective administration of copyrights). Under Polish copyright law, we are required to pay fees for collective administration of copyrights to organizations 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 license agreements signed with these organizations. Although relevant agreements are in place with several organizations for collective administration of copyrights, there is a risk that claims will be brought against us by other such entities. We are in turn a party to administrative and court proceedings, including the ones which have been initiated by regulators, competition and consumer protection office, tax authorities as well as disputes and court proceedings involving third party entities.

Any unsuccessful court, arbitration and administrative proceedings may have an adverse effect on the results of our operations, financial condition and 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 license 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 licenses, 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 the results of our operations, financial condition and 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 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 unauthorized access to our services and theft of our programming content. Furthermore, our proprietary content and the content we use under licenses may be accessed, copied or otherwise used by unauthorized persons. The risk of piracy is particularly harmful to 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 unauthorized copies, recorded on various carriers, of pay-per-view programs delivered via set-top boxes, license-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. Unauthorized 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 the results of our operations, financial condition and prospects.

We may not be able to reap the expected benefits of the past or future Group's acquisitions and strategic alliances

Whether the Group will be able to reap all expected benefits from past or future acquisitions or strategic alliances (including the acquisition of control over the Netia Group) may depend on various factors, including our ability to implement our strategy of integrating business processes leading to noticeable income and cost synergies on acquisitions or strategic alliances. Through acquisitions or strategic alliances, the scale of our business continues to grow and we make efforts on a day to day basis to integrate the business processes of the target companies within the Issuer group's structure, as well as other actions aimed at consummating the benefits of strategic alliances. If we are unable to attain all or some of our goals, the benefits from past or future acquisitions or strategic alliances, including the estimated income or cost synergies, may deviate from the plans or may fail to be obtained in full or at all, or obtaining them may take longer than anticipated.

It cannot be ruled out that the process of integration of business processes after past or future acquisitions, or the implementation of past or future strategic alliances may result in losing key employees, disruptions to our day-to-day business in some business areas and incoherencies in standards, procedures or policies, which might adversely affect our ability to maintain the existing relations with third parties and employees or our ability to obtain the expected benefits from past or future acquisitions or strategic alliances. In particular, in order to achieve all expected benefits from our past or future acquisitions or strategic alliances, we need to identify and optimize some areas of our business and assets across the whole organization. Our inability to achieve all or any expected benefits from our past or future acquisitions or strategic alliances, as well as any delays in the integration processes related to past or future strategic alliances may have an adverse effect on us. Furthermore, the integration may require additional, unanticipated costs and the benefits of acquisitions or strategic alliances may never be consummated.

All these factors may have a material adverse effect on the results of our operations, financial condition and prospects.

6.2. Risk factors associated with the Company'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 Company 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, Polkomtel, Aero2 Group and Netia, 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 restrict or postpone certain business and investment projects; dispose of assets; incur more debt or raise new capital; or 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.

The Combined SFA and Series A Bonds Indenture provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Company'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 SFA 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 SFA, 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 the results of our operations, financial condition and 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 the results of our operations, financial condition and 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 SFA we are under the obligation to repay our liabilities. 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 the results of our operations, financial condition and prospects.

6.3. Risks related to market environment and economic situation

We are exposed to the effects of the regional or global economic slowdown affecting consumer spending in Poland

The Company derives almost all of its revenue from pay-TV and telecommunication services customers 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.

Moreover, the 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 Company.

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. In particular, increasing activity of foreign players operating in the OTT model (Netflix, Amazon Prime or Showmax) can be observed on the Polish market recently. 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 the financial situation, results of our operations and growth prospects of the Company in the future.

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.

Our main competitor on the direct-to-home (DTH) TV market is nc+ platform. To a smaller extent 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.

6.4. Factors relating to market risks

The Company has an active approach to managing its market risk exposure. The objectives of market risk management are:

- to limit fluctuations in profit/loss before tax,
- to increase the probability of meeting budget assumptions,
- to maintain a healthy financial condition, and
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, while their realization is dependent primarily upon the internal situation and market conditions.

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The primary technique for market risk management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: the nature of identified market risk exposures of the Company, the suitability of instruments to be applied and the cost of hedging, current and forecasted market conditions. In order to mitigate market risk, derivatives are primarily used. The Company transacts only those derivatives for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and also these which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:

- swaps (IRS/CIRS),
- forwards and futures,
- options.

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however,

a portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR and USD) and purchases of reception equipment and accessories for reception equipment (USD and EUR).

In respect of licence fees and transponder capacity leases, the Company partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies.

The Company did not have any assets held for trading denominated in foreign currencies.

The Company's exposure to foreign currency was as follows based on currency amounts:

in millions	December 31, 2018		December 31, 2017	
	EUR	USD	EUR	USD
Trade receivables	3.4	0.2	4.3	0.3
Cash and cash equivalents	1.2	3.3	0.1	2.4
Trade payables	(4.0)	(2.4)	(3.8)	(2.6)
Gross balance sheet exposure	0.6	1.1	0.6	0.1

Net exposure	0.6	1.1	0.6	0.1
--------------	-----	-----	-----	-----

The following foreign exchange rates were applied in the presented periods:

PLN	Average rate		Rates at the balance sheet date	
	2018	2017	December 31, 2018	December 31, 2017
1 EUR	4.2623	4.2576	4.3000	4.1709
1 USD	3.6134	3.7777	3.7597	3.4813

For the purposes of the exchange rate sensitivity analysis as at December 31, 2018 and December 31, 2017, exchange rate volatility in the +/-5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant.

in millions	2018					2017				
	as at December 31, 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.4	14.8	5%	0.7	-	4.3	17.9	5%	0.9	-
USD	0.2	0.6	5%	-	-	0.3	0.9	5%	-	-
Cash and cash equivalents										
EUR	1.2	5.0	5%	0.3	-	0.1	0.6	5%	-	-
USD	3.3	12.3	5%	0.6	-	2.4	8.5	5%	0.4	-
Trade payables										
EUR	(4.0)	(17.0)	5%	(0.9)	-	(3.8)	(15.7)	5%	(0.8)	-
USD	(2.4)	(8.9)	5%	(0.4)	-	(2.6)	(9.2)	5%	(0.5)	-
Change in operating profit				0.3	-				-	-
Income tax				-	-				-	-
Change in net profit				0.3	-				-	-

in millions	2018					2017				
	as at December 31, 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.4	14.8	5%	0.7	-	4.3	17.9	5%	0.9	-
USD	0.2	0.6	5%	-	-	0.3	0.9	5%	-	-
Cash and cash equivalents										
EUR	1.2	5.0	5%	0.3	-	0.1	0.6	5%	-	-
USD	3.3	12.3	5%	0.6	-	2.4	8.5	5%	0.4	-
Trade payables										
EUR	(4.0)	(17.0)	5%	(0.9)	-	(3.8)	(15.7)	5%	(0.8)	-
USD	(2.4)	(8.9)	5%	(0.4)	-	(2.6)	(9.2)	5%	(0.5)	-
Change in operating profit				0.3	-				-	-
Income tax				-	-				-	-
Change in net profit				0.3	-				-	-

in millions	2018	2017
-------------	------	------

	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]	Estimated change in profit [PLN]	Estimated change in other comprehensive income [PLN]
Estimated change in exchange rate by 5 %				
EUR	0.1	-	0.1	-
USD	0.2	-	(0.1)	-
Estimated change in exchange rate by -5 %				
EUR	(0,1)	-	(0,1)	-
USD	(0,2)	-	0,1	-

Had the Polish zloty strengthened 5% against the basket of currencies as at December 31, 2018, the Company's net profit would have increased by PLN 0.3 million and other comprehensive income would have been unchanged in 2018. Had the Polish zloty weakened 5%, the Company's net profit would have decreased by PLN 0.3 million in 2018 and other comprehensive income would have been unchanged in 2018. Had the Polish zloty strengthened 5% against the basket of currencies as at December 31, 2017 or there would be a depreciation of the Polish zloty by 5%, the Company's net profit and other comprehensive income would have been unchanged in 2017, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the Company's revenues, however, they do have an effect on net cash from operating activities due to interest earned on overnight bank deposits and current accounts, and on net cash from financing activities due to interest charged on bank loans and bonds.

The Company regularly analyses its level of interest rate risk exposure, including refinancing and risk minimising scenarios. Based on these analyses, the Company estimates the effects of changes in interest rates on its profit and loss.

In order to reduce interest rate risk exposure resulting from interest payments on floating rate senior facility, the Company stipulated interest rate swaps.

At the reporting date, the interest rate risk profile of interest-bearing financial instruments was:

mPLN	Carrying amount	
	December 31, 2017	December 31, 2017
Fixed rate instruments		
Financial assets *	156.1	2.3
Variable rate instruments		
Financial assets *	108.8	29.7
Financial liabilities *	(1,967.2)	(1,919.7)
Net interest exposure	(1,702.3)	(1,887.7)

*Nominal values

The Company's management classifies loan liabilities as variable rate instruments. Changes in the interest rate components do not result in a change in the carrying amount of the loan liability. The changes are reflected prospectively in the interest expense on loans and borrowings.

Cash flow sensitivity analysis for variable rate instruments (pre-tax effect):

mPLN	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp		Increase by 100 bp	
December 31, 2018						
Variable rate instruments*	(18.6)	18.6	3.1	(3.1)	(15.5)	15.5
Cash flow sensitivity (net)	(18.6)	18.6	3.1	(3.1)	(15.5)	15.5
December 31, 2017						
Variable rate instruments*	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8
Cash flow sensitivity (net)	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8

* include sensitivity in fair value changes of derivative instruments (interest rate swaps) due to changes in interest rate

The Company applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

For some instruments the Company applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Information regarding financial instruments related to:

- credit risk and liquidity risk, to which the Company is exposed; and
- objectives and methods established by the Group in order to manage financial risk, including methods of securing significant types of planned transactions to which hedging accounting is applicable

are described in Note 35 of the financial statements for the financial year ended December 31, 2018.

6.5. 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. Polish tax laws include, since July 15, 2016, the so-called General Anti-Avoidance Rule (GAAR), intended to prevent establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax ordinance, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

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 Company's 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 the Company. Any unfavorable decisions, interpretations (including changes to any interpretations obtained by the the Company) or rulings by tax authorities may have a material adverse effect on the results of our operations, financial condition and 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 characterized 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 harmonized 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 Cyfrowy Polsat (including conformity with taxpayer's obligations), and will not determine the existence of tax arrears of the Company. 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.

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

Our operations are reviewed by institutions of competition and consumer protection to ensure that we comply with Polish and European laws prohibiting practices that limit competition or violate the collective interests of consumers, such as for example providing inaccurate information to customers, dishonest market practices or use of abusive contract clauses. As a general rule, our operations are subject to the assessment of the President of the Polish Office of Competition and Consumer Protection (UOKiK). If the regulator finds any of our practices or contract terms to be misleading or in conflict with Polish or European 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, the President of UOKiK prohibits their application (which will require amendments to our standard contracts), may impose a fine and define the measures to remedy the subsisting effects of breaching the prohibition from applying the abusive clauses.

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 Act on Protection of Competition and Consumers, can, for example, impose on us the obligation to pay compensation to consumers, who were affected by the practices in question or apply other measures. Fines of up to PLN 2 million may also be imposed on our managing persons, if through their actions or omissions, they permitted a breach of the prohibition from entering into agreements limiting competition. 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. 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 could increase the scope or scale of our potential liability or the scope of consumer rights. Such events may have a material adverse effect on the results of our operations, financial condition and prospects.

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 part of our telecommunications services, we mainly provide broadband Internet access. Telecommunications enterprises operating in Poland are subject to a number of legal and administrative requirements having a direct impact on their business in relations with individual 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). 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, companies from the Group may face a fine from the President of UKE of up to 3% of revenue generated in the year preceding the year in which such fine is imposed.

In the 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.

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 President of the Personal Data Protection Office and we may incur pecuniary penalties for non-compliance with GDPR

In the course of its business the Company gathers, keeps and uses customer data which are protected by personal data protection regulations. Therefore, as a personal data processor, we are required to comply with the Regulation of the European Parliament and of the Council (EU) 2016/679 of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC ("GDPR").

GDPR has elevated the standards required of personal data administrators and the entities processing personal data on their behalf, and authorized the competent authorities to impose pecuniary penalties of up to EUR 20 million or 4% of total global turnover for the past year on personal data administrator and entities processing personal data on their behalf. It has also authorized the competent authorities to temporarily or indefinitely impose a complete ban on personal data processing.

If the solutions that we implement in order to protect personal data prove ineffective, it may result, for instance, in a disclosure of customer personal data either as a result of a human error, willful, unlawful misconduct by third parties or failure of IT systems, or it result in inappropriate use of such data in other ways. A breach of the personal data regulations and the requirements of the President of the Polish Personal Data Protection Office may result in imposing pecuniary penalties on us, as well as a loss of customer confidence and thus have a material adverse effect on our business, financial condition or development prospects.

We also use external providers, cooperate with external partners, agents, suppliers and other external entities, therefore we are unable to entirely rule out the risk of a malfunction of the systems involved in the processing or transmission of restricted information in these entities. A breach of the personal data regulations by us or by those entities may result in imposing pecuniary penalties, as well as in a loss of reputation and loss of customers and in consequence have a material adverse effect on the results of our operations, financial condition and prospects.

7. CYFROWY POLSAT ON THE CAPITAL MARKET

7.1. Cyfrowy Polsat shares

Shares of Cyfrowy Polsat are listed on the Warsaw Stock Exchange since May 6, 2008.

The table below presents the characteristics of the shares issued as of December 31, 2018:

Series	Number of shares	Type of shares	Number of votes at the General Meeting	Face value /PLN
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.0
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.0
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.0
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.0
D	8,082,499	Ordinary bearer shares	8,082,499	323,300.0
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.0
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.0
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.4
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.6
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.6
Total	639,546,016		818,963,517	25,581,840.6
including:	179,417,501	registered	358,835,002	7,176,700.0
	460,128,515	floating	460,128,515	18,405,140.6

The share capital of the Company is PLN 25,581,840.64, divided into 639,546,016 shares. The total number of votes at the General Meeting is 818,963,517.

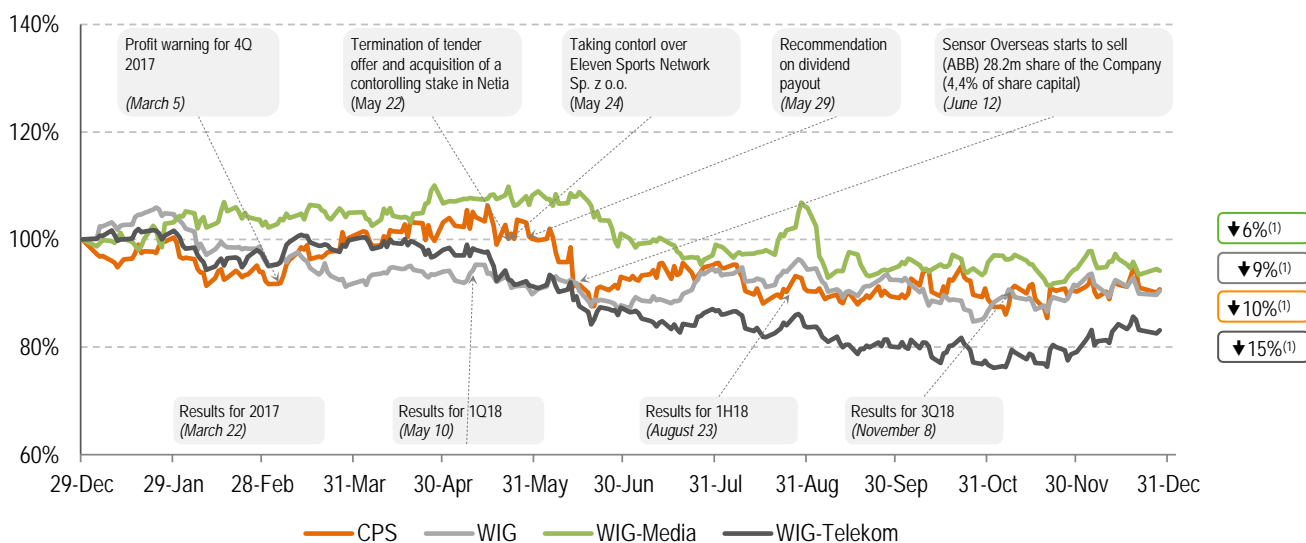
The shareholding structure as at the date of approval of this Report together with a description of changes in the structure of ownership of significant number of shares of the Company in the period since the publication of the last periodic report are set forth in detail in item 8.4 – *Corporate Governance Statement – Share capital and shareholding structure of Cyfrowy Polsat*.

Basic data on the Cyfrowy Polsat shares in trading

Date of first quotation	May 6, 2008
Component of indices	WIG, WIG20, WIG30, WIG-telekomunikacja
Macrosector/sector	TECHNOLOGY/telecommunication
Market	main
Quotation system	continuous
International Securities Identification Number (ISIN)	PLCFRPT00013
Cyfrowy Polsat's identification codes	
• Warsaw Stock Exchange	CPS
• Reuters	CYFWF.PK
• Bloomberg	CPS:PW

7.2. Shares quotes

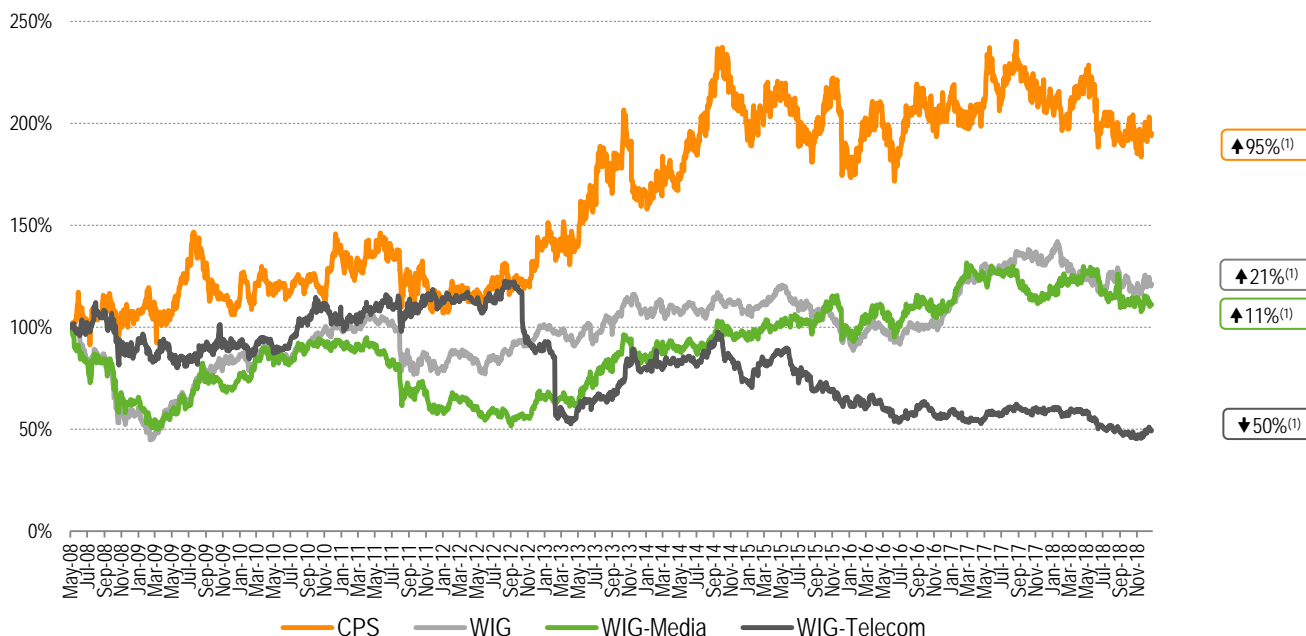
(indexed; 100 = closing price on December 29, 2017)



⁽¹⁾ change December 29, 2017 vs December 28, 2018

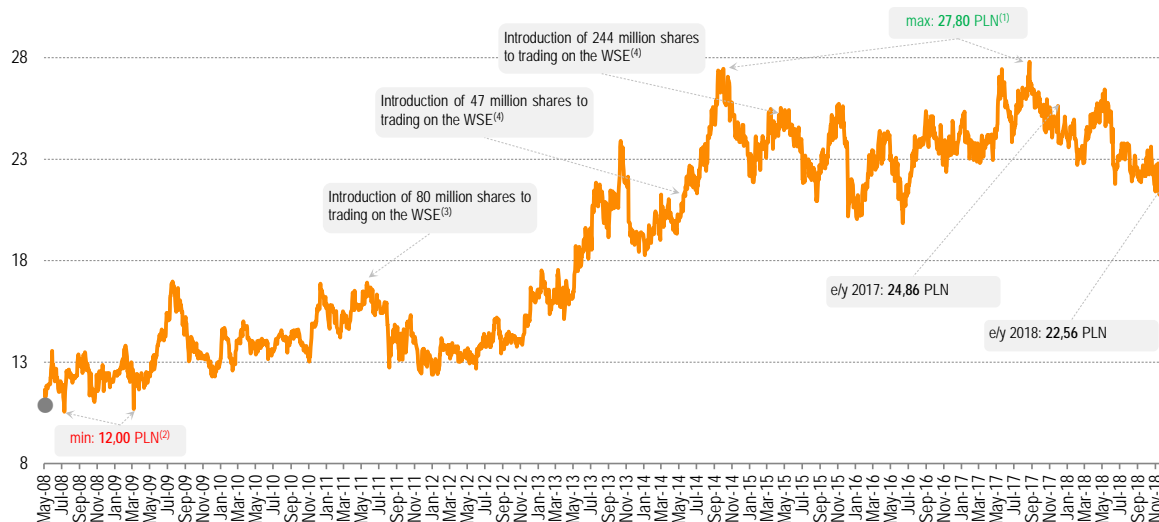
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2017 compared to WSE indexes

(indexed; 100 = closing price on May 6, 2008)



⁽¹⁾ change December 28, 2018 vs. May 6, 2008

Performance of Cyfrowy Polsat shares since the debut on the WSE (PLN)



(1) Share price on October 6-7, 2014 and August 28, 2017.

(2) Share price on July 15-16, 2008, March 12, 2009.

(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of PLN 0.04 each. These shares were registered on May 30, 2011 in the Central Securities Depository of Poland under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the resolution of the Management Board of Warsaw Stock Exchange of May 30, 2011. The proceeds from the issue of H Series shares were used as part of financing the acquisition of Telewizja Polsat. All H Series shares were taken up by the shareholders of Telewizja Polsat.

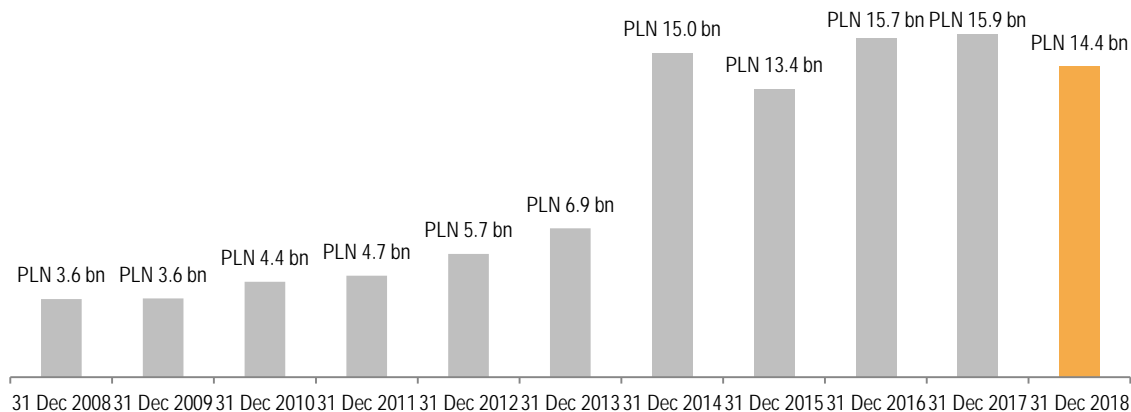
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares were admitted to trading on May 12, 2014 and Series J shares – on April 20, 2015, pursuant to the resolutions of the Management of the Warsaw Stock Exchange in Warsaw. The issue of Series I and J shares provided the source of financing of the transaction of acquisition of Metelem Holding Company Limited. The issued shares were acquired by shareholders of Metelem Holding Company Limited.

Cyfrowy Polsat shares on the stock exchange in 2018

		2018	2017
Year-end price	PLN	22.56	24.86
High for the year	PLN	26.60	27.80
Low for the year	PLN	21.20	23.09
Average for the year	PLN	23.48	25.08
Average daily turnover	PLN '000	12,050	13,218
Average daily trading volume	shares	515,845	527,587
Number of shares (as at year-end)	shares	639,546,016	639,546,016
Bearer shares	shares	460,128,515	460,128,515
Market capitalization (as at year-end)	PLN '000	14,428,158	15,899,144

Market capitalization of Cyfrowy Polsat since its debut on the WSE (PLN)

Cyfrowy Polsat is the largest in terms of market capitalization, that amounted to PLN 14.4 billion as of the end of 2018, media and telecommunications company quoted on the Warsaw Stock Exchange and one of the largest in Middle and Eastern Europe.



7.3. Analysts' recommendations

Brokers covering the Company:

Local

- Dom Maklerski BOŚ S.A.
- Dom Maklerski mBanku S.A.
- Dom Maklerski PKO BP S.A.
- Trigon Dom Maklerski S.A.
- IPOPEMA Securities S.A.
- Pekao Investment Banking S.A.

International

- Citigroup Global Markets Inc.
- ERSTE Group Research
- Goldman Sachs
- Haitong Bank S.A.
- Raiffeisen Centrobank AG
- UBS Investment Bank
- Wood&Company
- Santander Biuro Maklerskie

Recommendations for the shares of Cyfrowy Polsat published in 2018

Date	Institution	Recommendation	Target price [PLN]
December 18	Wood&Co	– Hold	25.00
December 11	Haitong Bank S.A.	▲ Buy	26.00
December 9	Dom Maklerski BOŚ S.A.	– Hold	24.50
December 7	Trigon Dom Maklerski S.A.	– Hold	24.10
December 4	DM PKO BP S.A.	– Hold	24.50
November 28	Pekao Investment Banking S.A.	▲ Buy	29.70
November 26	DM mBanku S.A.	– Hold	23.20
November 26	Citigroup Global Markets Inc.	– Neutral	25.20
October 18	Trigon Dom Maklerski S.A.	– Hold	23.20
October 11	Goldman Sachs	– Neutral	24.40
October 4	ERSTE Group Research	▲ Buy	32.00
August 28	Raiffeisen CENTROBANK	▲ Buy	27.00

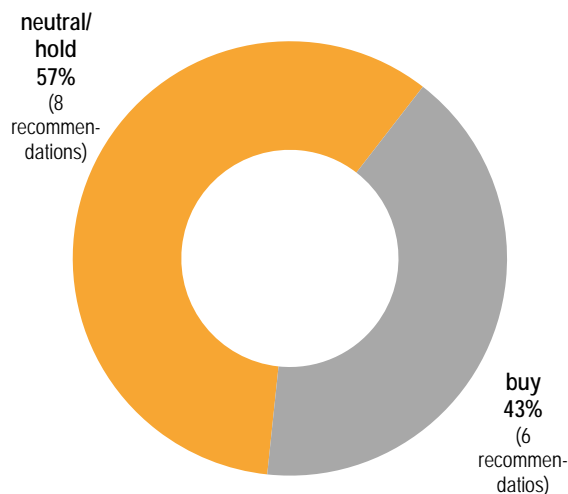
Date	Institution	Recommendation	Target price [PLN]
August 20	Dom Maklerski BZ WBK S.A. ¹	– Hold	24.00
July 19	Trigon Dom Maklerski S.A.	– Hold	24.90
July 18	Goldman Sachs	– Neutral	28.70
June 27	Pekao Investment Banking S.A.	▲ Buy	29.30
June 15	DM mBanku S.A.	▲ Cumulate	24.90
June 14	Raiffeisen CENTROBANK	▲ Buy	27.50
June 7	IPOPEMA Securities S.A.	▲ Buy	28.00
June 1	ERSTE Group Research	▲ Buy	32.00
May 10	Dom Maklerski BOŚ S.A.	– Hold	27.00
April 12	Goldman Sachs	– Neutral	27.60
April 10	Trigon Dom Maklerski S.A.	▲ Buy	27.40
April 6	Citigroup Global Markets Inc.	– Neutral	27.70
April 6	DM mBanku S.A.	– Hold	25.30
April 4	DM PKO BP S.A.	▲ Buy	28.50
March 20	Goldman Sachs	– Neutral	27.90
March 19	Citigroup Global Markets Inc.	– Neutral	26.70
March 5	DM mBanku S.A.	▲ Cumulate	24.90
February 13	Raiffeisen CENTROBANK	▲ Buy	27.30
February 8	Goldman Sachs	– Neutral	27.80
February 2	Berenberg	– Hold	27.50
January 31	DM mBanku S.A.	– Hold	25.70

¹ Currently Santander Dom Maklerski

Recommendations released in 2019 after the reporting period

Date	Institution	Recommendation	Target price [PLN]
February 23	UBS Investment Bank	▲ Buy	30.00
January 23	ERSTE Group Research	▲ Buy	30.00
January 16	Goldman Sachs	– Neutral	24.50
January 9	IPOPEMA Securities S.A.	▲ Buy	26.20

Structure of recommendations as at March 20, 2019



Target price as at March 20, 2019 [PLN]

minimum	23.2
maximum	30.0
average	26.0

7.4. Close dialogue with the capital market

Our corporate strategy aims to create sustainable value of the Company. We support this strategy through regular and open communication with all capital market participants.

In order to ensure current access to information we participate in conferences with investors, we organize numerous individual meetings and roadshows both in Europe and in the United States. Moreover, every quarter, after the publication of financial results, we organize periodical meetings with investors and sell-side analysts as well as teleconferences with the members of the Company's management. Both are open events. In 2018, we attended meetings with approximately 270 representatives of the capital market during 20 conferences and roadshows outside of Poland.

When communicating with the capital market we are guided by the main principle of transparency and equal access to information. Following this principle, we introduced the rule of limited communication before the publication of our financial results. Under this rule the representatives of the Company do not discuss or meet with analysts and investors two weeks prior to the publication of the quarterly results. This rule is meant to increase transparency and ensure the equal access to information on the Company before the publication of our financial results.

In connection with implementation of European Parliament's and Council's Directive 2014/57/UE of 16 April 2014 - the Market Abuse Directive (MAD), as well as European Parliament's and Council's Regulation (EU) no. 596/2014 of 16 April 2014 - the Market Abuse Regulation (MAR), the reporting standards and the information obligations of security issuers have changed fundamentally on the Polish capital market. To ensure proper fulfillment of the information obligations imposed by the relevant regulations, including the MAR Regulation, we have implemented, at the Capital Group level, detailed internal rules which define such things as the principles of analysis and identification of events occurring within our organization, the procedures to be followed upon obtaining any information which is subject to reporting as well as the deadlines for fulfillment of information obligations. We have also adopted the so-called Individual Reporting Standard which supports identification and classification of events as inside information.

In order to reach a wide audience we also use state-of-the-art tool to communicate with capital market representatives, such as a website dedicated to investors (<http://www.grupapolsat.pl/en/investor-relations>), a reliable and practical source of information about Polsat Group, electronic newsletters, RSS, periodic newsletters including both information on current events in the Company and latest market developments (press review), as well as reminders of the most important events in the Company.

Numerous distinctions presented to Cyfrowy Polsat in the field of investor relations are the confirmation of our efforts which are aimed at guaranteeing high quality and top standards of the Group's communication with the capital markets in Poland and around the world. Several times in the past years we were ranked at the top spots of the Best Listed Company of the Year ranking organized by *Puls Biznesu* daily. In 2018, we were once again named "Best IR Department in a Listed

Company - Poland", with the award presented to us during the fourth edition of the CEE Capital Markets Awards. Moreover, in 2018, Cyfrowy Polsat was also a finalist in the ranking "Transparent Company 2017", organized by the daily *Parkiet* in cooperation with the Institute of Accountancy and Taxes. We also received awards in the Institutional Investor's 2018 ranking which covered listed companies from across Europe. In this ranking, by the votes of analysts we were awarded in the "Best Investors Relations Program", "Best CFO" and "Best IR Professional" categories among the companies from the media sector while by the votes of analysts and investors we were distinguished in the "Best Investor Relations Program" and "Best Website" categories among the SME companies (according to the pan-European scale) from the media sector. In March 2019, Cyfrowy Polsat was announced the winner of the investor relations survey among WIG30 companies, organized by the daily *Parkiet* and the Chamber of Brokerage Houses in the poll of representatives of financial institutions. Furthermore, we received the main prize in the 12th edition of the Corporate Social Responsibility Reports Contest, organized by the Responsible Business Forum and Deloitte.

7.5. Dividend policy

On March 15, 2019 the Management Board of the Company adopted a new dividend policy of the Company, worded as follows:

"The main goal of the strategy of Cyfrowy Polsat S.A. Capital Group (the "Group," "Polsat Group") is the permanent growth of the value of Cyfrowy Polsat S.A. (the "Company") for its shareholders. We intend to achieve this goal by implementing the major elements of our operational strategy which include:

1. 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,
2. growth of revenue from produced and purchased content by expanding its distribution, maintaining the audience shares of our channels and improving our viewer profile,
3. effective management of the cost base of our integrated media and telecom group by exploiting its inherent synergies and economies of scale, and
4. effective management of the Group's finances, including its capital resources.

Predictable dividend payout to shareholders is one of the main goals underlying the capital resources management policy of Cyfrowy Polsat S.A. At the same time, bearing in mind the strategy of deleveraging of the Group, the Management Board has set the desirable consolidated debt level, as measured by the net debt/EBITDA ratio, which should be reduced to below the threshold of 1.75x.

In view of the above, the Management Board of Cyfrowy Polsat S.A. has adopted a resolution regarding the dividend policy which assumes that dividend payout proposals, along with the Management Board's recommendations, will be presented every year to the General Meeting, subject to the observance of the following general principles:

1. the amount of a dividend paid out every year shall guarantee the Company's shareholders an attractive return from invested capital;
2. the level of the obtained return shall be shaped in relation to the commonly available on the Polish market forms of safe investing of funds, in particular in relation to the level of bank deposits rates, while taking into account a risk premium associated with floating of Cyfrowy Polsat's share prices on the Warsaw Stock Exchange;
3. in parallel, a yearly submitted proposal for distribution of the Group's net profit for the previous financial year should allow for the continuation of gradual reduction of Cyfrowy Polsat Group's net debt in order to achieve the desired ratio of net debt to EBITDA at the level below 1.75x.

Simultaneously, the Management Board of Cyfrowy Polsat S.A. reviewed the plans of Cyfrowy Polsat Capital Group and evaluated possibilities of allocating the expected cash resources of the Group with an aim to pay out a stable and predictable dividend stream to its shareholders in medium term. Based on the conducted analysis, the Management Board intends to

recommend for 2019-2021 the dividend payout in the total amount of not less than PLN 2.79 per share in three equal installments as follows:

1. at least PLN 0.93 per share to be paid out in 2019;
2. at least PLN 0.93 per share to be paid out in 2020;
3. at least PLN 0.93 per share to be paid out in 2021.

In parallel, the Management Board notes that every time when presenting a proposal for distribution of the profit for the previous year it will take into account the Group's net profit, financial standing and liquidity, existing and future liabilities (including potential restrictions related to facility agreements and other financial documents), the assessment of the Group's prospects in specific market and macroeconomic conditions, potential necessity of spending funds for the Group's development, in particular through acquisitions and embarking on new projects, one-off items, as well as valid legal regulations.

The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board expects modification to the aforementioned dividend policy following the refinancing of Polsat Group's debt which is expected in 2022.

The new dividend policy will take effect from April 1, 2019."

The payout at the level of PLN 0.93 per share generates an annual return rate of approximately 4% as compared to the average capitalization of the Company in December 2018. Thus, in the Management Board's opinion, it meets the general principles of the dividend policy presented above and the expectations of the majority shareholder of Cyfrowy Polsat, expressed in the letter received from Mr. Zygmunt Solorz on February 7, 2019 (see the Company's current report No. 4/2019 dated February 7, 2019). Simultaneously, in the Management Board's opinion the above mentioned schedule and amounts of dividend payouts shall not interrupt the development concept of Cyfrowy Polsat Capital Group, enabling at the same time its further deleveraging.

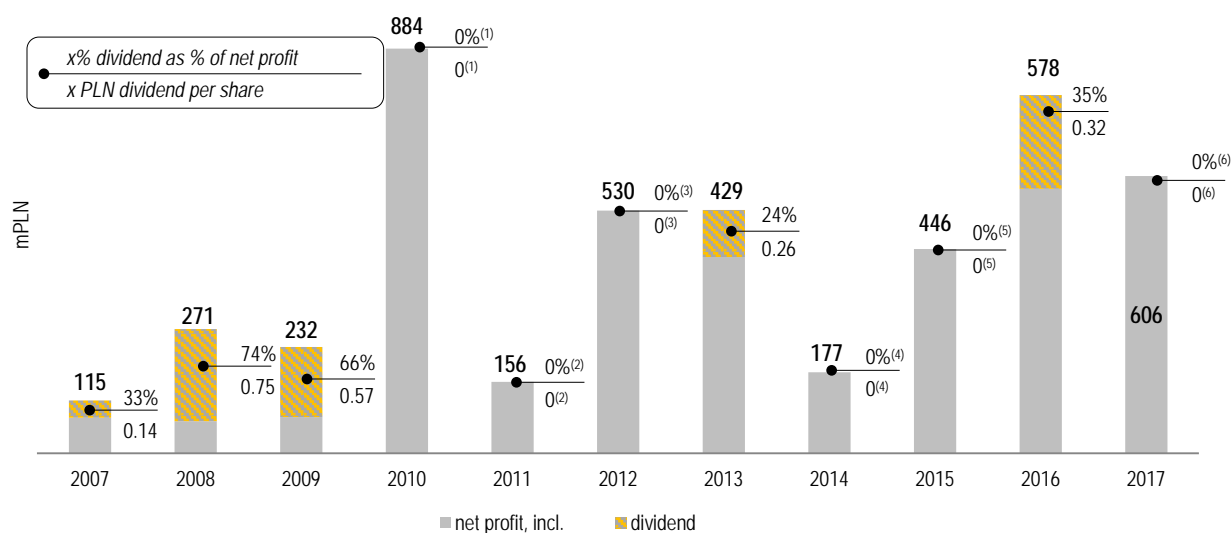
Distribution of net profit of Cyfrowy Polsat for 2017

Acting in accordance with resolution no. 33 of the Ordinary General Meeting, held on June 28, 2018, regarding profit distribution, the entire net profit earned by the Company in the financial year ended December 31, 2017 in the amount of PLN 606.0 million was allocated to the reserve capital.

Taking into consideration the strategic investments made by the Company and some of its subsidiaries in 2017 and 2018, which ensure the continuation of the development of the capital group of the Company (the "Group") in the long term in accordance with its key strategic goal to sustainably grow the Company's value for its shareholders as well as bearing in mind a relatively high level of the Group's indebtedness, the Management Board of the Company decided not to recommend a dividend payment from the profit for 2017. In the opinion of the Management Board, this will allow to reduce the indebtedness level of the Group, in line with the adopted strategic assumptions, and with the goal of the capital resources management policy in particular, which is to reduce in a possibly short time the total net debt ratio for the Group (net debt to EBITDA) below 1.75x. In parallel, the Management Board of the Company confirms the dividend policy adopted on November 8, 2016.

On March 15, 2019 the Management Board of the Company adopted a new dividend policy, which is described above. It takes into consideration predictable dividend payout to shareholders, which is one of the main goals underlying the capital resources management policy of Cyfrowy Polsat, while bearing in mind the strategy of deleveraging the Group, as measured by the net debt/EBITDA ratio, below the threshold of 1.75x.

History of Cyfrowy Polsat's profit sharing



- (1) Net profit allocated entirely to reserve capital according to the resolution of the General Meeting of May 19, 2011.
- (2) Net profit distributed in total to reserve capital and to cover losses from previous years according to the resolution of the General Meeting on June 5, 2012.
- (3) Net profit distributed in total to reserve capital according to the resolution of the General Meeting of June 11, 2013.
- (4) Net profit distributed in total to reserve capital according to the resolution of the General Meeting of April 2, 2015.
- (5) Net profit distributed in total to reserve capital according to the resolution of the General Meeting of June 29, 2016.
- (6) Net profit allocated entirely to reserve capital according to the resolution of the General Meeting of June 28, 2018.

8. CORPORATE GOVERNANCE STATEMENT

8.1. Principles of corporate governance which the Company issuer is subject to

In 2017, Cyfrowy Polsat S.A was subject to the set of principles of corporate governance in the form of the "Best Practices of WSE Listed Companies in 2016" ("Best Practices 2016"), constituting an appendix to resolution No. 26/1413/2015 of the Council of WSE of October 13, 2015. The rules set out in the Best Practices 2016 came into force on January 1, 2016. The document is available on the official website of the Warsaw Stock Exchange dedicated to the issues of the corporate governance of listed companies, at <http://corp-gov.gpw.pl>.

Application of principles of corporate governance

Following the entry into force of the Best Practices 2016 on January 1, 2016, the Management Board of the Company has adopted the recommendations and principles specified in the aforementioned document, except for the recommendations included in items III.R.1., IV.R.2., VI.R.1., VI.R.2., VI.R.3. and the detailed principles included in items I.Z.1.3., II.Z.1., II.Z.7., III.Z.2., III.Z.4., III.Z.5., IV.Z.2., V.Z.6., VI.Z.4. At the same time, the Management Board decided that the recommendations and detailed principles, marked as items III.Z.6., VI.Z.1. and VI.Z.2. do not apply to the Company.

Pursuant to § 29 section 3 of the Warsaw Stock Exchange Rules, on January 29, 2016, the Company published via the Electronic Information Base (EIB) system Report no. 1/2016/CG on non-compliance with detailed principles included in the set of Good Practices 2016. The above information was subsequently updated by the Company on April 16, 2018 with the EIB report no. 1/2018/CG. At the same time, the Company published on its website – according to the requirements of the principle I.Z.1.13. – information about the application by the Company of the recommendations and principles included in the Best Practices 2016.

The Company does not comply or complies partially with the below mentioned recommendations and detailed principles included in the Best Practices 2016:

- **Principle II.Z.1.** stating that the internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent. As a consequence the Company also does not apply the **principle marked as I.Z.1.3.**, requiring the publication of a chart describing that division on the company's website. The Commercial Companies Code provides that in a joint stock company matters are managed by the Management Board in a collective manner, while a formal division of duties can be introduced optionally. Due to the broad scope of responsibilities of each Management Board Member, it is impossible, both within the entire capital group, as well as in individual companies, to define and allocate specific tasks and responsibilities to respective Board Members.
- **Principle II.Z.7.** regarding the application of the provisions of Annex I to the Commission Recommendation 2005/162/EC of February 15, 2005 with respect to the tasks and the operation of the committees of the Supervisory Board. Within the Company's Supervisory Board there are two standing committees operating: the Audit Committee and the Remuneration Committee. The Company does not fulfill all the detailed requirements regarding the functioning of supervisory board committees as indicated in the above mentioned Annex I to the Commission Recommendation.

Principles governing the creation, composition and operations of specific committees of the Supervisory Board of the Company are set out in § 7 of the Supervisory Board By-laws. Moreover, the provisions of the Bylaws of the Audit Committee apply to meetings, resolutions, and minutes of the Audit Committee.

At the current stage of operations of the Supervisory Board Committees, Company authorities do not see the need for introducing more detailed regulations governing the functioning of these committees

- **Recommendation III.R.1.** stating that the company's structure should include separate units responsible for the performance of tasks in individual systems or functions, (that is internal control, risk management and compliance systems, as well as an internal audit function). An Internal Audit and Internal Control unit operates in the Company. No organizational units responsible for tasks related to risk management and compliance have been set up within the Company's structure. Nonetheless, relevant internal processes and procedures have been implemented and are in place to guarantee effective financial and operational risk management as well as monitoring the compliance of the Company's operations with regulations in force. In the Management Board's opinion, the internal regulations and processes covering risk management function properly and effectively, and setting up of dedicated units responsible for risk management and compliance will not improve the efficiency of these processes and procedures in a substantial

degree. At the same time, the Management Board is of the opinion that the cost associated with setting up and maintaining the above-mentioned organizational units will be incommensurate to the benefits offered by them.

Due to the fact that the Company has not implemented centralized, formal risk and compliance management systems, the Company does not apply the principles marked as III.Z.2., III.Z.4. and III.Z.5. to those systems. The Company applies the principle III.Z.2 with regard to persons responsible for internal audit. The person responsible for internal audit in the Company reports directly to the Chief Financial Officer and has the right to communicate directly with the Audit Committee. Once per year the Management Board and the person responsible for internal audit assess independently the functioning of the internal control system and the internal audit function and present their assessment to the Supervisory Board.

Numerous internal procedures and processes are in place in the Company with regard to operational and financial risk management, including the process of drafting of financial statements. These procedures ensure effective identification and monitoring of various types of risks at the level of respective organizational units and they also provide for actions to be taken in the event a given risk materializes. High level managers in charge of the areas covered by respective procedures, are responsible for ensuring effective and correct operation of these procedures.

In spite of the lack of a centralized compliance system, the control of the Company's compliance with legal regulations in respective areas is regulated by internal corporate regulations and takes place at the level of individual organizational units, which deal with a relevant area of activity.

The Management Board carries out on-going verification of the correctness of functioning of internal processes in the areas of risk management and regulatory compliance, and takes necessary actions when needed. The Supervisory Board, and in particular the Audit Committee, monitors and evaluates the effectiveness of functioning of internal processes with regard to operational and financial risk management, including the process of drafting of financial statements, based on documents and reports submitted by the Management Board and a person responsible for the internal audit as well as other information obtained during the daily business activities of the Supervisory Board.

- **Recommendation IV.R.2.** stating that the company should enable its shareholders to participate in a general meeting using means of electronic communication, in particular through:
 - real-time broadcast of the general meeting;
 - real-time bilateral communication where shareholders may take the floor during a general meeting from a location other than the general meeting;
 - exercise of the right to vote during a general meeting either in person or through a plenipotentiary.

Ensuring the smooth running and the validity of the resolutions adopted by the General Meeting are the priorities of the Management Board. The relatively small popularity of the practice of conducting General Meetings using electronic means of communication and insufficient readiness of the market may lead to an increased risk of organizational and technical problems, which may disturb the smooth running of the General Meeting, as well as a risk of possible questioning of the resolutions passed by the General Meeting, in particular due to the occurrence of technical defects. Furthermore, domestic and foreign investors have not reported to the Company their interest or need of organizing General Meetings in this form. In view of the above, the Management Board decided not to apply the said recommendation permanently.

- **Principle IV.Z.2.** about ensuring publicly available real-time broadcasts of general meetings. An efficient course of proceedings of general meetings as well as cost optimization are priorities for the Management Board. The Management Board makes every effort to ensure that the documentation, as well as the proceedings of general meetings ensure transparency and protect the rights of all shareholders. Information regarding draft resolutions and adopted resolutions, as well as additional materials, is disclosed in the form of current reports and published on the Company's website, thus enabling equal access to information on the matters addressed at general meetings for all stakeholders. In view of the above, the Management Board is of the opinion that ensuring real-time coverage of general meetings would not be economically justified. At present the Management Board plans no changes to the manner in which general meetings are organized.
- **Principle V.Z.6.** stating that in its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company. The Company's internal regulations related to prevention, identification and solving of conflicts of interests do not meet the requirements of principle V.Z.6. In particular, they do not include a list of criteria and circumstances under which a conflict of interest may arise in the Company. In

accordance with § 3 item 4 of the Supervisory Board By-laws and § 3 item 3 of the Management Board Bylaws, a Supervisory Board Member or a Management Board Member should inform the Supervisory Board, or both the Management Board and the Supervisory Board - in the case of a Management Board Member - of any existing conflict of interests, or the possibility of its emergence, and such an individual should refrain from participation in discussions or voting on resolutions related to a matter in which there exists a conflict of interests. In the opinion of the Company's Management Board, current internal regulations properly address the principles of conduct in a situation of conflict of interests.

- **Recommendation VI.R.1.** stating that the remuneration of members of the company's governing bodies and key managers should follow the approved remuneration policy and **recommendation VI.R.2.**, stating that the remuneration policy should be closely tied to the company's strategy, its short- and long-term goals, long-term interests and results, taking into account solutions necessary to avoid discrimination on whatever grounds.

The Company will not comply with recommendation VI.R.1. due to the fact that a formalized remuneration policy covering the members of the Company's authorities and its key managers has not been implemented in the Company. Nonetheless, individual corporate documents and internal regulations define the manner of determining the remuneration of the members of the Company's authorities and its employees.

In accordance with article 24 d) of the Company's Articles of Association, the remuneration of the members of the Supervisory Board requires a resolution of the General Meeting, except for the members of the Supervisory Board delegated to temporarily perform functions of a member of the Management Board, pursuant to article 19 2d) of the Articles of Association, when the decision is taken by the Supervisory Board. The remuneration relates to the scope of tasks and responsibilities related to the function performed, reflects the size of the Company and keeps a healthy relation to its financial results.

In accordance with article 19, item 2 g) of the Company's Articles of Association, the principles of remuneration of Management Board Members are defined by the Supervisory Board, with the remuneration corresponding to the scopes of duties and responsibilities of respective Management Board Members.

In accordance with the Employee Remuneration Regulations valid in the Company, determination of the structure and the amounts of remuneration of key managers is the competence of the Management Board.

- **Recommendation VI.R.3.** stating that If the supervisory board has a remuneration committee, principle II.Z.7. applies to its operations. A Remuneration Committee operates as a standing committee of the Supervisory Board. The Company does not fulfill all the detailed requirements related to functioning of the Remuneration Committee as listed in Annex I to the Commission Recommendations discussed in principle II.Z.7.

Principles governing the creation, composition and operations of specific committees of the Supervisory Board are set out in § 7 of the Supervisory Board By-laws. At the current stage of operations of the Supervisory Board Committees, Company authorities do not see the need for introducing more detailed regulations governing the functioning of the Remuneration Committee.

- **Principle VI.Z.4.** regarding providing of general information on the Company's remuneration policy. The Company does not have a formalized remuneration policy for the members of the Company's authorities and its key managers. Pursuant to article 24 d) of the Company's Articles of Association, the remuneration of the Supervisory Board Members is determined by the General Meeting, save for the remuneration of the Supervisory Board Members who have been temporarily delegated to perform the duties of a Management Board Member by virtue of article 19 item 2d) of the Company's Articles of Association. In such a situation the decision is taken by the Supervisory Board. The amount of the remuneration depends on the scope of tasks and responsibilities of a function and it also corresponds to the size of the Company, while being in a reasonable proportion to its financial performance.

In accordance with article 19, item 2 g) of the Company's Articles of Association, the principles of remuneration of Management Board Members are defined by the Supervisory Board, with the remuneration corresponding to the scopes of duties and responsibilities of respective Management Board Members. In accordance with the Employee Remuneration Regulations valid in the Company, determination of the structure and the amounts of remuneration of key managers is the competence of the Management Board.

Nonetheless, it should be underscored that in accordance with the regulations related to information disclosure, the Company presents, in its annual report, general information regarding the remuneration principles valid in the Company

as well as the information regarding the remuneration obtained in a given financial year by Management Board Members and Supervisory Board Members, while indicating the fixed and the variable components. The presented information also indicates the rules of payment of severance pay and other payments on account of termination of employment.

8.2. Internal control systems and risk management applied with respect to the process of preparing financial statements

The Management Board is responsible for our internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Ordinance of the Minister of Finance of March 29, 2018 regarding current and periodic information to be submitted by issuers of securities, and the conditions for recognizing equivalence of information required under non-member states regulations.

We draw on our employees' extensive experience in the identification, documentation, recording and controlling of economic operations, including numerous control procedures supported by modern information technologies used for recording, processing and presentation of operational and financial data.

In order to ensure the accuracy and reliability of the accounts of the parent and subsidiary companies, we apply Accounting Policies for Cyfrowy Polsat S.A. Group and various internal procedures relating to transaction control systems and processes resulting from the activities of the Company and the Group.

We keep our accounts in the computer systems integrated with the underlying source systems and auxiliary books. We ensure data security through the use of access rights on the need-to-know basis granted to authorized users. Systems operations are assured by the specialists with extended experience in this field. In addition, the system security is ensured by applying the appropriate solutions for physical security of the equipment. We have a complete IT system documentation in all its areas. In accordance with Article 10 of the Polish Accounting Act of September 29, 1994, the accounting information systems documentation is periodically reviewed and updated upon approval by heads of units.

An important element of risk management, in relation to the financial reporting process, is ongoing internal controls exercised by the Finance and Controlling Department and the Internal Audit Department.

The Internal audit functions on the basis of the Audit Charter adopted by the Management Board and the Audit Committee of the Supervisory Board. Its primary task is to test and evaluate controls for the reliability and consistency of financial data underlying the preparation of financial statements and management information.

The Controlling department functions on the basis of financial controlling system and business controlling system, and exercises control over both the current processes and the implementation of financial and operational plans, and preparation of financial statements and reports.

An important element of quality control and data review is the use of management standalone and consolidated reporting system, as well as regular monthly analysis of financial and operational performance and key indicators performed by the Management Board. The monthly results analysis is carried out in relation to both the current financial and operational plan and the prior period results.

The budgetary control system is based on monthly and annual financial and operational plans and long-term business projections. Both financial and operating results are monitored regularly in relation to the financial and operational plans. During the year, we perform additional reviews of the financial and operational plans for the year if such need arises. The financial and operational plans are always adopted by the Management Board and approved by the Supervisory Board.

One of the basic elements of control in the preparation of financial statements of the Company and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms, which guarantee a high standard of service and independence. The Supervisory Board of the Company chooses the Company's auditor. In the subsidiaries, the auditor is chosen by either the Supervisory Board, the General Meeting or the Meeting of Shareholders. The tasks of the independent auditor include, in particular: a review of semi-annual standalone and consolidated financial statements and audit of annual standalone and consolidated financial statements. Auditor's independence is fundamental to ensure the accuracy of the audit.

The Audit Committee, appointed within the Company's Supervisory Board, supervises the financial reporting process in the Company. The Audit Committee oversees the financial reporting process, in order to ensure sustainability, transparency and integrity of financial information. Two out of three Members of the Audit Committee meet the independence criteria set out in the Best Practices 2016 in section II.Z.4. and the requirements listed in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

Moreover, under article 4a of the Polish Accounting Act of 29 September 1994 of the accounting act, the duties of the Supervisory Board include ensuring that the financial statements and the report on activities meet the requirements of the law, and the Supervisory Board carries out this duty, using the powers under the law and the articles of association of the Company. This is yet another level of control exercised by an independent body to ensure the accuracy and reliability of the information presented in the standalone and consolidated financial statements.

8.3. Agreements with an entity certified to perform an audit of the financial statements

On July 6, 2018, the Company entered into an agreement with Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k., with registered office in Warsaw, for the performance of an audit of standalone financial statements of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial years ended December 31, 2018 and December 31, 2019.

The following summary presents a list of services provided by the certified auditor and remuneration for the services in the twelve month period ended on December 31, 2018 and December 31, 2017.

[mPLN]	For the year ended December 31	
	2018	2017 ⁽¹⁾
Review of interim financial statements	0.1	0.1
Audit of financial statements for the year and other certifying services	0.4	0.3
Business and tax consulting (provision of services terminated by December 31, 2017)	-	0.6
Total	0.5	1.0

(1) In years 2012 – 2017 the Company used the audit services of PricewaterhouseCoopers Sp. z o.o.

8.4. Share capital and shareholding structure of Cyfrowy Polsat

8.4.1. Shareholders with qualifying holdings of shares of Cyfrowy Polsat

The table below presents Shareholders of Cyfrowy Polsat S.A. holding at least 5% of votes at the General Meeting of Cyfrowy Polsat S.A. as at the date of approval of this Report, i.e. March 20, 2019. Data included in the table is based on the information received from shareholders on January 30, January 31 and April 27, 2018 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 (Journal of Laws 2018, item 512, as amended).

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Zygmunt Solorz, through:	366,720,780	57.34%	540,267,031	65.97%
Reddev Investments Limited ⁽¹⁾	298,656,832	46.70%	472,203,083	57.66%
Embud2 Sp. z o.o. Sp. K.A.	58,000,000	9.07%	58,000,000	7.08%
Karswell Limited	10,000,000	1.56%	10,000,000	1.22%
Argumenol Investment Company Limited	63,948	0.01%	63,948	0.01%
Others	272,825,236	42.66%	278,696,486	34.03%
Total	639,546,016	100.00%	818,963,517	100.00%

(1) An entity controlled indirectly by Mr. Zygmunt Solorz through TiVi Foundation.

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

From the date of publication of the previous interim report, i.e. November 8, 2018 (interim report for the third quarter of 2018), until the date of approval of this Report, i.e. March 20, 2019, the Company's did not receive notices concerning changes in the structure of ownership of significant packages of the issuer's shares.

8.4.2. Information on material agreements, which can result in a change in the proportion of shares held by hitherto shareholders in the future

As at the date of approval of this Report, i.e. March 20, 2018, the Company did not have any information on agreements which can result in a change in the proportion of shares held by hitherto shareholders in the future.

8.4.3. Shares of Cyfrowy Polsat held by members of the Management Board and the Supervisory Board

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 20, 2019 as well as at the date of publication of the previous interim report, i.e. November 8, 2018 (interim report for the third quarter of 2018).

To the Company's best knowledge as at the date of approval of this Report, i.e. March 20, 2018, Mr. Aleksander Myszka, Member of the Supervisory Board, held directly 50.000 shares of the Company with the nominal value of PLN 2,000.00. To the Company's best knowledge the remaining Members of the Supervisory Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. March 20, 2019, as well as at the date of publication of the previous interim report, i.e. November 8, 2018 (interim report for the third quarter of 2018).

8.4.4. Securities with special controlling rights

Current shareholders do not have any other rights in the General Meeting of Shareholders than those resulting from holding our shares. As at December 31, 2017 the shares of the A through D series are shares preferential as to the voting rights in the way that:

- Series A shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series B shares totaling 2,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series C shares totaling 7,500,000 have preferential voting rights entitling their holder to two voting rights per share;
- Series D shares totaling 166,917,501 numbered 1-166,917,501 have preferential voting rights entitling their holder to two voting rights per share.

8,082,499 D Series shares, numbered 166,917,502-175,000,000; 75,000,000 E Series shares; 5,825,000 F Series shares, 80,027,836 H Series shares, 47,260,690 I Series shares and 243,932,490 J Series shares are ordinary bearer shares.

8.4.5. Limitations related to shares

There are no limitations to the exercise of voting rights in the Company.

Except for the limitations regarding our securities ownership rights transfer resulting from the general provisions of the law there are no other limitations, in particular contractual limitations, regarding our securities ownership rights transfer.

8.5. Articles of Association of the Company

An amendment to the Articles of Association requires a resolution of the General Shareholders' Meeting and a registry into the Court register. The general provisions of law and the Bylaws of the General Shareholders' Meeting and the Articles of Association govern the procedure for adopting resolutions regarding amendments to the Articles of Association.

Pursuant to the provisions of the Articles of Association and taking into account the provisions of art. 417 § 4 of the commercial companies code, an amendment to the Articles of Association may take place without a share buyback.

8.6. General Shareholders' Meeting

The General Shareholders' Meeting acts pursuant to the provisions of the commercial companies' code, the Articles of Association, and the Bylaws of General Shareholders' Meeting adopted by Resolution 6 of the Extraordinary Shareholders' Meeting dated December 4, 2007 and amended by Resolution 29 of the Extraordinary Shareholders' Meeting dated April 23, 2009.

The General Shareholders' Meeting adopts resolutions regarding, in particular, the following issues:

- a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,
- b) decision about distribution of profits, or covering losses,
- c) signing off for the Supervisory Board's and the Management Board's performance of duties,
- d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,
- e) amendments to the Articles of Association of the Company,
- f) amendments to the business activity of the Company,
- g) increase or decrease in the share capital,
- h) merger or transformation of the Company,
- i) dissolution or liquidation of the Company,

- j) issuance of convertible bonds or seniority bonds,
- k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,
- l) purchase of real estate or equipment for the Company, serving for permanent usufruct for a price exceeding by 1/5 (one fifth) the paid-up share capital if the purchase takes place within two years of the Company's registration,
- m) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision,
- n) other issues set out by the provisions of the commercial companies code.

The General Meeting shall be attended by persons who are shareholders of the Company sixteen days prior to the date of the General Meeting (the day of registration for participation in the General Meeting). The date of registration for participation in the General Meeting is consistent for bearer shares and registered shares holders. Holders of registered shares and interim certificates and lienors and users who have the right to vote, are entitled to participate in the General Meeting of the Company, provided they are entered in the register of shareholders on the day of registration for participation in the General Meeting.

A shareholder, being a natural person, is entitled to participation in the General Shareholders' Meeting and execution of voting rights in person, or through a proxy. A shareholder, being a legal entity, is entitled to participation in the General Shareholders' Meeting and execution of voting rights through a person authorized to make representations of intent on its behalf, or through a proxy.

The power of attorney to attend the General Meeting and exercise voting rights requires a written or an electronic form. The shareholder must notify the Company about electronically granting the power of attorney by sending the information specifying the Shareholder and the Shareholder's proxy, including the name and surname or company (the name) and address (seat), and indicating the number of shares and votes, of which the proxy is authorized to exercise to the address: akcjonariusze@cyfrowypolsat.pl.

The General Meeting should be attended by members of the Management Board and Supervisory Board - in the composition which allows for substantive answers to the questions posed during the General Meeting.

The General Meeting is opened by the Chairman of the Supervisory Board or a person they nominate. The person opening the General Meeting shall proceed with immediate election of Chairman of the General Meeting, refraining from considering any other substantive or formal matters.

Each participant in the General Meeting is entitled to be elected the Chairman of the General Meeting, and also nominate one person as candidate to the position of Chairman of the General Meeting. Decisions shall not be made until Chairman of the General Meeting is elected.

The Chairman of the General Meeting directs proceedings in accordance with the agreed agenda, provisions of law, the Articles of Association and the By-laws, and in particular: giving the floor to speakers, ordering voting and announcing the results thereof. The Chairman ensures efficient proceedings and respecting of the rights and interests of all Shareholders. The Chairman may decide on issues of the order of the agenda.

After creation and signing of the attendance list the Chairman approves that the Shareholders' Meeting has been called in a proper manner and is authorized to pass resolutions; presents the agenda and orders selection of the Ballot Committee.

The General Meeting may pass a motion regarding nonfeasance of voting over an item on the agenda, and also on adjourning the order of issues on the agenda. However, removing an item from the agenda, or its adjourning upon a request of shareholders, requires prior consent of all the shareholders present, who have forwarded such a motion, supported by a majority of votes of the General Meeting. Motions regarding the aforementioned issues shall be justified in detail.

The Chairman, after opening an item on the agenda, may give the floor in order of application of speakers. In the event of a significant number of applications the Chairman may set a time limit or limit the number of speakers. The floor may be taken regarding items on the agenda and currently under discussion only. The Chairman may give the floor outside of the order of application to the members of the Management Board or Supervisory Board, and also to the Company experts called by them.

The Meeting may not pass resolutions regarding items that are not on the agenda unless all the share capital is represented in the General Meeting and none of the present in the Meeting raises any objections as to the adoption of a resolution.

Voting shall proceed in a manner adopted by the General Meeting using a computerized system of casting and counting votes, ensuring that votes are cast in the number corresponding to the number of shares held and - in case of a secret ballot - allowing to eliminate a possibility of detecting the manner of voting by individual Shareholders.

Subject to mandatory provisions of law, the General Meeting shall be valid if attended by shareholders representing jointly more than 50% of the total number of votes in the Company. Resolutions are adopted by a simple majority of votes.

As at December 31, 2017 the shareholders participating in the General Meeting had the number of votes corresponding to the number of shares held, observing the fact that the shares listed in item 8.4.3. – *Securities with special controlling rights* – are preferential in such a way that each of them entitles to casting two votes at the General Meeting.

The Chairman of the General Meeting closes the General Meeting upon exhausting its agenda.

8.7. Management Board of the Company

8.7.1. Rules regarding appointment and dismissal of the management and their rights

Pursuant to article 15 of the Articles of Association of the Company the Management Board consist of one or more members, including the President and Vice-president or and Vice-presidents of the Management Board, appointed by the Supervisory Board. The Supervisory Board decides as to the number of Management Board Members upon their appointment. The term of office of the Management Board is joint and lasts three years. The Members of the Management Board may be dismissed at any time by the Supervisory Board.

Pursuant to the Articles of Association, the Management Board of the Company, led by the President of the Management Board, is responsible for our day-to-day management and for our representations in dealing with third parties. All business decisions are in the scope of activities of the Management Board, unless limited by law, Articles of Association to be the competence of the Supervisory Board or the General Shareholders' Meeting.

Members of the Management Board participate in each General Shareholders' Meeting and provide answers to questions posed during the General Shareholders' Meeting. Moreover, Members of the Management Board invited by the Chairman of the Supervisory Board to a Meeting of the Supervisory Board participate in the Meeting with a right to voice their opinion on issues on the agenda.

The General Shareholders' Meeting makes decisions regarding an issue or buy back of the Company's shares. The competencies of the Board in respect to the above are limited to execution of any resolutions adopted by the General Shareholders' Meeting.

8.7.2. Composition of the Management Board and changes in 2018

At the date of approval of this Report, i.e. March 20, 2019, the Management Board consisted of seven Members. In 2018 there were no changes in the composition of the Management Board.

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular Members of the Management Board as at December 31, 2018.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tobias Solorz ⁽¹⁾	President of the Management Board	2014	2016	2019
Dariusz Działkowski ⁽²⁾	Member of the Management Board	2007	2016	2019
Tomasz Gillner-Gorywoda ⁽²⁾	Member of the Management Board	2014	2016	2019
Aneta Jaskólska	Member of the Management Board	2010	2016	2019
Agnieszka Odorowicz	Member of the Management Board	2016	2016	2019
Katarzyna Ostap-Tomann	Member of the Management Board	2016	2016	2019
Maciej Stec	Member of the Management Board	2014	2016	2019

(1) On January 17, 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective March 31, 2019.

(2) On March 14, 2019 Mr. Dariusz Działkowski and Mr. Tomasz Gillner-Gorywoda resigned from the positions of Members of the Management Board of the Company, effective March 31, 2019.

Tobias Solorz has been a Member of the Management Board of Polkomtel since November 2011, where he has held the position of President of the Management Board since February 2014. He was appointed to the position of a Member of the Management Board of Cyfrowy Polsat in September 2014 and took up the position of Vice-president of the Management Board in December 2014. Since December 2015 he has held the position of President of the Management Board of Cyfrowy Polsat. He is also a Member of Supervisory Boards of Liberty Poland S.A. and Polkomtel Business Development Sp. z o.o.

He has many years of professional experience in the field of telecommunication, finance and controlling. He began his career in 2003 at Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.). Between 2007 and 2008 he held the position of Promotion Manager at Cyfrowy Polsat. Between 2008 and 2010 he was a Member of the Management Board of Sferia S.A., where he served as Marketing, Sales and Operations Director.

Mr. Tobias Solorz is a graduate of the Faculty of Management and Marketing at the University of Warsaw.

On January 17, 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective March 31, 2019. Mr. Tobias Solorz shall serve in the future on the Supervisory Boards of the Group companies and exercise ownership supervision.

By the resolution of the Supervisory Board of the Company dated January 17, 2019, Mr. Mirosław Błaszczuk, the existing President of the Management Board of Telewizja Polsat Sp. z o.o., a subsidiary of the Company, was appointed to the position of President of the Management Board of Cyfrowy Polsat, effective April 1, 2019.

Dariusz Działkowski has been a Member of the Management Board of Cyfrowy Polsat responsible for technology since August 2007. Mr. Działkowski is the Technical Director of the Company since November 2001. He is also a Member of Management Boards of INFO-TV-FM Sp. z o.o., and Polski Operator Telewizyjny Sp. z o.o. Since July 2017 he also holds the function of a Member of Management Board of Telewizja Polsat Sp. z o.o.

Since 2010 he is a Member of the Management Board of Polish Electronics and Telecommunications Chamber of Commerce (Krajowa Izba Gospodarcza Elektroniki i Telekomunikacji), he is also the Chairman of the Audit Committee of the Society Sygnał (Stowarzyszenie Sygnał). Mr. Działkowski gained his previous professional experience with Canal+ and Ericsson where he held the positions of Technical Director and Services Sales Department Manager, respectively. He is one of the founders of Centrum Telemarketingowe Sp. z o.o.

Mr. Działkowski graduated from the Faculty of Electronics at the Warsaw University of Technology with a major in Radio and Television specialization and additionally holds an MBA degree from the University of Maryland.

On March 14, 2019 Mr. Dariusz Działkowski resigned from the position of Member of the Management Board of the Company, effective March 31, 2019.

Tomasz Gillner-Gorywoda held the position of President of the Management Board of Cyfrowy Polsat from October 2014 until December 2015. Since December 2015 he is a Member of the Management Board. Concurrently, he holds the position of General Director, Proxy at Polkomtel and Proxy at Plus Flota Sp. z o.o.

He began his professional career in 1979 in the operational department at LOT Polish Airlines, where he worked for almost 10 years. From 1988 to 2007 he worked abroad performing managerial functions in companies based in Canada (1988-1993) and Australia (1993-2007). After his return to Poland in 2008, he held managerial positions and acted as proxy for several companies. Notably, he was the President of the Management Board of Laris Investments Sp. z o.o. (2008-2013) and Apena S.A. (2011-2012). He has been vice-president of the Management Board of PRN Polska Sp. z o.o. (2008-2017). Additionally, he acted as proxy for SPV Grodzisk Sp. z o.o. (2012-2013), JK Project Sp. z o.o. (2010-2013) and 3G Sp. z o.o. (since 2011). Moreover, between 2011 and 2012 he held the position of Member of the supervisory board of Tower-Service Sp. z o.o.

Mr. Tomasz Gillner-Gorywoda is a graduate of the Faculty of Law and Administration at the University of Warsaw and post-graduate studies in management at Monash University in Melbourne.

On March 14, 2019 Mr. Tomasz Gillner-Gorywoda resigned from the position of Member of the Management Board of the Company, effective March 31, 2019.

Aneta Jaskólska has been a Member of the Management Board of Cyfrowy Polsat since July 2010. She is responsible for the Customer Service Department and Safety Department. Ms. Jaskólska is also a Member of the Management Boards of INFO-TV-FM Sp. z o.o., Liberty Poland S.A., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o., Plus TM Management Sp. z o.o. and Polkomtel.

Between 2004 and 2007 Ms. Jaskólska held the position of Proxy and Director of Legal Department of UPC Polska Sp. z o.o. She was also a Member of the Copyright Committee (*Komisja Prawa Autorskiego*). Ms. Jaskólska has many years of experience in legal advisory and services to large business entities.

Ms. Jaskólska graduated from the Faculty of Law and Administration at the Warsaw University and completed legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from Copyright, Publishing and Press Law Faculty at the Department of Management and Social Communication of the Jagiellonian University.

Agnieszka Odorowicz has been a Member of the Company's Management Board since March 1, 2016 and is responsible for the film production. From 2001 until 2009 she was an academic staff member at the Department of Trade and Market Institutions at the Cracow Academy of Economics and the author of publications on cultural management and economics as well as the promotion of regions. In the years 2002-2004 the authorities of the Academy appointed her to the position of director of the Development and Promotion Center of the Cracow Academy of Economics. In the years 2003-2004 she acted as deputy Minister of Culture for structural funds, responsible for negotiations with the European Commission regarding the use of EU funds for the development of cultural infrastructure. During the years 1997-2003 she was the artistic director of the International Competition of Contemporary Chamber Music and producer of several shows for public television. In the years 2004-2005 she held the position of Secretary of State at the Ministry of Culture, where she was responsible for the legal and economic departments as well as cooperation with the Parliament. During this period she was the Chairwoman of the inter-ministerial group for the media policy of the State. In the years 2005-2010 she was the first director of the Polish Film Institute. Reelected as director in a competition in 2010, she managed the Polish Film Institute until October 2015.

Ms. Odorowicz is a graduate of the Cracow University of Economics, an economist and cultural manager.

Maciej Stec has been a Member of the Management Board of Cyfrowy Polsat S.A since November 2014. Concurrently, he holds the position of the Member of the Management Board and Sales & Foreign Acquisition Director of Telewizja Polsat. He is also a Member of the Supervisory Board of Muzo.fm Sp. z o.o. He also holds the function of Management Board Member at Polsat Ltd. and Polsat JimJam Ltd.

From the beginning his professional career Mr. Stec was connected with television market. From 1998 he worked among others for OMD Poland Sp. z o.o. media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. From February 2003 until May 2007 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

Mr. Stec graduated from the Management and Marketing Faculty of the Leon Kozminski Academy of Entrepreneurship and Management in Warsaw.

By the resolution of the Supervisory Board of the Company dated January 17, 2019, Mr. Maciej Stec was appointed Vice President of the Management Board of Cyfrowy Polsat, effective April 1, 2019. Furthermore, effective April 1, 2019 Mr. Maciej Stec will also hold the position of Vice President of the Management Board of Polkomtel, a subsidiary of the Company's.

Katarzyna Ostap-Tomann has been connected with Cyfrowy Polsat Group since 2009, where she assumed the position of deputy CFO of the Capital Group in 2015, and she has been a Member of the Management Board responsible for the finances of the Group since October 2016. She also holds the position of Member of the Management Board of Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o., INFO-TV-FM Sp. z o.o., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o. and Polsat License Ltd. She is also a Member of the Supervisory Board of Plus Bank S.A.

In the years 1996–2004 she was employed at various positions at Philip Morris in Poland and in the regional headquarters of the company in Switzerland, where she gained considerable experience in the fields of corporate finance, financial reporting, management accounting and internal audit. In the years 2004-2009 she worked for TVN Group as Financial Controller of the capital group. She was responsible for the preparation of financial statements at the capital group level and internal management reporting. In 2009 she took the position of Director of Controlling at Cyfrowy Polsat, where she became Financial Director in 2012. Since 2011 she has also held the function of Financial Director at Telewizja Polsat, where she was appointed as Member of the Management Board in 2014. She has been a member of the ACCA since 2001. In 2013-2017 she was a member of the ACCA Council in Poland.

Ms. Ostap-Tomann is a graduate of the Warsaw School of Economics with a major in International Economic and Political Relations and also holds the title of MBA from Oxford Brookes University.

8.7.3. Competences and bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and the Best Practices 2016. Upon taking decisions related to our matters, the Members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

- (i) in the case of one person Management Board – the President of the Management Board acting independently, and
- (ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, the Vice-president of the Management Board acting jointly with a Member of the Management Board or another Vice-president, two Members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a Member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding Company affairs to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least a half of the Members of the Board are present in the meeting and all Members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the Members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the Members of the Management Board. Each Member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board or an authorized Member of the Board calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one Member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the Members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of Members of the Management Board in 2018 is included in Note 42 of the financial statements for the financial year ended December 31, 2018.

8.7.5. Managerial contracts with Members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The Company has concluded managerial contracts with the following Members of the Management Board: Dariusz Działkowski, Tomasz Gillner-Gorywoda, Aneta Jaskólska, Agnieszka Odorowicz and Katarzyna Ostap-Tomann. These contracts do not provide for the payment of severance packages as a result of the resignation of the mentioned above Members of the Management Board or their dismissal from the position without a material cause, or in the case when their resignation or dismissal results from a merger by acquisition of the Company.

8.8. Supervisory Board

The Supervisory Board consists of five to nine Members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of Members of the Supervisory Board for a new term, determines the number of Members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board consists of two Members meeting the criteria of an independent Member of the Supervisory Board as set out in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016. A Supervisory Board Member is required to submit a statement to the Management and Supervisory Boards of the Company on his or her compliance with independence criteria.

8.8.1. Composition of the Supervisory Board

As at January 1, 2018 the Supervisory Board comprised the following Members:

- Marek Kapuściński – Chairman of the Supervisory Board,
- Józef Birka – Member of the Supervisory Board
- Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Aleksander Myszka - Member of the Supervisory Board,
- Leszek Rekxa – Independent Member of the Supervisory Board,
- Tomasz Szelaĝ - Member of the Supervisory Board.

On June 28, 2018 the Annual General Meeting of the Company resolved that the Supervisory Board of the new, three-year term of office will consist of seven members. Starting from June 28, 2018, the Company's Supervisory Board is comprised of the following members:

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Marek Kapuściński	Chairman of the Supervisory Board Member of the Remuneration Committee	2016	2018	2021
Józef Birka	Member of the Supervisory Board	2015	2018	2021
Robert Gwiazdowski	Independent ⁽¹⁾ Member of the Supervisory Board Chairman of the Audit Committee	2008	2018	2021
Aleksander Myszka	Member of the Supervisory Board	2015	2018	2021
Leszek Rekxa	Independent ⁽¹⁾ Member of the Supervisory Board Member of the Audit Committee	2008	2018	2021
Tomasz Szelaĝ	Member of the Supervisory Board Chairman of the Remuneration Committee Member of the Audit Committee	2016	2018	2021
Piotr Źak	Member of the Supervisory Board	2018	2018	2021

(1) conforms with the independence criteria listed article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016.

Marek Kapuściński joined the Company's Supervisory Board on October 1, 2016, and has performed the function of its Chairman since 25 October 2016. He serves also as Member of the Remuneration Committee. Mr. Kapuściński graduated from the Faculty of Trade of the Academy of Planning and Statistics in Warsaw (now the Warsaw School of Economics) and completed postgraduate studies at SEHNAP in cooperation with Stern School of Business – New York University.

Until the end of September 2016, for over 25 years, he has been part of the Procter&Gamble team. From July 2011 as a General Manager and Vice President (that is a President of the Management Board/CEO) for nine key markets of the Central Europe, and before that – from January 2007 he was responsible for Poland and Baltic states. Currently, he is a Member of the Supervisory Boards of Bank Handlowy w Warszawie S.A. and Cydrownia S.A. and provides consulting services within the Essences Consulting Group. He is also involved in the activities of the public benefit organizations supporting the development of the young Polish culture and arts.

Józef Birka joined the Company's Supervisory Board in April 2015. He is an advocate and graduate of the Faculty of Law of Wrocław University. He has been associated with Telewizja Polsat S.A. since its inception, he was in charge of the function of the President of the Management Board of Telewizja Polsat during the first licensing procedure granting terrestrial license to broadcast the first independent countrywide TV channel in Poland. Since its establishment, he is a Member of the Board of the POLSAT Foundation, one of the largest non-governmental organizations operating in Poland.

Mr. Józef Birka has extensive experience of working in statutory bodies of commercial-law companies. He is a Member of the Supervisory Boards of Polkomtel, Telewizja Polsat and Elektrim S.A. Between 2004 and 2006 he was also the Supervisory Board Member of Polska Telefonia Cyfrowa Sp. z o.o. He acted actively in the Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan." He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar."

Robert Gwiazdowski has been a Member of the Company's Supervisory Board since July 2008, where he is also a Chairman of the Audit Committee. Mr. Gwiazdowski holds a post-doctoral degree of Habilitated Doctor (*doctor habilitatus*) in law and is a professor at Łazarski University. Mr. Gwiazdowski is an active attorney-at-law and tax advisor.

In the years 2005-2014, he served as President of Adam Smith Centre. He is currently a Chairman of the Institute's Council. In 2006-2007, he served as Chairman of the Supervisory Board of the Polish Social Insurance Institution (Zakład Ubezpieczeń Społecznych). At present, Mr. Gwiazdowski serves as Member of the Supervisory Boards of the following listed companies: DGA S.A., SARE S.A., Dom Maklerski IDM S.A., and MNI S.A., which operates on the telephony and TV markets.

Aleksander Myszka joined the Company's Supervisory Board in April 2015. He is a solicitor and graduate of the Faculty of Law of Wrocław University. In 1976, he commenced his career as a solicitor in a Law Firm in Oleśnica, and then he worked for Law Office No. 4 in Wrocław where he also held a position of a Director for two terms of office. In particular, he focused in his practice on civil law and since the mid-eighties he has specialized in commercial law and developed legal services for business entities. He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar." His career has been connected with Telewizja Polsat since its establishing, as Mr. Myszka is one of its co-founders. For 12 years – in the period from 1995 to 2007 – he held the position of the President of the Management Board of Telewizja Polsat.

Since April 2007 Mr. Aleksander Myszka has been a Member of the Supervisory Board of Telewizja Polsat and since November 2011 - a Member of the Supervisory Board of Polkomtel. He is also Member of the Polsat Foundation Council since its creation, that is since 1996. He is also a co-founder and a Member of Stowarzyszenie Kreatywna Polska, a society gathering the community of artists and creative industries, whose main goals are the protection of copyrights and intellectual property. In 2015, Mr. Myszka was elected to the Council of the Polish Film Institute.

Leszek Reksa was appointed a Member of the Company's Supervisory Board in July 2008, where he is also Member of the Audit Committee. Mr. Reksa graduated from the Foreign Trade Faculty of the Central School of Planning and Statistics in Warsaw (currently: Warsaw School of Economics). He has also completed numerous specialist seminars and courses in management and finance, including a seminar on corporate management at the Faculty of Finance at DePaul University in Chicago.

He has vast experience in managerial positions at various companies, including 20 years in the banking sector (Powszechna Kasa Oszczędności Bank Polski S.A.). Mr. Reksa also has many years' experience in serving on the governing bodies of commercial-law companies, which includes the positions of President of the Management Board of PHU BIMOT S.A., Member of the Supervisory Board of Bankowy Fundusz Leasingowy S.A., and Member of the Supervisory Board of Zakłady Azotowe Kędzierzyn S.A. Currently he is Vice President (CFO) of the Management Board of AGRAIMPEX Sp. z o.o. and a Member of Supervisory Board of EBU Węgrzynowo Sp. z o.o.

Tomasz Szelaąg has been a Member of the Company's Supervisory Board since October 2016, where he is also Chairman of the Remuneration Committee and Member of the Audit Committee. He graduated from the National Economy Faculty of the Economic Academy of Wrocław, with major in International Economic and Political Relations specializing in Foreign Trade. He has been involved with Cyfrowy Polsat since 2009. In 2016 he was appointed a Member of Supervisory Boards of Polkomtel, Telewizja Polska and ZE PAK.

In 2000-2003 Mr. Szelaąg was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szelaąg received PhD title for his thesis on hedging transaction used by world copper producers and went on to become a lecturer in the Faculty of International Economic Relations of the Economic Academy of Wrocław. Between 2003 and 2004 he also held a position of a lecturer in the Wrocław School of Banking - at the Faculty of International Economic Relations.

Parallel to his academic career Mr. Szelaĝ also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szelaĝ was Chief Specialist in the Currency Risk Department of KGHM Polska Miedz S.A., and then of the Market Risk and Analysis Department. In September 2004, he became Director of the Department. In December 2004, he became Director of Hedging Department of KGHM and held the function until March 2007. From April 2007 to June 2008 he worked as Director of Branch of Soci t  G n rale Bank in Wroc aw. In July 2008, Mr. Szelaĝ took the position of Vice-president for Finance in Telefonია Dialog S.A., which he held until March 2009. In Telefonია Dialog S.A. Mr. Szelaĝ was responsible for finance, accounting, controlling, and budgeting management, and also owner supervision and capital investment, logistics and purchases, project management and IT.

From May 2009 until September 2016 he held the position of Member of the Management Board and Chief Financial Officer in Cyfrowy Polsat S.A. and was responsible for broadly understood finances in the entire capital group. In the years 2010-2016 Mr. Szelaĝ was a Member of the Management Boards of numerous companies from Polsat Group, including Telewizja Polsat (October 2011-October 2014), INFO-TV-FM Sp. z o.o. (July 2012-November 2016), CPSPV1 and CPSPV2 (April 2013 – November 2016), Plus TM Management (April 2014-December 2016) and Polkomtel (September 2014-December 2016). He was also a President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. (2010-2016) and Telewizja Polsat Holdings Sp. z o.o. (2012-2016) and Member of the Supervisory Board of Plus Bank S.A. (2016-2018).

Piotr Źak was appointed a Member of the Company's Supervisory Board in June 2018. He graduated in economics from Royal Holloway, University of London.

He has been pursuing business operations in Poland since 2014, among others in the area of establishing and supporting start-up enterprises. He focuses his activities on the high-technology sector, particularly on creating and developing innovative projects that exploit the potential of Internet and traditional media, Internet entertainment, and the use of data transmission in solutions, services and products addressed to individual and business customers. He pursues his professional interests also by developing and implementing modern marketing communications tools for enterprises from the media and telecommunications sector.

He is a founder of such companies as, among others, Frenzy Sp. z o.o., a dynamically developing entity from the e-Sports industry, and Golden Coil Sp. z o.o., a company conducting operations in the field of marketing and Internet advertising.

Since March 2016 Mr. Piotr Źak has been a Member of the Supervisory Board of Telewizja Polsat Sp. z o.o., a leading broadcaster on the Polish television market, and since June 2018 - a Member of the Supervisory Board of Netia S.A., one of the largest Polish telecommunications operators being a part of Cyfrowy Polsat Group.

8.8.2. Competences and Bylaws of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the Commercial Companies Code, in particular:

- a) audit of the financial statements both as to their compliance with the books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits to the General Shareholders Meeting,
- b) creating, once a year, and presenting before the Annual General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system, and the system for managing risks relevant for the Company,
- c) appointment of Members of the Management Board,
- d) delegation of Members of the Supervisory Board to temporary performance of duties of Members of the Management Board who are unable to perform their duties,
- e) suspending particular or all Members of the Management Board for material reasons,
- f) approval of the Bylaws of the Management Board,
- g) determination of remuneration of the Members of the Management Board,
- h) appointment of a certified auditor to examine financial statements of the Company,
- i) granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

- a) creation and presentation of an evaluation of the work of the Management Board to the General Shareholders' Meeting,
- b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,
- c) approval of one-year and long-term programs for the Company developed by the Management Board,
- d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a Member of the Management Board,
- e) granting consent for participation in other companies,
- f) granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,
- g) granting consent for entering into a material agreement with a related entity,
- h) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:
 - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or
 - activities resulting in incurring a liability of the value up to PLN 10.0 million, including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.
- i) issuing, upon the Management Board's request, opinion on all issues material for the Company.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a Member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of his absence by a Member of the Supervisory Board indicated by the Chairman in writing, or another Member of the Supervisory Board elected by the Members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a Member of the Management Board, or a Member of the Supervisory Board, or upon a motion of a shareholder representing at least one tenth of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the Members of the Supervisory Board and presence of at least half of the Members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a Member of the Supervisory Board may cast their vote in writing via other Member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

- a) once a year prepare and present before the General Meeting a report on its activities and the evaluation of the situation of the Company in the scope provisioned for by corporate governance principle adopted by the Company,
- b) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.8.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular an Audit Committee, a Remuneration Committee, or a Strategic Committee, as well as ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

Pursuant to article 128 item 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight, an Audit Committee functions in the Company.

As at December 31, 2018, **the Audit Committee** comprised the following Members of the Supervisory Board:

- Robert Gwiazdowski, an independent Member of the Supervisory Board and Chairman of the Audit Committee,
- Leszek Reksa, an independent Member of the Supervisory Board,
- Tomasz Szelaĝ.

During 2018 the composition of the Audit Committee remained unchanged.

The composition of the Audit Committee meets the requirements article 128 item 1 and article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

As at December 31, 2017, Mr. **Tomasz Szelaĝ** was a Member of the Remuneration Committee. On June 28, 2018 the Company's Supervisory Board complemented the composition of the Remuneration Committee by appointing Mr. Marek Kapuściński as its member.

As at December 31, 2018, **the Remuneration Committee** comprised the following Members of the Supervisory Board:

- Tomasz Szelaĝ, Chairman of the Remuneration Committee,
- Marek Kapuściński.

The provisions of the Bylaws of the Supervisory Board apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, and in the case of the Audit Committee provisions of the Bylaws of the Audit Committee are also applicable, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its Members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its Members. The mandate of a member of a particular committee expires upon expiry of the mandate of the Member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a Member from the composition of a particular committee before the expiry of the mandate of the Member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other Member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the Members of the Supervisory Board not being Members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

Audit Committee

Among the members of the Audit Committee, the statutory independence criteria are met by the following persons:

- Robert Gwiazdowski, an independent Member of the Supervisory Board and Chairman of the Audit Committee,
- Leszek Reksa, an independent Member of the Supervisory Board.

All members of the Audit Committee possess knowledge and skills in accounting or auditing financial statements which were obtained during studies and extensive professional practice.

Mr. **Tomasz Szelaĝ**, Member of the Audit Committee, possesses knowledge and skills with regard to the sector in the which the Company operates, obtained during many years of professional career on key managerial positions within Cyfrowy Polsat Group, among others, as Member of the Management Board, Finance, in Cyfrowy Polsat.

Regulations of the Audit Committee apply to the meetings, resolutions and minutes of meetings of the Audit Committee.

Meetings of the Audit Committee are convened by the Chairman of the Audit Committee or a Member of the Audit Committee authorized by the Chairman and are held at least once a quarter, at dates determined by the Chairman of the Audit Committee. Additional meetings of the Audit Committee may be convened by the Chairman of the Audit Committee at the request of the Member of the Audit Committee, Chairman of the Supervisory Board or another Supervisory Board Member, as well as at the request of the Management Board. In 2018 five meetings of the Audit Committee were held.

The Audit Committee passes resolutions if at least half of its Members is present at the Meeting and all Members were properly invited. Resolutions are passed by an absolute majority of votes and in the case of equal number of votes, the Chairman of the Audit Committee shall have a casting vote. Members of the Audit Committee may participate in the Committee's meetings and vote in person, or by means of direct remote communications.

The work of the Audit Committee is managed by its Chairman who is responsible for preparing an agenda of each meeting or may appoint a Secretary of the Audit Committee whose tasks include in particular preparation of an agenda of each meeting and organization of the distribution of documents for Committee's meetings. A notification about the meeting, including its agenda together with all required materials, must be delivered to the Members of the Audit Committee at least 7 days before the meeting and in extraordinary circumstances a Committee's meeting may be convened at a shorter notice than the above mentioned deadline.

The Chairman of the Audit Committee may ask a relevant Management Board Member to prepare appropriate materials.

Minutes are taken of every meeting of the Audit Committee and are then signed by all Members who participated in a given meeting. Minutes of the Audit Committee meetings, including conclusions, instructions, opinions and recommendations are presented to the Supervisory Board at its next meeting as well as to the Management Board.

Members of the Supervisory Board who are not part of the Audit Committee may, at their own initiative, participate in the Committee's meeting, however without a voting right. Chairman of the Audit Committee may invite Members of the Supervisory Board, auditors, employees of the Company and other persons as experts.

The tasks of the Audit Committee include in particular monitoring of the financial reporting process, efficiency of internal control systems and risk management systems as well as internal audit and performing financial revision activities, in particular carrying out audits by an audit company.

The Audit Committee evaluates, controls and monitors independence of a certified auditor and audit company, in particular in the case when the audit company provides the Company with services other than auditing of financial documents in the Company and grants consent to provision of such services by the audit company. The Audit Committee notifies the Company's Supervisory Board about the results of audit and the role of the Committee in the auditing process as well as explains how this audit contributed to the reliability of financial reporting in the Company. In the financial year 2018 the auditing company who audited the financial statements of the Company and the financial statements of the Company's capital group did not provide on the Company's behalf any permitted services other than audit services.

The tasks of the Audit Committee also include developing a policy of selection of an audit company to carry out the audit as well as developing a policy of provision by the selected audit company, its affiliated entities and members of the audit company's network of permitted services which are not part of the audit.

The following are the main assumptions underlying selection of the auditor which are valid in Cyfrowy Polsat:

- In accordance with the Company's Articles of Association, the Company's Supervisory Board is the party selecting the chartered accountant (the auditor) for carrying out the statutory audit, while the General Meeting of Shareholders of the company is the party approving the Company's financial statement.
- The first contract with an auditor for carrying out the statutory audit is concluded by the Company for the period of at least 2 years, subject to the possibility of terminating the contract if justified grounds to do so emerge. It is assumed that the contract for the statutory audit can be extended once for another period of 2 years, however the maximum uninterrupted period of time during which statutory audits can be conducted by the same auditor or by a company related to that auditor, or any member of a given chain of companies operating in EU states of which such companies are members, may not exceed 5 years.

- The Audit Committee approves the procedure of selection of the auditor for performing the statutory audit. The auditor selection procedure is determined at Audit Committee's discretion.
- If the an auditor for statutory audit is selected, the selection procedure must meet the following criteria:
 - the auditor on its own, or as part of a chain of companies operating on the territory of the European Union, has not conducted statutory audits for the Company for a period of at least past 5 consecutive years, or of if such a company did conduct a statutory audit for the Company for a continuous period of 5 consecutive years in the past, then the period of at least 4 years has already elapsed since the last of such audits,
 - the organization of the tender process does not exclude, from the selection process, the companies which have obtained less than 15% of their total remuneration on account of auditing public interest units in the Republic of Poland during the past year which are found in the list of auditors published on the website of the Audit Oversight Committee (Komisja Nadzoru Audytowego) (a sub-page of www.mf.gov.pl).
 - neither the auditor, nor any member of the chain, of which the auditor is a member, has provided, either directly or indirectly to the company or to its subsidiaries, any prohibited services, as defined by Article 136 of the Act on Statutory Auditors, Audit Firms and Public Oversight of 11 May 2017, during the current financial year (the first year of the period covered by the tender), as well as any services related to development and implementation of internal control procedures or risk management procedures associated with the development or control of financial information, or development and implementation of any technological systems concerning financial information during the preceding year (the year preceding the first year of the period covered by the tender).
 - The value of permitted services, other than required by the law as provided by the auditor performing a statutory audit of the company and by all of the entities being members of its chain, may not exceed 70% of the average compensation for the audits during past 3 years.

The following are the major assumptions of the policy of provision by the selected auditor to Cyfrowy Polsat of the permitted services which are not audit services:

- The Company shall not conclude, with the auditor, its related companies or the members of the chain of which the auditor is a member, any agreements for the provision of prohibited services, as defined in Article 5, section 1, paragraph 2 of the Regulation (EU) No 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC.
- Prior to contracting any work, being permitted services and not being an audit, the Audit Committee performs assessment of the threats and safeguards related impartiality, mentioned in Articles 69-73 of the Act on Statutory Auditors, Audit Firms and Public Oversight. The Audit Committee also oversees compliance of the performed work with the valid law.
- Permitted services include:
 - services involving due diligence procedures related to the company's economic-and-financial standing;
 - issuing comfort letters in connection with prospectuses issued by the audited entity, carried out in accordance with the national standard for related services and consisting of performance of agreed procedures;
 - assurance services related to pro forma financial information, forecasts of results or estimated results which are included in the audited unit's prospectus;
 - audit of historical financial information to be included in the prospectus which is mentioned in the Commission Regulation (EC) No 809/2004 of 29 April 2004 implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements;
 - verification of consolidation packages;
 - confirmation of fulfillment of the terms of facility agreements concluded by the Company based on the financial information coming from the financial statements examined by a given auditor
 - assurance services in the scope related to reporting on corporate governance, risk management and corporate social responsibility;
 - services involving assessment of the compliance of the disclosures made by financial institutions and investment firms with the requirements related to disclosure of information concerning *capital adequacy and variable components of remuneration*
 - assurance concerning financial statements or other financial information intended for the supervisory authority, the supervisory board or any other supervising body of the company, or the owners whose scope exceeds the scope of the statutory audit and which are intended to assist these authorities in the fulfillment of their statutory duties.

The Audit Committee provides the Supervisory Board with recommendation regarding the selection of audit company.

In the financial year 2018 the Audit Committee recommended to the Supervisory Board to appoint Ernst & Young Audyt Polska Spółka z ograniczoną odpowiedzialnością Sp. k. to audit the financial statements of the Company and the consolidated financial statements of the Company's capital group for the years 2018 and 2019. The recommendation fulfilled the criteria set in the adopted policy of selection of an audit company and followed the selection procedure organized by the company which met the binding criteria. The recommendation was accepted by the Supervisory Board.

Additionally, the Audit Committee presents recommendations to the Company's Management Board aimed at ensuring the reliability of financial reporting in the Company.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of Members of the Supervisory Board in 2018 is included in Note 43 of the financial statements for the financial year ended December 31, 2018.

8.9. Diversity policy applicable to administrative, managing and supervising bodies of the Company

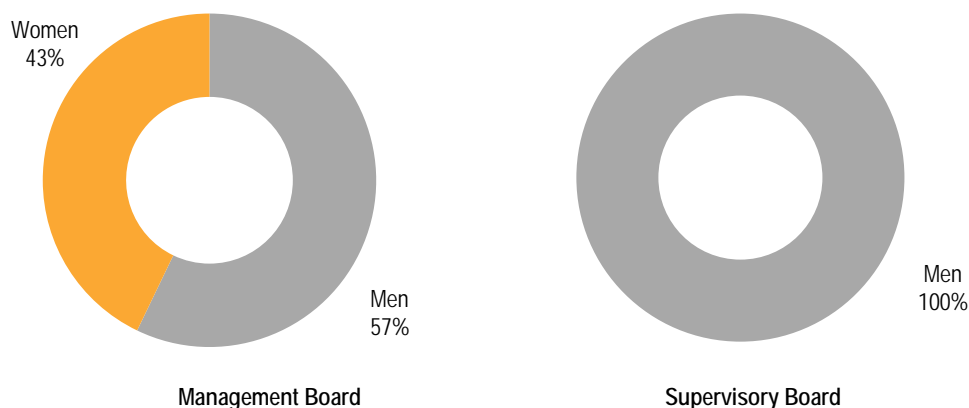
Cyfrowy Polsat adopted the *Diversity and Human Rights Respect Policy of Cyfrowy Polsat Group* (the "Diversity Policy") which has the purpose of supporting the pursuit of the Company's as well as the Group's business goals. The policy enables the Company to respond in a better way to the employees' expectations, make full use of their potential and at the same time help adjust to the changes occurring on the labor market. We trust that diversity is one of the sources of our competitive advantage, and competing views, opinions, work styles, skills and experience generate new quality and enable companies to achieve better business results.

The basic principles of Polsat Group's Diversity Policy include respect for human rights and prohibition of any discrimination due to gender, age, sexual orientation, competence, experience, potential degree of disability, nationality, ethnic and social origin, color of skin, language, parental status, religion, confession or lack of any confession, political views, or any other dimensions of diversity which are defined by valid law.

The principles and the goals of Polsat Group's Diversity Policy are regulated in the Group's corporate documents which apply to all the companies that form the Group, especially in the Code of Ethics, HR Policy, Work Regulations, Regulations of Anti-Mobbing Committee. The Diversity Policy is implemented, among others, by including diversity-related issues in HR processes and tools, such as organization of training and staff development sessions, recruitment and rewarding processes. An Ethics Ombudsman has been appointed in the Group whose tasks include, among others, the prevention of discrimination and mobbing.

The provisions of Polsat Group's Diversity Policy apply to all employees, including Management Board Members and Supervisory Board Members of the Company. The diagrams below present the gender and age structures of the Members of the Management and Supervisory Boards of Cyfrowy Polsat.

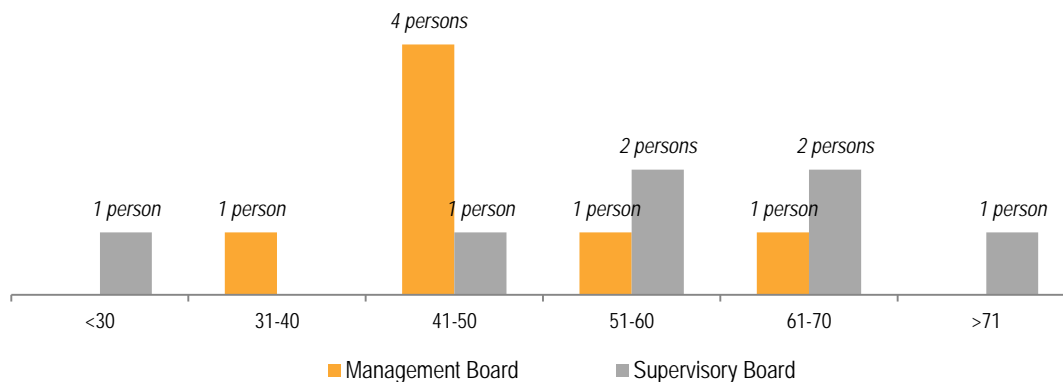
Structure of the Management Board and the
Supervisory Board with respect to gender



As at December 31, 2018 four men and three women sat on Cyfrowy Polsat's Management Board while the Supervisory Board included seven men.

Members of the Management Board and the Supervisory Board have education in such fields as management and marketing, law, economy, finance, or technical education as well as rich and diverse professional experience.

Structure of the Management Board and Supervisory Board with respect to age



Tobias Solorz
President of the Management Board

Katarzyna Ostap-Tomann
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, March 20, 2019

GLOSSARY

Capitalized 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 Litenite.
Aero2 Group	Aero2 and its indirect and direct subsidiaries.
AltaLog	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Aero2.
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.
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 Resolution of the Management Board of the Company 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.
Coltex	Coltex ST spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000362339.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015 and the Second Amendment and Restatement Deed of March 2, 2018.
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 30, 2022.
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 30, 2022.
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. Merged with Cyfrowy Polsat S.A. on November 30, 2018.
EEA, European Economic Area	Internal Market guaranteeing free move of goods, services, capital and persons, comprising EU Member States and Island, Norway and Lichtenstein.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668. Merged with Cyfrowy Polsat S.A. on April 28, 2018.

Embud2	Embud2 spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna (Limited Liability Company Limited Joint-Stock Partnership) entered in the register of entrepreneurs of the National Court Register under entry No. 0000676753, legal successor of Embud spółka z ograniczoną odpowiedzialnością.
Eleven Sports Network	Eleven Sports Network spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000558277, a producer and distributor of sports content on the territory of Poland.
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
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. Redeemed in full on April 26, 2017.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel. Merged with Cyfrowy Polsat on April 7, 2017.
Midas	Midas Spółka Akcyjna previously entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704. On November 30, 2016 Midas merged with Aero2.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
Netia	Netia spółka akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000041649, a telecommunications operator providing, among others, online solutions and multimedia entertainment.
Netia Group	Netia and the indirect and direct subsidiaries of Netia.
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, operator of mobile network Play.
Play Communications	Play Communications S.A. (société anonyme), with its registered office in Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies under number B183803, owner of P4.
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 30, 2022.
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 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 30, 2022.
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 0000378997.
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 0000377416.
Polkomtel Group	Polkomtel jointly with its indirect and direct subsidiaries.
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.
Reddev	Reddev Investments Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
Roaming Regulation	Regulation (EU) No. 531/2012 of the European Parliament and of the Council of June 13, 2012 on roaming on public mobile communications networks within the Union
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Second Amendment and Restatement Deed	Agreement concluded on March 2, 2018 between the Company and UniCredit Bank AG, London Branch, amending and consolidating the CP SFA and the PLK SFA and amending the Amendment, Restatement and Consolidation Deed.
Sferia	Sferia Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000246663.
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.
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 0000567976.
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)).
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).
Base transceiver station	(or: relay station / base station / BTS / transmitter / nodeB / eNodeB) – a device equipped with an antenna transceiver which connects a mobile terminal (e.g., mobile phone or mobile router) with a transmission part of a telecommunications network. A base station uses a single technology (2G, 3G or LTE) on a separate carrier (a frequency block from a separate bandwidth). A base station shall not be mistaken with a site.
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $CAGR = \left(\frac{W_{rk}}{W_{rp}} \right)^{\left(\frac{1}{rk-rp} \right)} - 1$ <p>where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.</p>
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.
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.
Commercial group	Viewership group comprising viewers aged 16-49, including time-shifted viewership Live+2, i.e. for two consecutive days after the original airing date).
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.
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).
FTR	A wholesale charge for call termination in another operator's fixed-line telecommunications network (Fixed Termination Rate).

Term	Definition
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024 ³ bytes, depending on the interpretation – decimal or binary, respectively.
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).
LTE	Long Term Evolution - a standard for high-speed, wireless data transmission also referred to as 4G. Based on a carrier bandwidth limited to a maximum of 20MHz it supports data transmission speed of up to 150 Mb/s (downlink, using MIMO 2x2 antennas).
LTE-Advanced	Subsequence standard for high-speed, wireless data transmission of the fourth generation (4G). Through carrier aggregation from different bandwidths (a total of up to 100 MHz) it allows to significantly increase maximum data transmission speed up to 3 Gb/s (downlink, using MIMO 8x8 antennas).
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.
MIMO	Multiple Input Multiple Output, a method for multiplying the capacity of a wireless network using multiple transmit and receive antennas.
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 several 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.
ODU-IDU	Outdoor Unit Indoor Unit, a proprietary solution of Polsat Group based on a set comprising an external LTE modem (ODU) and an indoor WiFi router (IDU), which increases effective coverage and improve the quality of the LTE signal.
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).
Site	(or: mast/tower/roof construction) – a single steel construction located in a separated geographical region which allows to install one or a number of base stations in order to provide radio signal to mobile terminals of end-users within that region.
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.
TSV (Time Shifted Viewing)	Shifting in time of the consumption of content broadcast on TV in real time by recording it on a storage medium (e.g. digital video recorder) and replaying it at a later time.
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 (<i>Voice over LTE</i>).
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.

Statement of the Supervisory Board of Cyfrowy Polsat S.A. on the policy of section of an audit company and the appraisal of the financial statements of Cyfrowy Polsat S.A., the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group, the report of the Management Board on the activities of Cyfrowy Polsat S.A. and the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018

I. Statement on the policy of section of an auditing company

The Supervisory Board hereby states the following:

- 1) On January 23, 2018 it selected an audit firm to audit the annual financial statements of Cyfrowy Polsat S.A. and Cyfrowy Polsat S.A. Capital Group, namely Ernst & Young Audyt Polska spółka z ograniczoną odpowiedzialnością sp. k., in compliance with the applicable regulations,
- 2) Both the audit firm and the audit team members met the conditions to develop an impartial and independent report on the audit of annual financial statements in line with the mandatory legal provisions, standards of profession and rules of professional ethics,
- 3) Cyfrowy Polsat S.A. complies with the provisions on the rotation of the audit firm and the key auditor as well as mandatory cooling-off periods,
- 4) Cyfrowy Polsat S.A. has adopted the policy of section of an audit company and the policy of provision to the issuer by an audit company, entities affiliated with that audit company or a member of their networks, of authorized non-audit services, including services exempted conditionally from the ban on provision of services by an audit company,
- 5) The requirements relating to the establishment, composition and functioning of the Audit Committee including those relating to independence of the majority of its members as well as to knowledge and skills in the sector in which Cyfrowy Polsat S.A. operates and in accounting or auditing are fulfilled,
- 6) The Audit Committee has performed the tasks set forth in the mandatory legal provisions.

II. The appraisal of the financial statements of Cyfrowy Polsat S.A., the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group, the report of the Management Board on the activities of Cyfrowy Polsat S.A. and the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018

The Supervisory Board has examined and appraised the following documents:

- 1) the financial statements of Cyfrowy Polsat S.A. for the financial year 2018 prepared in accordance with International Financial reporting Standards, including:
 - a) balance sheet as at December 31, 2018, showing the balance sheet total of PLN 13,833.6 million,
 - b) profit and loss account for 2018, showing net profit of PLN 488.5 million,
 - c) statement of changes in equity for 2018, showing an increase in total equity by PLN 248.7 million,
 - d) cash flow statement, showing an increase in net cash and cash equivalents by PLN 228.4 million,
 - e) notes to financial statements.
- 2) the report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year 2018,

- 3) the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group for the financial year 2018 prepared in accordance with International Financial reporting Standards, including:
- a) consolidated balance sheet as at December 31, 2018, showing the balance sheet total of PLN 30,696.8 million,
 - b) consolidated profit and loss account for 2018, showing net profit of PLN 816.1 million,
 - c) consolidated statement of changes in equity for 2018, showing an increase in total consolidated equity by PLN 1,758.4 million,
 - d) consolidated cash flow statement, showing an increase in net cash and cash equivalents by 5.3 million,
 - e) notes to consolidated financial statements.
- 4) the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018.

Having analyzed the above-mentioned documents and taking into consideration the independent auditor's reports on the audit of the annual financial statements of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group for the year ended December 31, 2018, and having acquainted with the information of the Audit Committee on the course and results of the examination of the fairness of financial report in Cyfrowy Polsat S.A. Capital Group, the Supervisory Board hereby states that the information presented in the above mentioned statements reflects in an accurate and proper manner the operational and financial standing of Cyfrowy Polsat S.A.

Considering the above, the Supervisory Board hereby states that:

- the financial statements of Cyfrowy Polsat S.A. for the financial year 2018,
- the report of the Management Board on the activities of Cyfrowy Polsat S.A. in the financial year 2018,
- the consolidated financial statements of Cyfrowy Polsat S.A. Capital Group for the financial year 2018,

the report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in 2018

have been drawn up in compliance with the books and documents as well as with the factual status and mandatory legal provisions.

Management Board's representations

Pursuant to the requirements of the *Regulation of the of the Minister of Finance of 29 March 2018 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,
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,
Katarzyna Ostap-Tomann, Member of the Management Board,
Maciej Stec, Member of the Management Board,

hereby represents that:

- to the best of its knowledge the annual financial statements and the comparative information were prepared in accordance with the currently effective accounting principles, and they truly and fairly present the financial position of the Company as well as its financial performance and the Management Board's report on activities contains a true image of the Company's development, achievements and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has audited the annual financial statements, was selected in accordance with the regulations of law. That entity as well as the registered auditor who has carried out the audit fulfilled the conditions for expressing an unbiased and independent opinion about the financial statements pursuant to relevant provisions of the national law and industry norms.

Tobias Solorz	Dariusz Działkowski	Tomasz Gillner-Gorywoda	Aneta Jaskólska
President of the Management Board	Member of the Management Board	Member of the Management Board	Member of the Management Board

Agnieszka Odorowicz	Katarzyna Ostap-Tomann	Maciej Stec
Member of the Management Board	Member of the Management Board	Member of the Management Board

Warsaw, 20 March 2019



The Polish original should be referred to in matters of interpretation.
Translation of auditor's report originally issued in Polish.

Ernst & Young Audyty Polska spółka z ograniczoną
odpowiedzialnością sp. k.
Rondo ONZ 1
00-124 Warszawa

+48 (0) 22 557 70 00
+48 (0) 22 557 70 01
www.ey.com/pl

INDEPENDENT AUDITOR'S REPORT ON THE AUDIT

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

Audit report on the annual financial statements

Opinion

We have audited the annual financial statements of Cyfrowy Polsat S.A. (the 'Company') located in Warsaw at Łubinowa 4A, containing: balance sheet as at 31 December 2018, income statement, statement of comprehensive income, cash flow statement, statement of changes in equity for the period from 1 January 2018 to 31 December 2018 and notes to the financial statements (the 'financial statements').

In our opinion the financial statements:

- give a true and fair view of the financial position of the Company as at 31 December 2018 and its financial performance and its cash flows for the period from 1 January 2018 to 31 December 2018 in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union ('IFRS') and the adopted accounting policies,
- are in respect of the form and content in accordance with legal regulations governing the Company and the Company's Statute,
- have been prepared based on properly maintained accounting records, in accordance with chapter 2 of the Accounting Act dated 29 September 1994 (the 'Accounting Act').

The opinion is consistent with the additional report to the Audit Committee issued on 20 March 2019.

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing in the version adopted as the National Auditing Standards by the National Council of Statutory Auditors ("NAS") and pursuant to the Act of 11 May 2017 on Statutory Auditors, Audit Firms and Public Oversight (the 'Act on Statutory Auditors') and the Regulation (EU) No. 537/2014 of the European Parliament and of the Council of 16 April 2014 on specific requirements regarding statutory audit of public-interest entities and repealing Commission Decision 2005/909/EC (the 'Regulation 537/2014'). Our responsibilities under those standards are further described in the '*Auditor's responsibilities for the audit of the financial statements*' section of our report.



We are independent of the Company in accordance with the Code of ethics for professional accountants, published by the International Federation of Accountants (the 'Code of ethics'), adopted by the National Council of Statutory Auditors and other ethical responsibilities in accordance with required applicable rules of the audit of financial statements in Poland. We have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of ethics. While conducting the audit, the key certified auditor and the audit firm remained independent of the Company in accordance with the independence requirements set out in the Act on Statutory Auditors and the Regulation 537/2014.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. They include the most significant assessed risks of material misstatement, including the assessed risks of material misstatement due to fraud. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we have summarized our reaction to these risks and in cases where we deemed it necessary, we presented the most important observations related to these types of risks. We do not provide a separate opinion on these matters.

Key audit matter	How the matter was addressed in our audit
<p><u>First year audit</u></p> <p>The financial statements of the Company for the year ended 31 December 2018 were the first being subject to our audit. Bearing in mind the size and scope of operations of the Company, the key was to understand the complexity of the Company's organizational structure and its impact on processes within the Company.</p> <p>During the audit of the financial statements, we performed a number of additional procedures necessary to understand and gain knowledge about: (i) the Company's business profile and its accompanying processes, (ii) specific</p>	<p>Our audit procedures in response to the described key audit matter included among others:</p> <ul style="list-style-type: none"> - conducting the kick-off meeting with key personnel responsible for financial reporting of the Company; - gaining an understanding of the control mechanisms implemented by the Company and testing of selected control mechanisms in relation to individual processes; - understanding of the Company's accounting policy and significant amounts included in the

<p>risks related to the business, (iii) control mechanisms implemented by the Company and policies affecting financial reporting of the Company.</p> <p>These procedures allowed us to assess the risk of the audit, including inherent audit risk and control risk, identify the risk of material misstatement, and in consequence to determine materiality levels and the scope of audit procedures.</p> <p>In addition, as a part of the first year audit, the purpose of our additional procedures was to determine whether opening balances contain misstatements that materially affect the financial statements for the current period and whether the accounting policies were correctly and continuously accounted for in preparation of the financial statements for the current period, or whether changes that were made during the period were properly accounted and presented in accordance with the applicable financial reporting framework.</p>	<p>financial statements based on professional judgement and estimates;</p> <ul style="list-style-type: none"> - meeting with the key auditor acting on behalf of the predecessor audit firm, including discussion on key audit matters and review of the documentation from the prior year audit; - assessment of key audit matters from prior financial year and their impact on the financial statements of the Company for the current period and on the opening balance. <p>The results of our procedures, as well as the audit strategy determined taking those results into considerations, have been communicated to the Management and the Audit Committee of the Company.</p>
<p><u>Revenue recognition and accounting</u></p> <p>Revenues from sales of the Company for the year ended 31 December 2018 amounted to PLN 2 354.5 million.</p> <p>Revenue recognition was assessed as a key audit matter due to the fact that the accuracy of the revenue recognition is an inherent industry risk. This is because of the complexity of the billing and other IT systems, that process large volumes of data, combination of different products and services offered, including bundled offers.</p>	<p>In the course of performed audit procedures, we have documented our assessment of Company's accounting policies in regards to revenue recognition and accounting in accordance with IFRS 15 and related key judgements and estimates applied by the Company's Management.</p> <p>Additionally, our procedures included, among others:</p> <ul style="list-style-type: none"> - understanding of the process of implementation of IFRS 15 including identification of significant revenue streams;

<p>Furthermore, the application of International Financial Reporting Standard 15 'Revenue from contracts with customers' ('IFRS 15'), in particular its first time implementation, involves a number of key judgements and estimates, that are related among others to identification of the performance obligations, determination of the transaction price or identification of material rights, as well as calculation of the impact of the above standard as at 1 January 2018.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>Disclosure related to applied accounting policies and key judgements related to revenue recognition are included in note 6 'Accounting policies' to the financial statements.</p> <p>Disclosure on the first time adoption of IFRS 15 is included in note 5 'Implementation of IFRS 9 and IFRS 15' to the financial statements.</p> <p>Disclosures on revenue are included in note 9 'Revenue' to the financial statements.</p>	<ul style="list-style-type: none"> - understanding of the processes of revenue recognition, as well as identification and assessment of key controls mechanisms; - testing of controls over revenue related processes; - evaluation of relevant IT systems, including testing of controls in place which included manage changes as well as logical access controls in IT systems used in the revenue recognition processes; - analytical procedures, including analysis of monthly trends and data for significant revenue streams versus budgets and forecasts; - reconciliation of balances of contract assets, contract costs and contract liabilities to source documentation; - substantive testing on sample of agreements and invoices for customers in respect of revenue recognition and verification of payments received; - analysis of allowance for bad debt, capitalized contract costs and contract assets, including assessment of the adequacy of methodology applied for the purpose of allowance calculation as well as analysis of significant, unsettled balances. <p>We also assessed the adequacy of the Company's disclosures in respect of the revenue recognition and accounting in the financial statements.</p>
<p><u>Fixed assets (including goodwill) impairment analysis</u></p> <p>As at 31 December 2018 the Company presents fixed assets in the amount of PLN 12 933.9 million (including goodwill of PLN 197 million), which constitute</p>	<p>Our audit procedures in relation to the described key audit matter, included among others:</p>

<p>93.5% and 1.4% of total assets respectively.</p> <p>Under requirements of IAS 36 'Impairment of assets' ('IAS 36'), the Company is required to test the amount of fixed assets for impairment in the financial statements.</p> <p>For the purpose of impairment tests the Company's Management used certain judgements such as:</p> <ul style="list-style-type: none"> (i) identification of cash generating units ('CGU') and allocation of goodwill to these cash generating units, (ii) continuance of current and expected market and economics conditions, (iii) expected revenue and costs levels, (iv) planned CAPEX, (v) weighted average cost of capital ("WACC"). <p>This matter was considered key audit matter from the financial statements perspective, due to the following (i) significance of the above-mentioned non-current assets in the financial statements, (ii) intangible nature of significant part of the above- mentioned assets, (iii) significance of the impact of Company's Management professional judgement necessary to establish the carrying amounts of non-current assets based on discounted cash flows, which are uncertain by default.</p> <p><i>Reference to related disclosures in the financial statements</i></p> <p>Disclosure related to applied accounting policies and key judgements related to</p>	<ul style="list-style-type: none"> - understanding and assessment of the accounting policies and procedures applied (including internal control environment) in the area of assessment of impairment indicators, identification of the events indicating the impairment as well as impairment tests; - understanding and assessment of the judgements and estimates used by the Company's Management in relation to grouping the assets within CGUs and goodwill allocation; - assessment, with involvement of the valuation specialists, of assumptions and estimates made by the Company's Management and used for the purposes of defining the recoverable amount, including: <ul style="list-style-type: none"> (i) applied future key macroeconomic assumptions (including: discount rate, forecasted growth rate) by benchmarking to market data and observable external data, (ii) assumptions applied for establishing terminal values i.e. cash flows and interest rate after the forecast period; - verification of mathematical accuracy of discounted cash flows model; - inquiring the financial personnel and Company's Management about status of historical accuracy of assumptions made, including validity and applicability of these key assumptions; - analysis of information from external sources such as industry press in reference to potential risks related to realization of the assumptions made by the Company's Management; - reconciliation of the source data being the basis for the impairment test models and assessment of impairment indicators based on forecasts and budgets;
---	--

<p>the impairment of assets are included in note 6 'Accounting policies' to the financial statements.</p> <p>Disclosures related to key estimates and assumptions, including sensitivity analysis as well as results of impairments tests of assets, goodwill and intangible assets with indefinite useful life, which were prepared by the Company's Management, are included in note 17 'Impairment test on goodwill allocated to the <i>Services to individual and business customers</i> cash-generating unit' and in the note 46 'Judgments, financial estimates and assumptions' to the financial statements.</p>	<ul style="list-style-type: none"> - comparison of Company's equity balance as of 31 December 2018 with its market capitalization; - assessing the sensitivity analysis of the models prepared by the Company's Management to changes in significant assumptions. <p>We also assessed the adequacy of the disclosures made in the financial statements describing the impairment test and sensitivity analysis.</p>
<p><u>Claims, disputes and contingent liabilities</u></p> <p>Due to its complex structure and the fact that the Company is operating in constantly changing legal and regulatory environment, the Company is a party to court and administrative proceedings, including tax and regulatory authorities.</p> <p>The decision whether to create the provisions and in what amount, as well as the estimate and scope of disclosures of contingent liabilities are subject to the Company's judgments, often based on currently available information on the legal status of the proceedings, which involves an inherent risk of uncertainty. Consequently, claims, disputes and contingent liabilities were assessed as a key audit matter.</p>	<p>Our audit procedures in relations to the described key audit matter, included among others:</p> <ul style="list-style-type: none"> - understanding and evaluation of the applied procedures, including the internal control environment relating to the identification, recognition and measurement of events indicating the need to recognize provisions or making disclosures in the financial statements; - monitoring of information from the external sources in order to identify the Company's breach or potential breach of laws and regulations; - analysis and evaluation, with the support of our tax law specialists, of the responses received from law and tax offices responsible for conducting court, tax and administrative proceedings on behalf of the Company, including an assessment of the probability of negative resolutions of these proceedings;

<p><i>Reference to related disclosures in the financial statements</i></p> <p>Disclosure related to applied accounting policies and key judgements related to the provisions and contingent liabilities are included in note 6 'Accounting policies' to the financial statements.</p> <p>Disclosures related to the claims, disputes and contingent liabilities are included in note 40 'Litigations', note 44 'Important agreements and events' and note 46 'Judgments, financial estimates and assumptions' to the financial statements.</p>	<ul style="list-style-type: none"> - analysis and assessment of contingent liabilities and changes in the value of provisions for claims and litigations; - review of minutes from meetings of the decision making bodies of the Company as well as protocols from the controls conducted by supervisory authorities and correspondence with these authorities. <p>We also assessed the adequacy of disclosures regarding significant pending court, out-of-court and tax proceedings and contingent liabilities in the Company's financial statements.</p>
<p><u>Taxation (current and deferred tax)</u></p> <p>The current composition of the capital group, in which the Company is a parent is a result of consolidation, structure-related activities 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, deferred tax assets and deferred tax liabilities not only for the companies directly involved in such consolidation, structure-related activities and other transactions involving assets of considerable value, but also on respective members or shareholders.</p> <p>Regulations regarding VAT, corporate income tax and social security contributions are subject to frequent changes. These changes result in there being little point of reference and few established precedents that may be followed. The binding regulations also</p>	<p>Our audit procedures in relations to the described key audit matter, included among others:</p> <ul style="list-style-type: none"> - understanding and assessment of the procedures applied, including internal control environment, in the area of accounting for tax purposes (current and deferred income tax); - analysis of tax rulings possessed by the Company, internal and external analyses supporting executed structure-related activities and adopted treatment for the tax purposes by the Company; - analysis of approach of predecessor auditor in respect of transactions executed in the previous years; - analysis of current correspondence with tax authorities; - monitoring of current case-law and tax rulings for cases where the fact pattern and considered issue were similar to the state and

<p>contain uncertainties, resulting in differences in opinion regarding the legal interpretation of tax regulations both between tax administration units as well as tax administration authorities and entrepreneurs.</p> <p>In the light of these ambiguities, the final tax treatment application of particular economic transactions may not be known until issuance of the final administration decision by the relevant tax authority or the courts.</p> <p>Based on the above, in accordance with the IFRS, an administration or court dispute or fact of examination of a particular tax treatment by the authorized government authority may affect the Company's accounting for a current or deferred tax asset or liability. Consequently, the Company's Management considered key judgements and estimates in respect of most likely outcomes of tax conclusions made by tax organs.</p> <p>Additionally, on 15 July 2016, amendments were made to the Tax Ordinance to introduce the provisions of General Anti-Avoidance Rule (GAAR). GAAR are targeted to prevent origination and use of factitious legal structures made to avoid payment of tax in Poland. The Management carries out ongoing assessment on tax treatment of particular significant economic transactions in the context of GAAR.</p> <p>As at 31 December 2018, the Company's Management performed detailed analysis of the deferred tax assets recoverability.</p>	<p>issues existing in the Company (including past transactions impacting deferred tax position);</p> <ul style="list-style-type: none"> - analysis and assessment, with assistance of tax experts, obtained responses from Company's tax advisors of regarding status of tax controls, including estimation of probability of unfavorable outcome, including significant transactions from previous years having an impact on tax settlements or recognition of additional deferred tax assets or decrease of deferred tax liabilities; - understanding of the current and deferred tax computation process and assessment of key control mechanisms in this area; - review of deferred tax asset recoverability model; - analysis of assumptions used for recognition and computation of deferred tax and their consistency with the analysis of goodwill impairment test and financial forecasts prepared by the Company's Management. <p>We have also assessed the adequacy of disclosures relating to taxes (both current and deferred) included in the financial statements.</p>
---	---

In addition, Company's Management's assessment process in respect to deferred tax asset recoverability is based on assumptions, specifically the timing and amount of future taxable profits, against which deductible temporary differences and tax losses carried forward can be utilized.

Due to the significance of tax settlements and significant element of Company's Management judgement related to interpretation of tax regulations as well as, in many cases, lack of unequivocal certification, we considered this topic as key audit matter.

Reference to related disclosures in the financial statements

Disclosures on taxes are included in note 13 'Income tax', note 41 'Other disclosures', note 44 'Important agreements and events' and note 46 'Judgments, financial estimates and assumptions' of the financial statements as well as in "Key risk and threat factors" included in the Company's Management Report for the period from 1 January 2018 to 31 December 2018.

Other matters

The financial statements for the prior financial year ended 31 December 2017 were subject to an audit by a key certified auditor acting on behalf of another authorised audit firm, who on 21 March 2018 issued an unqualified opinion on these financial statements.



Responsibilities of the Company's Management and members of the Supervisory Board for the financial statements

The Company's Management is responsible for the preparation, based on properly maintained accounting records, the financial statements that give a true and fair view of the financial position and the financial performance in accordance with required applicable rules of International Accounting Standards, International Financial Reporting Standards approved by the European Union, the adopted accounting policies, other applicable laws, as well as the Company's Statute, and is also responsible for such internal control as determined is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, The Company's Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless The Company's Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Company's Management and the members of the Company's Supervisory Board are required to ensure that the financial statements meet the requirements of the Accounting Act. The members of the Company's Supervisory Board are responsible for overseeing the Company's financial reporting process.

Auditor's responsibility for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement due to fraud or error, and to issue an independent auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not guarantee that an audit conducted in accordance with NAS will always detect material misstatement when it exists. Misstatements may arise as a result of fraud or error and are considered material if it can reasonably be expected that individually or in the aggregate, they could influence the economic decisions of the users taken on the basis of these financial statements.

In accordance with International Auditing Standard 320, section 5, the concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. Hence all auditor's assertions and statements contained in the auditor's report are made with the contemplation of the qualitative and quantitative materiality levels established in accordance with auditing standards and auditor's professional judgment.

The scope of the audit does not include assurance on the future profitability of the Company nor effectiveness of conducting business matters now and in the future by the Company's Management.



Throughout the audit in accordance with NAS, we exercise professional judgment and maintain professional skepticism and we also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or override of internal control,
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control,
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Company's Management,
- conclude on the appropriateness of the Company's Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our independent auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our independent auditor's report, however, future events or conditions may cause the Company to cease to continue as a going concern,
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other information, including the Directors' Report

The other information comprises the Directors' Report for the period from 1 January 2018 to 31 December 2018, the representation on the corporate governance and the representation on preparation of the statement on non-financial information, mentioned in article 49b, section 1 of the Accounting Act as a separate element of the Directors' Report (jointly 'Other Information').

Responsibilities of the Company's Management and members of the Supervisory Board

The Company's Management is responsible for the preparation the Other Information in accordance with the law.

The Company's Management and members of the Company's Supervisory Board are required to ensure that the Directors' Report (with separate elements) meets the requirements of the Accounting Act.

Auditor's responsibility

Our opinion on the financial statements does not include the Other Information. In connection with our audit of the financial statements, our responsibility is to read the Other Information and, in doing so, consider whether it is materially inconsistent with the financial statements or our knowledge obtained during the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact in our independent auditor's report. Our responsibility in accordance with the Act on Statutory Auditors is also to issue an opinion on whether the Directors' Report was prepared in accordance with relevant laws and that it is consistent with the information contained in the financial statements.

In addition, we are required to inform whether the Company has prepared the representation on non-financial information and to issue an opinion on whether the Company has included the required information in the representation on application of corporate governance.

Opinion on the Directors' Report

Based on the work performed during our audit, in our opinion, the Directors' Report:

- has been prepared in accordance with the article 49 of the Accounting Act and paragraph 70 of the Decree of the Minister of Finance dated 29 March 2018 on current and periodic information published by issuers of securities and conditions for recognition as equivalent the information required by laws of non-EU member states (the 'Decree on current and periodic information'),
- is consistent with the information contained in the financial statements.

Moreover, based on our knowledge of the Company and its environment obtained during our audit, we have not identified material misstatements in the Directors' Report.

Opinion on the corporate governance application representation

In our opinion, in the representation on application of corporate governance, the Company has included information stipulated in paragraph 70, section 6, point 5 of the Decree on current and periodic information.

Moreover, in our opinion, the information stipulated in paragraph 70, section 6, point 5 letter c-f, h and i of the Decree included in the representation on application of corporate governance is in accordance with applicable laws and information included in the financial statements.

Information on non-financial information

In accordance with the requirements of the Act on Statutory Auditors, we inform that the Company has included in Directors' Report information on the preparation of a separate report on non-financial information, referred to in art. 49b par. 9 of the Accounting Act and that the Company has prepared such a separate report.

We have not performed any attestation procedures services in respect to the separate report on non-financial information and do not express any assurance in its respect.

Representation on the provision of non-audit services

To the best of our knowledge and belief, we represent that services other than audits of the financial statements, which we have provided to the Company and its subsidiaries, are compliant with the laws and regulations applicable in Poland, and that we have not provided non-audit services, which are prohibited based on article 5 item 1 of Regulation 537/2014 and article 136 of the Act on Statutory Auditors. The non-audit services, which we have provided to the Company and its subsidiaries in the audited period, have been disclosed in the Directors' Report.



Appointment of the audit firm

We were appointed for the audit of the Company's financial statements initially based on the resolution of the Supervisory Board from 23 January 2018. We are auditing the financial statements of the Company for the first time.

Warsaw, 20 March 2019

Key Certified Auditor

Jarosław Dac
certified auditor
no in the register: 10138

on behalf of:
Ernst & Young Audyt Polska spółka
z ograniczoną odpowiedzialnością sp. k.
Rondo ONZ 1, 00-124 Warsaw
no on the audit firms list: 130

CYFROWY POLSAT S.A.

**Financial Statements
for the year ended 31 December 2018**

**Prepared in accordance
with International Financial Reporting Standards
as adopted by the European Union**

Table of contents

APPROVAL OF THE FINANCIAL STATEMENTS	4
INCOME STATEMENT	5
STATEMENT OF COMPREHENSIVE INCOME	5
BALANCE SHEET	6
CASH FLOW STATEMENT	8
STATEMENT OF CHANGES IN EQUITY	9
NOTES TO THE FINANCIAL STATEMENTS	10
GENERAL INFORMATION	10
1. The Company	10
2. Composition of the Management Board of the Company	10
3. Composition of the Supervisory Board of the Company	11
PRINCIPLES APPLIED IN THE PREPARATION OF FINANCIAL STATEMENTS	11
4. Basis of preparation of the financial statements	11
5. Implementation of IFRS 9 and IFRS 15	13
6. Accounting policies	21
7. Determination of fair values	34
8. Approval of the Financial Statements	34
EXPLANATORY NOTES	35
9. Revenue	35
10. Operating costs	35
11. Gain on investment activities, net	36
12. Finance costs, net	36
13. Income tax	36
14. EBITDA (unaudited)	38
15. Basic and diluted earnings per share	39
16. Property, plant and equipment	40
17. Impairment test on goodwill allocated to the "Services to individual and business customers" cash-generating unit	42
18. Other intangible assets	43
19. Investment property	45
20. Shares in subsidiaries and associates	46
21. Deferred distribution fees	48

22. Other non-current assets	48
23. Inventories	48
24. Trade and other receivables	49
25. Other current assets	49
26. Cash and cash equivalents	50
27. Equity	50
28. Hedge valuation reserve	52
29. Loans and borrowings	53
30. Issued bonds	55
31. Company as a lessor and as a lessee	56
32. Other non-current liabilities and provisions	57
33. Trade and other payables	57
34. Deferred income	59
OTHER NOTES	59
35. Financial instruments	59
36. Capital management	73
37. Barter transactions	74
38. The impact of mergers on assets, equity and liabilities	74
39. Transactions with related parties	76
40. Litigations	78
41. Other disclosures	79
42. Remuneration of the Management Board	80
43. The Supervisory Board remuneration	81
44. Important agreements and events	81
45. Events subsequent to the reporting date	84
46. Judgments, financial estimates and assumptions	85
FINANCIAL RESULTS FOR THE 3 MONTHS ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017	88
47. Income Statement	88
48. Statement of Comprehensive Income	88
49. Revenue	89
50. Operating costs	89
51. Gain on investment activities, net	90
52. Finance costs, net	90

APPROVAL OF THE FINANCIAL STATEMENTS

On 20 March 2019, the Management Board of Cyfrowy Polsat S.A. approved the financial statements of the Cyfrowy Polsat S.A. prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Income Statement for the period

from 1 January 2018 to 31 December 2018 showing a net profit for the period of: PLN 488.5

Statement of Comprehensive Income for the period

from 1 January 2018 to 31 December 2018 showing a total comprehensive income for the period of: PLN 487.8

Balance Sheet as at

31 December 2018 showing total assets and total equity and liabilities of: PLN 13,833.6

Cash Flow Statement for the period

from 1 January 2018 to 31 December 2018 showing a net increase in cash and cash equivalents amounting to: PLN 228.4

Statement of Changes in Equity for the period

from 1 January 2018 to 31 December 2018 showing an increase in equity of: PLN 248.7

Supplementary Information to the Financial Statements

The financial statements have been prepared in PLN million unless otherwise indicated.

Tobias Solorz	Dariusz Działkowski	Tomasz Gillner-Gorywoda	Aneta Jaskólska
President of the	Member of the	Member of the	Member of the
Management Board	Management Board	Management Board	Management Board

Agnieszka Odorowicz	Katarzyna Ostap-Tomann	Maciej Stec	Agnieszka Szatan
Member of the	Member of the	Member of the	Chief Accountant
Management Board	Management Board	Management Board	

Warsaw, 20 March 2019

Income Statement

	Note	for the year ended	
		31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Revenue	9	2,354.5	2,280.3
Operating costs	10	(1,978.5)	(1,994.8)
Other operating income, net		6.4	3.9
Profit from operating activities		382.4	289.4
Gain on investment activities, net	11	282.6	452.2
Finance costs, net	12	(80.1)	(84.4)
Gross profit for the period		584.9	657.2
Income tax	13	(96.4)	(51.2)
Net profit for the period		488.5	606.0
Basic and diluted earnings per share (in PLN)	15	0.76	0.95

Statement of Comprehensive Income

	Note	for the year ended	
		31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Net profit for the period		488.5	606.0
Valuation of hedging instruments	28	(0.9)	(1.3)
Income tax relating to hedge valuation	28	0.2	0.2
Items that may be reclassified subsequently to profit or loss		(0.7)	(1.1)
Other comprehensive income, net of tax		(0.7)	(1.1)
Total comprehensive income for the period		487.8	604.9

Balance Sheet - Assets

	Note	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Reception equipment	16	299.1	357.9
Other property, plant and equipment	16	116.4	114.6
Goodwill	17	197.0	197.0
Brands	38	7.8	-
Other intangible assets	18	63.1	66.3
Investment property	19	40.5	36.3
Shares in subsidiaries and associates	20	12,151.8	12,125.5
<i>includes shares in associate</i>		4.5	638.7
Non-current deferred distribution fees	21	34.4	33.1
Other non-current assets	22	23.7	27.6
<i>includes derivative instruments</i>		-	0.2
Total non-current assets		12,933.8	12,958.3
Contract assets	5	179.7	-
Inventories	23	130.2	65.6
Trade and other receivables	24	149.6	273.9
Income tax receivables		0.3	0.8
Current deferred distribution fees	21	75.9	75.0
Other current assets	25	105.8	133.7
<i>includes derivative instruments</i>		-	0.4
Cash and cash equivalents	26	258.3	29.5
Total current assets		899.8	578.5
Total assets		13,833.6	13,536.8

Balance Sheet - Equity and Liabilities

	Note	31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Share capital	27	25.6	25.6
Share premium	27	7,174.0	7,174.0
Hedge valuation reserve	28	(0.6)	0.1
Retained earnings		3,962.1	3,712.7
Total equity		11,161.1	10,912.4
Loans and borrowings	29	572.4	535.0
Issued bonds	30	976.0	975.7
Finance lease liabilities	31	1.0	-
Deferred tax liabilities	13	93.5	83.4
Deferred income	34	-	3.2
Other non-current liabilities and provisions	32	1.6	1.4
<i>includes derivative instruments</i>		<i>0.1</i>	<i>-</i>
Total non-current liabilities		1,644.5	1,598.7
Loans and borrowings	29	386.2	379.9
Issued bonds	30	42.3	42.5
Finance lease liabilities	31	0.2	-
Contract liabilities	5	237.1	-
Trade and other payables	33	312.9	351.5
<i>includes derivative instruments</i>		<i>0.7</i>	<i>0.5</i>
Income tax liability		46.5	19.5
Deposits for equipment		2.8	2.4
Deferred income	34	-	229.9
Total current liabilities		1,028.0	1,025.7
Total liabilities		2,672.5	2,624.4
Total equity and liabilities		13,833.6	13,536.8

Cash Flow Statement

	Note	for the year ended	
		31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Net profit		488.5	606.0
Adjustments for:		(70.5)	(134.7)
Depreciation, amortization, impairment and liquidation	10	194.2	214.4
Interest expense		77.3	71.8
Change in inventories		(64.6)	19.4
Change in receivables and other assets		53.1	97.6
Change in liabilities, provisions and deferred income		(41.2)	13.6
Change in contract assets		(17.2)	-
Change in contract liabilities		16.0	-
Income tax	13	96.4	51.2
Net increase in reception equipment provided under operating lease		(95.7)	(155.7)
Dividends income and share in the profits of partnerships	11	(282.9)	(444.0)
Other adjustments		(5.9)	(3.0)
Cash from operating activities		418.0	471.3
Income tax paid		(67.8)	(47.8)
Interest received from operating activities		0.6	6.4
Net cash from operating activities		350.8	429.9
Received dividends and shares in the profits of partnerships		280.3	378.1
Merger with related entities	38	305.9	53.8
Proceeds from sale of property, plant and equipment		0.6	6.5
Loans granted		(1.4)	(0.5)
Loans repaid		-	10.5
Interest on loans repaid		-	1.5
Acquisition of property, plant and equipment		(24.0)	(16.7)
Acquisition of intangible assets		(14.5)	(12.9)
Share capital increase in subsidiary	20	(2.1)	(72.0)
Acquisition of shares in subsidiaries	44	(638.8)	-
Acquisition of shares in associate		-	(638.7)
Other inflows		6.5	-
Net cash used in investing activities		(87.5)	(290.4)
Loans and borrowings inflows	29	300.0	-
Net cash from the Cash Management System Agreement with interest paid		(106.4)	103.5
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(73.5)	(73.8)
Dividend paid		-	(204.7)
Repayment of loans and borrowings	29	(150.0)	(213.5)
Other outflows		(5.0)	-
Net cash used in financing activities		(34.9)	(388.5)
Net increase/(decrease) in cash and cash equivalents		228.4	(249.0)
Cash and cash equivalents at the beginning of the year		29.5	278.8
Effect of exchange rate fluctuations on cash and cash equivalents		0.4	(0.3)
Cash and cash equivalents at the end of the year		258.3	29.5

* Includes impact of hedging instruments and payment due to loan agreement modification.

**Statement of Changes in Equity
 for the year ended 31 December 2018**

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	Total Equity
Balance as at 31 December 2017		639,546,016	25.6	7,174.0	0.1	3,712.7	10,912.4
Impact of the implementation of IFRS 15		-	-	-	-	47.1	47.1
Balance as at 1 January 2018		639,546,016	25.6	7,174.0	0.1	3,759.8	10,959.5
Merger with Cyfrowy Polsat Trade Marks Sp. z o.o.	38	-	-	-	-	(286.2)	(286.2)
Total comprehensive income		-	-	-	(0.7)	488.5	487.8
<i>Hedge valuation reserve</i>	28	-	-	-	(0.7)	-	(0.7)
<i>Net profit for the period</i>		-	-	-	-	488.5	488.5
Balance as at 31 December 2018		639,546,016	25.6	7,174.0	(0.6)	3,962.1	11,161.1

**Statement of Changes in Equity
 for the year ended 31 December 2017**

		Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	Total Equity
Balance as at 1 January 2017		639,546,016	25.6	7,174.0	1.2	3,311.4	10,512.2
Dividend declared and paid		-	-	-	-	(204.7)	(204.7)
Total comprehensive income		-	-	-	(1.1)	606.0	604.9
<i>Hedge valuation reserve</i>		-	-	-	(1.1)	-	(1.1)
<i>Net profit for the period</i>		-	-	-	-	606.0	606.0
Balance as at 31 December 2017		639,546,016	25.6	7,174.0	0.1	3,712.7	10,912.4

* As at 31 December 2018 and 31 December 2017 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 Financial Statements

General information

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'). On 28 April 2018 the Company completed a merger with its subsidiary, Eileme 1 AB (publ) and on 30 November 2018 the Company completed a merger with its subsidiary, Cyfrowy Polsat Trade Marks Sp. z o.o. – the impact of the mergers is presented in detail in note 38. As at 31 December 2018 the Group encompasses the Company, Polkomtel Sp. z o.o. and its subsidiaries and joint ventures, Polkomtel Infrastruktura Sp. z o.o., Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Netia S.A. and its subsidiaries, INFO-TV-FM Sp. z o.o., Interphone Service Sp. z o.o., Teleaudio Dwa Sp. z o.o. Sp.k., Netshare Media Group Sp. z o.o., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o. and Orsen Holding Limited and its subsidiaries.

The Company as the Parent Company prepared the consolidated financial statements (approved on 20 March 2019). These financial statements should be read in conjunction with the consolidated financial statements.

2. Composition of the Management Board of the Company

- Tobiasz Solorz	President 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,
- Katarzyna Ostap-Tomann	Member of the Management Board,
- Maciej Stec	Member of the Management Board.

3. Composition of the Supervisory Board of the Company

- Marek Kapuściński	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,
- Tomasz Szelaąg	Member of the Supervisory Board,
- Piotr Żak	Member of the Supervisory Board (from 28 June 2018).

Principles applied in the preparation of financial statements

4. Basis of preparation of the financial statements

Statement of compliance

These financial statements for the year ended 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Company applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2018 and the financial statements for 2017, 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 2018.

During the year ended 31 December 2018 the following became effective:

- (i) new standard IFRS 15 *Revenue from Contracts with Customers*
- (ii) new standard IFRS 9 *Financial Instruments*
- (iii) clarifications to IFRS 15 *Revenue from Contracts with Customers*
- (iv) amendments to IFRS 2 *Share-based Payment – Classification and Measurement of Share-based Payment Transactions*
- (v) amendments to IFRS 4 *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
- (vi) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- (vii) *amendments to IAS 40 Investment properties*
- (viii) *annual improvements to IFRS Standards 2014-2016 Cycle*
 - Amendments to IFRS 1 First-time Adoption of IFRS – removal of short-term exemptions*
 - Amendments to IAS 28 Investments in Associates and Joint Ventures – investments in associates and joint ventures measured at fair value*

The impact of new standard IFRS 15 and IFRS 9 is described in note 5, other amendments did not have a significant impact on these consolidated financial statements.

Standards published but not yet effective:

- (i) new standard IFRS 16 *Leases*
- (ii) amendments to IFRS 9 *Financial Instruments – Prepayment Features with Negative Compensation*
- (iii) IFRIC 23 *Uncertainty over Income Tax Treatments*

The Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standard is expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

IFRS 16 Leases

Estimated impact of IFRS 16 Leases implementation

The Company is required to adopt IFRS 16 *Leases* from 1 January 2019. IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessee separately recognizes the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 includes recognition exemptions for short-term leases (i.e. leases with a lease term of 12 months or less) and leases of low-value items (e.g. personal computers).

Lessor accounting under IFRS 16 is substantially unchanged from today's accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as set out in IAS 17 and distinguish between operating and finance leases.

Implementation of IFRS 16 will decrease rental costs, increase depreciation and financial costs which will result in an increase of EBITDA, assets and liabilities (due to the recognition of a right-of-use asset and a lease liability) as well as an increase of debt ratio.

Transition to IFRS 16

As set out in IFRS 16 the lessee is permitted two transition approaches:

- a) full retrospective approach (application of the new standard to all prior periods)
- b) modified retrospective approach (no requirement to restate its prior-period financial information)

The Company plans to adopt the new standard using the modified retrospective approach. Cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance as at 1 January 2019, with no restatement of the comparative information.

The Company has assessed the estimated impact that the initial application of IFRS 16 will have on its financial statements. The estimated impact of the adoption of the standard on the Company as at 1 January 2019 is based on assessments undertaken to date and is summarised below. The actual impact of adopting the standard at 1 January 2019 may change because the Company is still in the process of confirming final assumptions required to recognize right-of-use assets and lease liabilities as pursuant to the new standard.

For leases previously classified as operating leases under IAS 17, a lessee measures the lease liability at the date of initial application as the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at that date. The Company measured the right-of-use asset on a lease-by-lease basis at an amount equal to the lease liability (adjusted by prepaid/accrued payments if applicable).

As at 1 January 2019 the estimated value of right-of-use assets and lease liabilities is equal and thus no adjustments to equity are recognized. The estimated impact of IFRS 16 implementation as at 1 January 2019 amounts to approximately PLN 29 due to recognition of right-of-use assets and lease liabilities.

For leases that were previously classified as finance leases under IAS 17, the Company recognises a right-of-use asset and a lease liability measured at the previous carrying amount under IAS 17.

5. Implementation of IFRS 9 and IFRS 15

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains following principal classification categories for financial assets: measured at amortised cost, at fair value through other comprehensive income and at fair value through profit or loss. The new classification requirements didn't have material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

Loans as well as trade and other receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Company analysed the contractual cash flow characteristic of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9.

IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This requires considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Implementation of the forward-looking model did not have a significant effect on the Company's bad debt allowance.

In addition IFRS 9 includes optional hedge accounting requirements. The Company chose as its accounting policy choice to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

As at 1 January 2018 the classification and carrying amount of the Company's financial instruments were as follows:

			IAS 39	IFRS 9
	IAS 39 classification	IFRS 9 classification	Carrying amount	Carrying amount
Loans granted	loans and receivables	amortised cost	2.5	2.5
Trade and other receivables	loans and receivables	amortised cost	278.1	278.1
Cash and cash equivalents	loans and receivables	amortised cost	29.5	29.5
Loans and borrowings	other liabilities	amortised cost	(914.9)	(914.9)
Issued bonds	other liabilities	amortised cost	(1,018.2)	(1,018.2)
Accruals	other liabilities	amortised cost	(157.7)	(157.7)
Trade and other payables and deposits	other liabilities	amortised cost	(168.9)	(168.9)
Total			(1,949.6)	(1,949.6)

IFRS 15 Revenue from Contracts with Customers

IFRS 15 provides a single, principles-based five-step model for the determination and recognition of revenue to be applied to all contracts with customers. It replaced in particular the existing standards IAS 18 *Revenue* and IAS 11 *Construction Contracts*.

In the case of the Company, the biggest change caused by the implementation of the standard concerns the recognition of revenues from multi-element contracts, where the range of services is diversified (e.g. providing a wider range of services during the promotional period, when the subscriber is not required to pay subscription fees): the cumulative amount of revenues over the contract term didn't change, but there was a change in the period when the revenue for the services shall be recognised and a change in the allocation of revenues between revenues from the sale of equipment and revenues from services rendered.

Earlier revenue recognition resulted in the recognition of contract assets in the balance sheet representing the Company's right to future remuneration for the products and serviced provided to the customer. The contract assets are presented as current assets as the Company expects the contracts to be fulfilled within a normal operating cycle.

The implementation of IFRS 15 resulted in a recognition of contract liabilities in the balance sheet. Contract liabilities represent the Company's obligation to transfer goods or services to customers, for which the Company received consideration or an amount of the consideration is due from the customer.

The Company has not identified any material rights in the contracts which should have been separately presented as Company's obligations.

The Company usually sells its services and goods through distributors who act as an agent, which means that they do not assume all the risks associated with the delivery of goods and services, therefore sales revenue are recognized at the time of sale to the end customer.

The implementation of IFRS 15 resulted in a change in the accounting policy regarding the revenue recognition. The Company's process for revenue recognition from multi-element contracts consists of:

- a) assessment of all goods and services provided to the client under the contract and identifying separate performance obligations in that contract
- b) determining and allocating the transaction prices to separate performance obligations in the contract; the allocation is based on the reference to their relative standalone selling prices that could be obtained if the promised goods and services were sold individually in a separate transaction.

IFRS 15 is applied by the Company using the "modified retrospective approach" in which the cumulative effect of initially applying the standard is recognised as an adjustment to retained earnings at the date of initial application.

The implementation of IFRS 15 had the following impact on the balance sheet as at 1 January 2018:

	1 January 2018 in accordance with IAS 18	Adjustments	1 January 2018 in accordance with IFRS 15
Reception equipment	357.9	-	357.9
Other property, plant and equipment	114.6	-	114.6
Goodwill	197.0	-	197.0
Other intangible assets	66.3	-	66.3
Investment property	36.3	-	36.3
Shares in subsidiaries and associates	12,125.5	-	12,125.5
<i>includes shares in associate</i>	638.7	-	638.7
Non-current deferred distribution fees	33.1	-	33.1
Other non-current assets, includes:	27.6	-	27.6
<i>includes derivative instruments</i>	0.2	-	0.2
Total non-current assets	12,958.3	-	12,958.3
Contract assets	-	162.5	162.5
Inventories	65.6	-	65.6
Trade and other receivables	273.9	(116.4)	157.5
Income tax receivable	0.8	-	0.8
Current deferred distribution fees	75.0	-	75.0
Other current assets	133.7	-	133.7
<i>includes derivative instruments</i>	0.4	-	0.4
Cash and cash equivalents	29.5	-	29.5
Total current assets	578.5	46.1	624.6
Total assets	13,536.8	46.1	13,582.9

	1 January 2018 in accordance with IAS 18	Adjustments	1 January 2018 in accordance with IFRS 15
Share capital	25.6	-	25.6
Share premium	7,174.0	-	7,174.0
Hedge valuation reserve	0.1	-	0.1
Retained earnings	3,712.7	47.1	3,759.8
Total equity	10,912.4	47.1	10,959.5
Loans and borrowings	535.0	-	535.0
Issued bonds	975.7	-	975.7
Deferred tax liabilities	83.4	11.0	94.4
Deferred income	3.2	(3.2)	-
Other non-current liabilities and provisions	1.4	-	1.4
Total non-current liabilities	1,598.7	7.8	1,606.5
Loans and borrowings	379.9	-	379.9
Issued bonds	42.5	-	42.5
Contract liabilities	-	221.1	221.1
Trade and other payables	351.5	-	351.5
<i>includes derivative instruments</i>	0.5	-	0.5
Income tax liability	19.5	-	19.5
Deposits for equipment	2.4	-	2.4
Deferred income	229.9	(229.9)	-
Total current liabilities	1,025.7	(8.8)	1,016.9
Total liabilities	2,624.4	(1.0)	2,623.4
Total equity and liabilities	13,536.8	46.1	13,582.9

To facilitate comparability between periods, the tables below present how the adoption of IFRS 15 affected the Financial Statements in the current period.

	for the 12 months ended		
	31 December 2018 prepared in accordance with IAS 18	Adjustments	31 December 2018 prepared in accordance with IFRS 15
Revenue	2,359.3	(4.8)	2,354.5
Retail revenue	2,180.3	(4.5)	2,175.8
Wholesale revenue	98.8	-	98.8
Sale of equipment	29.8	(0.3)	29.5
Other revenue	50.4	-	50.4
Operating cost	(1,978.5)	-	(1,978.5)
Content costs	(628.9)	-	(628.9)
Technical costs and cost of settlements with telecommunication operators	(565.9)	-	(565.9)
Distribution, marketing, customer relation management and retention costs	(311.1)	-	(311.1)
Depreciation, amortization, impairment and liquidation	(194.2)	-	(194.2)
Salaries and employee-related costs	(119.2)	-	(119.2)
Cost of equipment sold	(30.6)	-	(30.6)
Cost of debt collection services, bad debt allowance and receivables written off	(9.8)	-	(9.8)
Other costs	(118.8)	-	(118.8)
Other operating income, net	6.4	-	6.4
Profit from operating activities	387.2	(4.8)	382.4
Gain on investment activities, net	282.6	-	282.6
Finance costs, net	(80.1)	-	(80.1)
Gross profit for the period	589.7	(4.8)	584.9
Income tax	(97.3)	0.9	(96.4)
Net profit for the period	492.4	(3.9)	488.5

	31 December 2018 in accordance with IAS 18	Adjustments	31 December 2018 in accordance with IFRS 15
Reception equipment	299.1	-	299.1
Other property, plant and equipment	116.4	-	116.4
Goodwill	197.0	-	197.0
Brands	7.8	-	7.8
Other intangible assets	63.1	-	63.1
Investment property	40.5	-	40.5
Shares in subsidiaries and associates	12,151.8	-	12,151.8
<i>includes shares in associate</i>	4.5	-	4.5
Non-current deferred distribution fees	34.4	-	34.4
Other non-current assets	23.7	-	23.7
Total non-current assets	12,933.8	-	12,933.8
Contract assets	-	179.7	179.7
Inventories	130.2	-	130.2
Trade and other receivables	284.2	(134.6)	149.6
Income tax receivable	0.3	-	0.3
Current deferred distribution fees	75.9	-	75.9
Other current assets	105.8	-	105.8
Cash and cash equivalents	258.3	-	258.3
Total current assets	854.7	45.1	899.8
Total assets	13,788.5	45.1	13,833.6

	31 December 2018 in accordance with IAS 18	Adjustments	31 December 2018 in accordance with IFRS 15
Share capital	25.6	-	25.6
Share premium	7,174.0	-	7,174.0
Hedge valuation reserve	(0.6)	-	(0.6)
Retained earnings	3,918.9	43.2	3,962.1
Total equity	11,117.9	43.2	11,161.1
Loans and borrowings	572.4	-	572.4
Issued bonds	976.0	-	976.0
Finance lease liabilities	1.0	-	1.0
Deferred tax liabilities	83.4	10.1	93.5
Deferred income	2.4	(2.4)	-
Other non-current liabilities and provisions <i>includes derivative instruments</i>	1.6 0.1	- -	1.6 0.1
Total non-current liabilities	1,636.8	7.7	1,644.5
Loans and borrowings	386.2	-	386.2
Issued bonds	42.3	-	42.3
Finance lease liabilities	0.2	-	0.2
Contract liabilities	-	237.1	237.1
Trade and other payables <i>includes derivative instruments</i>	312.9 0.7	- -	312.9 0.7
Income tax liability	46.5	-	46.5
Deposits for equipment	2.8	-	2.8
Deferred income	242.9	(242.9)	-
Total current liabilities	1,033.8	(5.8)	1,028.0
Total liabilities	2,670.6	1.9	2,672.5
Total equity and liabilities	13,788.5	45.1	13,833.6

	for the 12 months ended		
	31 December 2018 in accordance with IAS 18	Adjustments	31 December 2018 in accordance with IFRS 15
Net profit	492.4	(3.9)	488.5
Adjustments for:	(74.4)	3.9	(70.5)
Depreciation, amortization, impairment and liquidation	194.2	-	194.2
Interest expense	77.3	-	77.3
Change in inventories	(64.6)	-	(64.6)
Change in receivables and other assets	34.9	18.2	53.1
Change in liabilities, provisions and deferred income	(29.0)	(12.2)	(41.2)
Change in contract assets	-	(17.2)	(17.2)
Change in contract liabilities	-	16.0	16.0
Income tax	97.3	(0.9)	96.4
Net increase in reception equipment provided under operating lease	(95.7)	-	(95.7)
Dividends income and share in the profits of partnerships	(282.9)	-	(282.9)
Other adjustments	(5.9)	-	(5.9)
Cash from operating activities	418.0	-	418.0
Income tax paid	(67.8)	-	(67.8)
Interest received from operating activities	0.6	-	0.6
Net cash from operating activities	350.8	-	350.8
Received dividends and shares in the profits of partnerships	280.3	-	280.3
Merger with related entities	305.9	-	305.9
Acquisition of property, plant and equipment	(24.0)	-	(24.0)
Acquisition of intangible assets	(14.5)	-	(14.5)
Acquisition of shares in subsidiaries	(638.8)	-	(638.8)
Share capital increase in subsidiary	(2.1)	-	(2.1)
Loans granted	(1.4)	-	(1.4)
Proceeds from sale of property, plant and equipment	0.6	-	0.6
Other inflows	6.5	-	6.5
Net cash used in investing activities	(87.5)	-	(87.5)
Loans and borrowings inflows	300.0	-	300.0
Net cash from the Cash Management System Agreement with interest paid	(106.4)	-	(106.4)
Repayment of loans and borrowings	(150.0)	-	(150.0)
Payment of interest on loans, borrowings, bonds and commissions*	(73.5)	-	(73.5)
Other outflows	(5.0)	-	(5.0)
Net cash used in financing activities	(34.9)	-	(34.9)
Net increase in cash and cash equivalents	228.4	-	228.4
Cash and cash equivalents at the beginning of period	29.5	-	29.5
Effect of exchange rate fluctuations on cash and cash equivalents	0.4	-	0.4
Cash and cash equivalents at the end of period	258.3	-	258.3

* Includes impact of hedging instruments and payment due to loan agreement modification.

6. Accounting policies

The accounting policies set out below have been applied by the Company consistently to all periods presented in the financial statements.

a) Basis of measurement

The financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are valued at fair value.

b) Going concern assumption

These financial statements have been prepared assuming that the Company will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2018.

c) Functional currency and presentation currency

The financial data in the financial statements is presented in Polish zloty, rounded to million. The functional currency of the Company is the Polish zloty.

d) Judgments and estimates

The preparation of financial statements in conformity with EU IFRS 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. Information about critical estimates and judgements in applying accounting policies is included in note 46.

e) Comparative financial information

Comparative data or data presented in previously published financial statements has been updated, if necessary, in order to reflect presentational changes introduced in the current period. The changes had no impact on previously reported amounts of net income or equity.

It should be noted that the year ended 31 December 2018 is not comparable to the year ended 31 December 2017 due to the merger of the Company with Eileme 1 AB (publ) as at 28 April 2018, the merger of the Company with Cyfrowy Polsat Trade Marks Sp. z o.o. as at 30 November 2018, and the merger of the Company with Metelem Holding Company Limited as at 7 April 2017.

This results from the Company adopted policy in respect to the Business combinations among entities under common control as described in detail in note 6aa.

f) Foreign currency

Transactions in foreign currencies are translated to Polish zloty at exchange rates effective on a day of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated in accordance with the balance sheet date into Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign exchange differences arising on translation of transactions denominated in foreign currencies and from the balance sheet valuation of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the average NBP exchange rate in effect at the date of the valuation. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

g) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and a part of other receivables, cash and cash equivalents, loans and borrowings, issued bonds, finance lease liabilities, deposits for equipment and trade and a part of other payables.

Non-derivative financial instruments are recognized initially at fair value increased by directly attributable transaction costs.

A financial instrument is recognized if the Company becomes a party to the contractual obligations of the instrument. Financial assets are derecognized if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all the risks and rewards of the asset. Standardised sale and purchase transactions of financial assets are recognized at the transaction date i.e. on the date the Company is obliged to acquire or sell the asset. Financial liabilities are derecognized if the Company's obligations specified in the contract expire (are discharged or cancelled).

Cash and cash equivalents comprise cash on hand and short term deposits (up to 3 months). The cash and cash equivalents balance presented in the cash flow statement comprises the above mentioned cash and cash equivalents.

Principles for recognition of gains and losses on investment activities and finance costs are presented in note 6u.

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Other financial liabilities which are not derivative financial instruments are measured at amortised cost using the effective interest method.

Deposits

Deposits received from subscribers and distributors are valued at amortised costs and are presented as non-current or current liabilities depending on the minimum term of the agreements.

(ii) Derivative financial instruments

Hedge accounting

The Company may use derivative financial instruments such as forward currency contracts, foreign exchange call options, interest rate swaps and cross-currency interest rate swaps to hedge its foreign currency and interest rate risks. The Company may use forward currency contracts and foreign exchange call options as cash flow hedges of its exposure to foreign currency risk in forecasted payments as well as interest rate swaps and cross-currency interest rate swaps for its exposure to volatility in the interest payments on floating rate debt.

For the purpose of hedge accounting, the Company's hedges are classified as cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction.

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

For cash flow hedges the effective portion of the gain or loss on the hedging instrument is recognized directly as other comprehensive income in the hedge valuation reserve, while any ineffective portion is recognized immediately in the income statement.

The amounts recognized within other comprehensive income are transferred from equity to the income statement when the hedged transaction affects profit or loss, such as when the related gain or loss is recognized in finance cost or when a forecast sale occurs.

Gains and losses from the settlement of derivative instruments that are designated as, and are effective hedging instruments, are presented in the same position as the impact of the hedged item. The derivative instrument is divided into a current portion and a non-current portion only if a reliable allocation can be made.

Other derivatives not designated for hedge accounting

Derivative instruments that are not designated for hedge accounting are recognized initially at fair value, attributable transaction costs are recognized in the profit or loss as incurred. Subsequent to initial recognition, the Company measures those derivative financial instruments at fair value, and changes therein are recognized in profit or loss.

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or divided into a current and non-current portion based on an assessment of the relevant facts and circumstances (i.e. the underlying contracted cash flows):

- Where the Company will hold a derivative instrument considered an economic hedge (for which hedge accounting is not applied) for a period exceeding 12 months after the reporting date, such derivative instrument is classified as non-current (or divided into current and non-current portions) consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistent with the cash flows of the host contract.

h) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preferred shares

Preference share capital is classified as equity, if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends thereon are recognized as distributions within equity.

Costs attributable to the issue and public offer of shares

Costs attributable to a new issue of shares are recognized in equity while costs attributable to a public offering of existing shares are recognized directly in finance costs. These costs relating to both new issue and sale of existing shares are recognized on a pro-rata basis in equity and finance costs.

Share premium

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

Retained earnings

Retained earnings include net result, reserve capital and effect of merger with the Company. Effect of merger is calculated as the difference between assets and liabilities of the merged entity.

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. This capital is excluded from distribution, however, it can be utilised to cover accumulated losses.

i) Property, plant and equipment*(i) Property, plant and equipment owned by the Company*

Items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses.

Cost includes purchase price of the asset and other expenditure that is directly attributable to the acquisition and bringing the asset to a working condition for its intended use, including initial delivery as well as handling and storage costs. The cost of purchased assets is reduced by the amounts of vendor discounts, rebates and other similar reductions received.

The cost of self-constructed assets and assets under construction includes all costs incurred for their construction, installation, adoption, and improvement as well as borrowing costs incurred until the date they are accepted for use (or until the reporting date for an asset not yet accepted for use). The above cost also may include, if necessary, the estimated cost of dismantling and removing the asset and restoring the site. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

(ii) Investment property

Investment property is defined as a property (land, building, or both) held by the Company to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost. Once recognized all investment property held by the Company are measured using the cost model as set out in IAS 16. This means that the assets are recognized at cost and depreciated systematically over its useful life as presented in (i) above.

Investment property is removed from the balance sheet on disposal or when it is permanently withdrawn from use and no further economic benefits are expected from its disposal.

(iii) Subsequent costs

Subsequent cost of replacing a component of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the component will flow to the Company and the amount of the cost can be measured reliably. Replaced item is derecognised. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iv) Depreciation

Depreciation is based on the cost of an asset less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment.

Land is not depreciated.

The estimated useful lives for the current and comparative period are as follows:

Buildings and structures	2-61	Years
Reception equipment	2 or 3 or 5	Years
Technical equipment and machinery	2-22	Years
Vehicles	2-10	Years
Other	2-26	Years

Depreciation methods, useful lives and residual values of material assets are reviewed at each financial year-end and adjusted if appropriate.

(v) Leased assets

Assets used under lease, tenancy, rental or similar contracts which meet finance lease criteria, are classified as non-current assets and recognized at the lower of fair value of the leased asset and the present value of the minimum lease payments. Equipment that is provided to customers under operational leases is accounted for as property, plant and equipment (Reception equipment in balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Company-owned assets. Depreciation is based on the principles of IAS 16 *Property, plant and equipment*. Where it is not reasonably certain that the lessee will obtain ownership of the asset before the lease term ends, the asset is depreciated over its useful life or the lease term, if shorter.

Carrying amounts of reception equipment and other items of property, plant and equipment may be reduced by impairment losses whenever there is uncertainty as to those assets' revenue generating potential or their future use in the Company's operations. The accounting policies relating to impairment are presented in note 6n.

j) Intangible assets

(i) Goodwill

Goodwill represents the excess of the sum of consideration transferred and payable, the amount of non-controlling interest in the acquiree and the fair value as at the date of acquisition of any previously held equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill is presented at purchase price less accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if possible impairment is indicated. Goodwill is allocated to acquirer's cash-generating units for the purpose of testing for impairment. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(ii) Other intangible assets

The Company capitalizes costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Company is able to demonstrate: the technical feasibility of completing the intangible asset so that it will be available for use or sale; its intention to complete the intangible asset and use or sell it; its ability to use or sell the intangible asset; how the intangible asset will generate probable future economic benefits, the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Other intangible assets acquired by the Company are stated at cost less accumulated amortization and impairment losses.

Subsequent expenditure on existing intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in the profit or loss as incurred.

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2 – 15 years,
- Other: 2 – 7 years.

k) Shares in subsidiaries and associates

Shares in subsidiaries and associates are measured at cost less impairment losses. Accounting principles relating to impairment testing are presented in note 6n.

Subsidiaries are entities controlled by the Company. Associates are all entities over which the Company has significant influence but not control or joint control, over the financial and operating policies. This is generally the case where the Company holds between 20% and 50% of the voting rights.

l) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost of acquisition or production cost of inventories is determined by using the weighted average cost of acquisition or production cost of inventory.

The cost of inventories includes purchase price, costs relating directly to the acquisition and the costs related to preparing the inventory for use or sale.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. In the case of set-top boxes, mobile phones, modems and tablets, which under the business model applied by the Company are sold below cost, the loss on the sale is recorded when transferred to the customer.

The Company creates an allowance for slow-moving or obsolete inventories.

m) Settlements concerning data transfer purchases

Settlements concerning data transfer purchases are recognized in the nominal value upon payments made. The costs are recognized in the income statement based on actual usage of data transmission and contractual. Payments, which will be settled after 12 months from the balance sheet date are presented as other non-current assets.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Individually significant financial assets are tested for impairment on an individual basis at balance sheet date. The remaining financial assets are assessed for impairment collectively in groups that share similar credit risk characteristics.

Receivables are reduced by an allowance based on the likelihood of future debt collection. The allowance is charged to cost of debt collection services and bad debt allowance and receivables written off. An allowance for receivables from individuals is estimated based on the historical recoverability of overdue receivables and recovery efficiency.

Impairment losses are reversed if a subsequent increase in recoverable value of a financial asset can be related objectively to an event occurring after the impairment losses were recognized.

(ii) Non-financial assets

The carrying amounts of non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of intangible assets which are not yet ready for use is assessed at each financial year-end.

The Company considers on annual basis whether there are indicators that investments in subsidiaries suffered any impairment (i.a. value of net assets). If so, then the impairment test is performed and the recoverable amount of the investment is estimated based on value-in-use calculations.

An impairment loss is recognized when the carrying amount of an asset or a cash-generating unit is greater than its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the income statement. An impairment loss for a cash-generating unit is initially recognized as a decrease of goodwill assigned to this unit (group of units), then it proportionally reduces the carrying amount of other assets from this unit (group of units).

The recoverable amount of an asset or a cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

In the case of assets that do not generate independent cash flows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss for goodwill cannot be reversed. As for other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss other than that in respect of goodwill is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

o) Employee benefits

(i) Defined contribution program

The Company is obliged, under applicable regulations, to collect and remit the contribution to the state pension fund. These benefits, according to IAS 19 *Employee Benefits* represent state plans and are classified as defined contribution plans. Therefore, the Company's obligations for each period are estimated as the amount of contributions to be remitted for a given period.

(ii) Defined benefit program – retirement benefits

The Company is obliged to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labour code. The minimum retirement benefit is as per the labour code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee rotation is estimated based on historical experience and forecasts of future employment levels.

Changes in the value of the retirement benefit provision are recognized in the income statement. Actuarial gains and losses are recognized in the equity, in other comprehensive income in full in the period they originated.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as an expense as the related service is provided.

The Company recognizes a liability and charges the income statement for the amounts expected to be paid under short-term bonuses, if the Company has a legal or constructive obligation to make such payments as a result of past services provided by the employees and the obligation can be estimated reliably.

p) Provisions

A provision is recognized when the Company has a present obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation. Where the effect of the time value

of money is material, the Company discounts the provision, using a pre-tax discount rate that reflects current market assessments of the time value of money and those risks specific to the component of the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

Warranty provision

A warranty provision is recognized when products or goods, for which the warranty was granted, are sold. The amount of the provision is based on historical warranty data and on a weighted average of all possible outflows connected with warranty claims against their associated probabilities.

q) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company or a present obligation that arises from past events, but its amount cannot be estimated reliably or it is not probable that there will be an outflow of resources embodying economic benefits.

A contingent liability is disclosed in the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Unless the possibility of any outflow in settlement is remote, the Company discloses for each class of contingent liability at the end of the reporting period a brief description of the nature of the contingent liability and, where practice able:

- an estimate of its financial effect;
- an indication of the uncertainties relating to the amount or timing of any outflow and
- the possibility of any reimbursement.

r) Revenue

Revenue, which excludes value added tax, returns, trade discounts and volume rebates, represents the gross inflow of economic benefit from Company's operating activities. Revenue is measured at the fair value of the consideration received or receivable. The Company's main sources of revenue are recognized as follows:

- (a) Retail revenue consists primarily of subscription fees paid by our pay digital television contract customers and our contract customers for telecommunication services. Retail revenue also includes received contractual penalties related to terminated agreements which are recognized when the contract is terminated and revenue from the rental of reception equipment. Revenue from above mentioned services is recognized as these services are provided.

Revenue from the rental of reception equipment and activation fees are recognized on a straight-line basis over the minimum base period of the subscription contract.

Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilised or forfeited.

- (b) Wholesale revenue consists of revenue from the sale of broadcasting and signal transmission, advertising and sponsorship revenue, revenue from the sale of licenses, sublicenses and property rights and interconnect revenue. Wholesale revenue is recognized, net of any discount given, when the relevant goods or service are provided.

- (c) Revenue from sale of equipment is measured at the fair value of the consideration received or receivable, net of discounts, rebates and returns. Revenue from the sale of goods is recognized in profit or loss when the significant risks and rewards of ownership have been transferred to the customer.
- (d) Other revenue is recognized, net of any discount given, when the relevant goods or service are provided.

The Company's process for revenue recognition from multi-element contracts consists of:

- a) assessment of all goods and services provided to the client under the contract and identifying separate performance obligations in that contract
- b) determining and allocating the transaction prices to separate performance obligations in the contract; the allocation is based on the reference to their relative standalone selling prices that could be obtained if the promised goods and services were sold individually in a separate transaction.

s) Distribution fees

Commissions for distributors for registering new subscribers and for retention existing subscribers are recognized during the minimum basic period of the subscription agreement.

Turnover commissions for concluding a certain number of subscription contracts are recognized in the income statement as they are due.

Commissions for distributors which will be settled within the period of 12 months after the balance sheet date are presented as current assets, however, the commissions, which will be settled after the 12-month period from the balance sheet date, are presented as non-current assets.

t) Revenues and costs of barter transactions

Revenues from barter transactions for dissimilar services or goods are recognized when the services are rendered or goods are delivered. Programming licenses, products or services are expensed or capitalized when received or used. The Company recognizes barter transactions based on the estimated fair value of the programming licenses, products or services.

u) Gains and losses on investment activities and finance costs

Gains and losses on investment activities income includes interest income on funds invested, interest expenses (other than interest expenses on borrowings), dividends income, share in the profits of partnerships, results on the disposal of available-for-sale financial instruments, net foreign currency gains/losses, and results on completed forward exchange contracts and call options related to investment activities, impairment losses recognized on financial assets. Interest income and expense (other than interest expense on borrowings) is recognized as it accrues in profit or loss using the effective interest method. Dividends income is recognized in profit or loss on the date that the Company's right to receive payment is established, with the exception of advance dividend shown as other liabilities, if there is a likelihood of the return on the basis of the final distribution of financial results of the subsidiaries. Share in the profits of partnerships are recognized once unconditional right to the division of these profits is gained. Share in the losses of partnerships are recognized in accordance with the partners' agreements.

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

v) Lease payments

Payments under an operating lease are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments due to financial lease agreements are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

w) Taxation

Income tax expense/benefit for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet method, in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are measured based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, respectively, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realised. When not recognized deferred tax asset becomes recoverable, it is recognised to the extent that it has become probable that future taxable profits will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Company as criteria for offsetting from IAS 12 are fulfilled.

x) Earnings per share

The Company presents basic and diluted earnings per share for its ordinary and preference shares. Basic earnings per share are calculated by dividing the period's profit or loss from continuing operations attributable to ordinary and preference shareholders of the Company by the weighted average number of ordinary and preference shares outstanding during the period. Diluted earnings per share are calculated by dividing the period's profit or loss from the continued operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares adjusted for all potentially dilutive ordinary and preference shares.

y) Segment reporting

The Company operates in the 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 and the online TV services.

The Company conducts its operating activities in Poland.

Further information on segments is presented in the consolidated financial statements of the Group.

z) Cash flow statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the balance sheet.

The purchase of reception equipment provided to clients under operating lease contracts is classified in the cash flow statement in operating activities. The purchase and sales of reception equipment are classified in the cash flow statement in operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Purchases of property, plant and equipment or intangible assets are presented in their net amount (net of VAT).

aa) Business combinations among entities under common control

In principle, the issues relating to acquisitions and business combinations are regulated by IFRS 3 "Business combinations". However, transactions under common control are excluded from the scope of this standard. The situation in which a given transaction or business phenomenon that require recognizing in financial statements prepared in accordance with IFRS are not regulated by the provisions of the individual standards is regulated by the provisions of IAS 8, points 10-12. These provisions put an entity which prepares its financial statements in accordance with IFRS under an obligation to determine an accounting policy and to use it on a consistent basis for similar transactions.

The Company decided to apply the predecessor accounting method to account for the combination of entities that are under common control. This method is based on the assumption that the entities combining were, both before and after the transaction, controlled by the same shareholder and, therefore, the financial statements reflect the continuity of joint control.

The predecessor accounting method guidelines for the merger of the parent company with its subsidiaries are as follow:

- a) Assets and liabilities are not adjusted to reflect fair values as at the merger date. Instead, the acquirer recognizes in its financial statements assets and liabilities in the amount as recognized in the financial statements of the predecessor. "Predecessor values" are the carrying amounts of the merged subsidiary, which were recognized in the consolidated financial statements of the parent company. These amounts include the goodwill on acquisition of shares in a subsidiary recognized in the consolidated financial statements of the parent company.
- b) Intercompany transactions and balances between the merging entities are eliminated.
- c) Goodwill other than already recognized in the consolidated financial statements of the parent company is not recognized.
- d) Share capital of the combined entity is the share capital of the acquiring entity. Share capital of a predecessor is eliminated.
- e) Other elements of predecessor's equity are added to the relevant items of the acquiring company's equity. The difference

between the value of net assets and payment is recognized in the Retained earnings.

Pursuant to the predecessor accounting method, the Company recognizes in its financial statements the assets and liabilities of the acquired subsidiary at their carrying amounts as recognized in the consolidated financial statements of the Group.

The Company recognized business combinations under common control prospectively from the date of the merger, i.e. standalone financial statements of the Company will include the assets, liabilities, income, costs and cash flows of acquired entities from the date of the legal merger. Comparative data will remain unchanged.

7. Determination of fair values

A number of accounting principles and disclosures require the determination of fair value for both financial and non-financial assets and liabilities. The methods for determining fair values are described below. In justified cases, further information on methods of fair value measurement is described in the appropriate notes specific to that asset or liability.

(i) Derivatives

The fair value of derivatives is calculated based on their quoted closing bid price at the balance sheet date or, in the lack thereof, other inputs that are observable for the asset or liability, either directly (i. e. as prices) or indirectly (i. e. derived from prices). In the second case, the fair value of derivatives is estimated as the present value of future cash flows, discounted using the market interest rate at the reporting date. Information on the structure of Polish and eurozone interest rates and Polish zloty exchange rate are used in order to estimate future cash flows and market interest rate.

(ii) Non-derivative financial assets

The fair value of non-derivative financial asset for disclosure purposes is estimated as the present value of future cash flows discounted using a market interest rate as at the balance sheet date.

(iii) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on liabilities' quoted closing bid price at the balance sheet date or, in the lack thereof, estimated on the present value of future principal and interest cash flows, discounted using the market interest rate at the reporting date. Market interest rate is estimated as interbank interest rate for a given currency zone (WIBOR, EURIBOR) plus a margin regarding the Company's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

8. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 20 March 2019.

Explanatory notes

9. Revenue

	for the year ended	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Retail revenue	2,175.8	2,134.4
Wholesale revenue	98.8	67.8
Sale of equipment	29.5	33.4
Other revenue	50.4	44.7
Total	2,354.5	2,280.3

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

10. Operating costs

	Note	for the year ended	
		31 December 2018	31 December 2017
Content costs		628.9	586.2
Technical costs and costs of settlements with telecommunication operators		565.9	577.8
Distribution, marketing, customer relation management and retention costs		311.1	323.3
Depreciation, amortization, impairment and liquidation		194.2	214.4
Salaries and employee-related costs	a	119.2	107.5
Cost of equipment sold		30.6	34.1
Cost of debt collection services and bad debt allowance and receivables written off		9.9	13.8
Other costs		118.7	137.7
Total		1,978.5	1,994.8

a) Salaries and employee-related costs

	for the year ended	
	31 December 2018	31 December 2017
Salaries	100.5	90.9
Social security contributions	13.9	13.5
Other employee-related costs	4.8	3.1
Total	119.2	107.5

Average headcount of non-production employees*

	for the year ended	
	31 December 2018	31 December 2017
Employment contracts (full-time equivalents)	761	792

* excluding workers who did not perform work in the reporting period due to long-term absences

11. Gain on investment activities, net

	for the year ended	
	31 December 2018	31 December 2017
Dividends	219.8	387.4
Share in the profits of partnerships	63.1	56.6
Other	(0.3)	8.2
Total	282.6	452.2

12. Finance costs, net

	for the year ended	
	31 December 2018	31 December 2017
Interest expense on loans and borrowings	34.6	34.6
Interest expense on issued bonds	43.2	43.3
Valuation and realization of hedging instruments	0.2	(0.2)
Cumulative catch-up	(4.2)	-
Guarantee fees	5.2	4.9
Bank and other charges	1.1	1.8
Total	80.1	84.4

13. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Corporate income tax	95.5	58.6
Change in deferred income tax in the income statement	0.9	(7.4)
Income tax expense in the income statement	96.4	51.2

	for the year ended	
	31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Change in deferred income tax		
Receivables and other assets	(12.0)	(7.0)
Liabilities	23.3	1.8
Deferred distribution fees	0.4	0.6
Tangible and intangible non-current assets	(11.0)	(3.0)
Other	0.2	0.2
Change in deferred income tax – total	0.9	(7.4)

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Change in deferred income tax on hedge valuation	(0.2)	(0.2)
Income tax expense recognized in other comprehensive income - total	(0.2)	(0.2)

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Profit before income tax	584.9	657.2
Profit before tax multiplied by the statutory tax rate in Poland of 19%	111.1	124.9
Dividend received from subsidiaries	(41.8)	(73.6)
Other	27.1	(0.1)
Tax charge for the year	96.4	51.2
Effective tax rate	16.5%	7.8%

(iv) Deferred tax assets

	31 December 2018	31 December 2017
	(IFRS 15 basis)	(IAS 18 basis)
Liabilities	34.1	41.2
Tangible and intangible non-current assets	1.0	1.1
Receivables and other assets	28.4	21.8
Total deferred tax assets	63.5	64.1
Offsetting of deferred tax liabilities and deferred tax assets	(63.5)	(64.1)
Deferred tax assets in the balance sheet	-	-

(v) Deferred tax liabilities

	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Receivables and other assets	47.0	43.7
Deferred distribution fees	20.9	20.5
Tangible and intangible non-current assets	70.5	83.2
Liabilities	18.6	0.1
Total deferred tax liabilities	157.0	147.5
Offsetting of deferred tax liabilities and deferred tax assets	(63.5)	(64.1)
Deferred tax liabilities in the balance sheet	93.5	83.4

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. Furthermore, on 15 July 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax system, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

14. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Company's key measure of earnings performance. The level of EBITDA measures the Company's ability to generate cash from recurring operations, however it is neither a measure of liquidity nor cash level. The Company defines EBITDA as operating profit adjusted by depreciation, amortization, impairment and liquidation. EBITDA is not an IFRS EU measure, and as such can be calculated differently by other entities.

	for the year ended	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Net profit for the period	488.5	606.0
Income tax (see note 13)	96.4	51.2
Gain on investment activities, net (see note 11)	(282.6)	(452.2)
Finance costs, net (see note 12)	80.1	84.4
Depreciation, amortization, impairment and liquidation* (see note 10)	194.2	214.4
EBITDA (unaudited)	576.6	503.8

* depreciation, amortization, impairment and liquidation comprise depreciation and impairment of property, plant and equipment, amortisation and impairment of intangible assets and net book value of disposed property, plant, equipment and intangible assets

15. Basic and diluted earnings per share

As at the balance sheet date, the Company did not have financial instruments that could have a dilutive effect, therefore the Company's diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Net profit for the period	488.5	606.0
Weighted average number of ordinary and preference shares in the year	639,546,016	639,546,016
Earnings per share in PLN (not in million)	0.76	0.95

16. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost								
Cost as at 1 January 2018	1,225.0	6.9	99.1	182.7	3.0	18.7	1.7	312.1
Merger with related entity	-	-	3.6	3.7	-	2.2	-	9.5
Additions	96.3	8.6	1.0	4.1	1.4	0.6	3.4	19.1
Transfer from assets under construction	-	-	0.2	0.5	-	0.1	(0.8)	-
Disposals	(92.9)	-	-	(4.7)	(1.7)	(1.5)	-	(7.9)
Cost as at 31 December 2018	1,228.4	15.5	103.9	186.3	2.7	20.1	4.3	332.8
Accumulated impairment losses as at 1 January 2018								
	5.2	-	-	0.3	-	-	-	0.3
Recognition	1.5	-	-	-	-	-	-	-
Reversal	-	-	-	-	-	-	-	-
Utilisation	(2.4)	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2018	4.3	-	-	0.3	-	-	-	0.3
Accumulated depreciation								
Accumulated depreciation as at 1 January 2018	861.9	-	38.7	142.7	2.7	13.1	-	197.2
Merger with related entity	-	-	2.0	2.6	-	2.0	-	6.6
Additions	152.0	-	4.3	13.2	0.3	1.7	-	19.5
Disposals	(88.9)	-	-	(4.6)	(1.6)	(1.0)	-	(7.2)
Accumulated depreciation as at 31 December 2018	925.0	-	45.0	153.9	1.4	15.8	-	216.1
Carrying amount								
As at 1 January 2018	357.9	6.9	60.4	39.7	0.3	5.6	1.7	114.6
As at 31 December 2018	299.1	15.5	58.9	32.1	1.3	4.3	4.3	116.4

The Company recognized utilisation of an impairment loss on items of property, plant and equipment. The impairment allowance is recognized in 'depreciation, amortization, impairment and liquidation'.

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	Other property, plant and equipment
Cost								
Cost as at 1 January 2017	1,123.1	6.9	105.6	175.3	4.6	28.3	1.6	322.3
Additions	157.1	-	2.9	10.1	0.1	0.3	0.5	13.9
Transfer from assets under construction	-	-	-	0.4	-	-	(0.4)	-
Transfer to investment property	-	-	(6.6)	-	-	-	-	(6.6)
Disposals	(55.2)	-	(2.8)	(3.1)	(1.7)	(9.9)	-	(17.5)
Cost as at 31 December 2017	1,225.0	6.9	99.1	182.7	3.0	18.7	1.7	312.1
Accumulated impairment losses as at 1 January 2017								
	6.6	-	-	0.1	-	-	-	0.1
Recognition	0.3	-	-	0.2	-	-	-	0.2
Reversal	-	-	-	-	-	-	-	-
Utilisation	(1.7)	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2017	5.2	-	-	0.3	-	-	-	0.3
Accumulated depreciation								
Accumulated depreciation as at 1 January 2017	744.3	-	37.4	129.8	4.1	19.5	-	190.8
Additions	169.0	-	4.2	15.6	0.3	1.8	-	21.9
Disposals	(51.4)	-	(0.7)	(2.7)	(1.7)	(8.2)	-	(13.3)
Transfer to investment property	-	-	(2.2)	-	-	-	-	(2.2)
Accumulated depreciation as at 31 December 2017	861.9	-	38.7	142.7	2.7	13.1	-	197.2
Carrying amount								
As at 1 January 2017	372.2	6.9	68.2	45.4	0.5	8.8	1.6	131.4
As at 31 December 2017	357.9	6.9	60.4	39.7	0.3	5.6	1.7	114.6

The Company recognized utilisation of an impairment loss on items of property, plant and equipment. The impairment allowance is recognized in 'depreciation, amortization, impairment and liquidation'.

17. Impairment test on goodwill allocated to the “Services to individual and business customers” cash-generating unit

The Company recognized goodwill in the amount of PLN 52.0 on the acquisition of M.Punkt Holdings Ltd. and goodwill in the amount of PLN 145.0 on the acquisition of Redefine Sp. z o.o. in the financial statements and allocated them to the “Services to individual and business customers” cash-generating unit. “Services to individual and business customers” cash-generating unit is equivalent to the Company. Upon merger of M.Punkt Holdings and Redefine with the Company the amount of goodwill recognized in consolidated financial statements was transferred to these financial statements (see accounting policy in note 6aa).

Goodwill was tested for impairment as at 31 December 2018. The impairment test did not indicate impairment.

The impairment test was based on the recoverable amounts of the cash generating unit to which the goodwill has been allocated. The recoverable amount of the cash-generating unit is determined based on the value-in-use calculations. The Company tests the total carrying amount of the cash-generating unit and any impairment identified is recognized in the profit or loss immediately with respect to goodwill first and is not subsequently reversed. If goodwill is fully impaired the remaining amount of the impairment loss is allocated to other assets of the cash-generating unit on a pro rata basis.

In the annual impairment test performed by the Company as at 31 December 2018 the calculation of value-in-use was based on discounted free cash flows and involved the use of estimates related to cash flow before tax projections based on actual financial business plans covering the 5-year period until 2023. Cash flow projections after 5-year forecast period are estimated using the terminal growth. Terminal growth rate does not exceed the long-term average growth rate for the country in which the Company operates.

The key financial assumptions

The most sensitive key financial assumptions used in the value-in-use calculations of the “Services to individual and business customers” cash-generating unit were as follows:

- discount rate
- terminal growth rate used for estimating free cash flows beyond the period of financial plans

	Services to individual and business customers	
	2018	2017
Terminal growth	2%	2%
Discount rate before tax	8.5%	10.0%

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to cash-generating unit, taking into account the time value of money and risks specific to the asset. The discount rate was estimated on the basis of weighted average cost of capital method (WACC) and considered Company’s business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment expected by the Company’s investors while cost of debt is based on the interest bearing debt instruments. Operating segment - specific risk is considered by the estimation of beta. Beta is estimated annually and is based on the market data.

Terminal growth rate – growth rates are based on widely available published market data.

Sensitivity analysis of key financial assumptions

The Company believes that the key assumptions made in testing for impairment of the “Services to individual and business customers” cash-generating unit as at 31 December 2018 are reasonable and are based on our experience and market forecasts that are published by the industry experts. Management believes that any reasonably possible change in the key assumptions on which the cash-generating unit’s recoverable amount is based would not cause the impairment charge to be recognized.

18. Other intangible assets

	Software and licenses	Other	Under development	Total
Cost				
Cost as at 1 January 2018	208.3	7.2	16.7	232.2
Merger with related entity	0.4	-	-	0.4
Additions	3.8	-	15.2	19.0
Transfer from intangible assets under development	4.5	-	(4.5)	-
Disposals	(9.2)	(5.9)	(3.8)	(18.9)
Cost as at 31 December 2018	207.8	1.3	23.6	232.7
Accumulated impairment losses as at 1 January 2018				
Recognition	-	-	-	-
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2018	-	-	-	-
Accumulated amortization				
Accumulated amortization as at 1 January 2018	159.4	6.5	-	165.9
Merger with related entity	0.3	-	-	0.3
Additions	17.8	0.4	-	18.2
Disposals	(8.9)	(5.9)	-	(14.8)
Accumulated amortization as at 31 December 2018	168.6	1.0	-	169.6
Carrying amounts				
As at 1 January 2018	48.9	0.7	16.7	66.3
As at 31 December 2018	39.2	0.3	23.6	63.1

	Software and licenses	Other	Under development	Total
Cost				
Cost as at 1 January 2017	210.8	13.4	12.5	236.7
Additions	2.8	0.2	11.7	14.7
Transfer from intangible assets under development	6.6	-	(6.6)	-
Disposals	(11.9)	(6.4)	(0.9)	(19.2)
Cost as at 31 December 2017	208.3	7.2	16.7	232.2
Accumulated impairment losses as at 1 January 2017				
	-	-	-	-
Recognition	-	-	-	-
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2017	-	-	-	-
Accumulated amortization				
Accumulated amortization as at 1 January 2017	150.5	12.5	-	163.0
Additions	20.6	0.4	-	21.0
Disposals	(11.7)	(6.4)	-	(18.1)
Accumulated amortization as at 31 December 2017	159.4	6.5	-	165.9
Carrying amounts				
As at 1 January 2017	60.3	0.9	12.5	73.7
As at 31 December 2017	48.9	0.7	16.7	66.3

19. Investment property**Cost**

Cost as at 1 January 2018	41.3
Additions	6.1
Cost as at 31 December 2018	47.4

Accumulated amortization

Accumulated amortization as at 1 January 2018	5.0
Additions	1.9
Accumulated amortization as at 31 December 2018	6.9

Carrying amounts

As at 1 January 2018	36.3
As at 31 December 2018	40.5

Cost

Cost as at 1 January 2017	32.3
Additions	2.4
Transfer from buildings and structures	6.6
Cost as at 31 December 2017	41.3

Accumulated amortization

Accumulated amortization as at 1 January 2017	1.1
Additions	1.7
Transfer from buildings and structures	2.2
Accumulated amortization as at 31 December 2017	5.0

Carrying amounts

As at 1 January 2017	31.2
As at 31 December 2017	36.3

20. Shares in subsidiaries and associates

Shares in subsidiaries and associates as at 31 December 2018

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Polkomtel Sp. z o.o.	Konstruktorska 4 Warsaw	telecommunication activities	100%	4,498.7
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, Warsaw	broadcasting and television production	100%	3,899.0
Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.)**	Konstruktorska 4 Warsaw	telecommunication activities	74.98%	2,293.1
Netia S.A.	Poleczki 13, Warsaw	telecommunication activities	65.98%	1,277.5
Interphone Service Sp. z o.o.**	Inwestorów 8, Mielec	production of set-top boxes	99%	64.0
Orsen Holding Limited	Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	34.9
INFO-TV-FM Sp. z o.o.**	Łubinowa 4a, Warsaw	radio and TV activities	73.5%	29.3
Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.**	Ostrobramska 77, Warsaw	advertising activities	37.75%	25.2
Teleaudio Dwa Sp. z o.o. Sp.k.**	Al. Jerozolimskie 81, Warsaw	call center and premium rate services	99%	21.0
TVO Sp. z o.o.*	Stefana Batorego 28-32, Gdynia	retail sales	45.1%	4.5
Karpacka Telewizja Kablowa Sp. z o.o.	Warszawska 220, Radom	dormant	99%	2.4
Netshare Media Group Sp. z o.o.	Ostrobramska 77, Warsaw	advertising activities	100%	2.1
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, Warsaw	web portals activities	4.55%	0.1
Orsen Limited**	Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	0.2%	0.0
CPSPV1 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	0.0
CPSPV2 Sp. z o.o.	Łubinowa 4a, Warsaw	technical services	100%	0.0
			Total	12,151.8

* shares in associates include shares in TVO Sp. z o.o.

** the Company holds directly and indirectly 100% shares

	31 December 2017	Additions	Decreases	31 December 2018
Eileme 1 AB (publ)	6,723.5	-	(6,723.5) ^(a)	-
Polkomtel Sp. z o.o.	-	6,719.8 ^(a)	(2,221.1) ^(b)	4,498.7
Telewizja Polsat Sp. z o.o.	3,899.0	-	-	3,899.0
Netia S.A.	638.7	638.8 ^(c)	-	1,277.5
Cyfrowy Polsat Trade Marks Sp. z o.o.	615.4	-	(615.4) ^(d)	-
Polkomtel Infrastruktura Sp. z o.o. (formerly PL 2014 Sp. z o.o.)	72.0	2,221.1 ^(b)	-	2,293.1
Interphone Service Sp. z o.o.	64.0	-	-	64.0
Orsen Holding Limited	34.9	0.0 ^(d)	-	34.9
INFO-TV-FM Sp. z o.o.	29.3	-	-	29.3
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	25.2	-	-	25.2
Teleaudio Dwa Sp. z o.o. Sp.k.	21.0	-	-	21.0
TVO Sp. z o.o.	-	4.5 ^(d)	-	4.5
Karpacka Telewizja Kablowa Sp. z o.o.	2.4	-	-	2.4
Netshare Media Group Sp. z o.o.	-	2.1 ^(e)	-	2.1
Polskie Badania Internetu Sp. z o.o.	0.1	-	-	0.1
Orsen Limited	-	0.0 ^(d)	-	0.0
CPSPV1 Sp. z o.o.	-	0.0 ^(d)	-	0.0
CPSPV2 Sp. z o.o.	-	0.0 ^(d)	-	0.0
Total	12,125.5	9,586.3	(9,560.0)	12,151.8

(a) On 28 April 2018 the Company completed a merger with Eileme 1 AB (publ). Following the merger the Company became a direct shareholder of Polkomtel Sp. z o.o. (see note 38).

(b) On 31 August 2018 the spin-off of organized part of the enterprise was registered.

(c) Acquisition of shares in Netia S.A. is presented in note 44.

(d) On 30 November 2018 the Company completed a merger with Cyfrowy Polsat Trade Marks Sp. z o.o. (see note 38).

(e) On 25 June 2018 the Company acquired shares in Netshare Media Group Sp. z o.o.

No impairment on shares in related entities was recognized as at 31 December 2018.

21. Deferred distribution fees

	31 December 2018	31 December 2017
Deferred distribution fees	110.3	108.1
<i>Of which: Current</i>	75.9	75.0
<i>Non-current</i>	34.4	33.1

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Company to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2018, the balance of distribution fees relating to agreements whose basic period as at the date of signing was more than 12 months amounted to PLN 110.2 (as at 31 December 2017: 108.0 PLN).

22. Other non-current assets

	31 December 2018	31 December 2017
Non-current trade receivables	21.7	26.6
Non-current loans granted	1.5	0.2
Other deferred costs	0.5	0.6
Derivative instruments (IRS) assets (see note 35)	-	0.2
Total	23.7	27.6

23. Inventories

Types of inventories	31 December 2018	31 December 2017
Set-top boxes and disc drives	40.6	22.4
Mobile phones, modems, tablets and laptops	14.5	11.2
Other inventories	75.1	32.0
Total net value	130.2	65.6

Write-downs of inventories	2018	2017
Opening balance	8.3	3.5
Increase	0.8	5.1
Utilisation	(2.2)	(0.3)
Closing balance	6.9	8.3

24. Trade and other receivables

	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Trade receivables from related entities	26.1	32.8
Trade receivables from non-related entities	66.4	195.7
Tax and social security receivables	25.2	20.1
Other receivables	31.9	25.3
Total	149.6	273.9

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

Trade receivables by currency

Currency	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
PLN	77,1	209.7
EUR	14,8	17.9
USD	0,6	0.9
Total	92,5	228.5

Movements in bad debt allowance – short-term and long-term

	2018	2017
Opening balance as at 1 January	32.2	36.9
Increase	11.5	11.1
Reversal	(0.1)	(4.0)
Utilisation	(6.7)	(11.8)
Closing balance as at 31 December	36.9	32.2
<i>Of which:</i>		
<i>Short-term</i>	35.9	31.1
<i>Long-term</i>	1.0	1.1

25. Other current assets

	31 December 2018	31 December 2017
Other deferred costs	98.3	130.2
Other deferred income	7.5	3.1
Derivative instruments (IRS) assets (see note 35)	-	0.4
Total	105.8	133.7

Other deferred costs as at 31 December 2018 and 31 December 2017 comprise mainly deferred costs related to the agreement with Polkomtel Sp. z o.o. for the data transfer services.

26. Cash and cash equivalents

	31 December 2018	31 December 2017
Current accounts	25.5	12.9
Deposits	232.8	16.6
Total	258.3	29.5

The Company places its cash and cash equivalents in banks and financial institutions with reliability proven by ratings awarded by universally recognized agencies Standard & Poor's, Moody's or Fitch and in Plus Bank, as required by the loan agreement and policies adopted therein. As at 31 December 2018, the largest concentration of funds in one bank was 68%.

Currency	31 December 2018	31 December 2017
PLN	241.0	20.4
USD	12.3	8.5
EUR	5.0	0.6
Total	258.3	29.5

As the Company cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

27. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2018 and 31 December 2017:

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

The shareholders' structure as at 31 December 2018 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Reddev Investments Ltd. ¹	298,656,832	12.0	46.70%	472,203,083	57.66%
Embud 2 Sp. z o.o. S.K.A. ²	58,000,000	2.3	9.07%	58,000,000	7.08%
Karswell Ltd. ²	10,000,000	0.4	1.56%	10,000,000	1.22%
Argumenol Investment Company Ltd. ²	63,948	0.0	0.01%	63,948	0.01%
Others	272,825,236	10.9	42.66%	278,696,486	34.03%
Total	639,546,016	25.6	100%	818,963,517	100%

¹ Reddev Investments Ltd. is an indirect subsidiary of Mr. Zygmunt Solorz.

² Entity is controlled by Mr. Zygmunt Solorz.

The shareholders' structure as at 31 December 2017 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	55,092,796	2.3	8.61%	82,005,421	10.01%
Embud 2 Sp. z o.o. S.K.A. ¹	58,063,948	2.3	9.08%	58,063,948	7.09%
Others	214,196,708	8.5	33.50%	214,196,708	26.16%
Total	639,546,016	25.6	100%	818,963,517	100%

¹ Entity is controlled by Mr. Zygmunt Solorz.

² Reddev Investments Ltd. is an indirect subsidiary of Mr. Zygmunt Solorz.

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.

(iii) Retained earnings

On 28 June 2018 the Annual General Meeting of the Company adopted a resolution on distribution of profit of the Company for the year ended 31 December 2017. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2017 in the amount of PLN 606.0 is appropriated to the supplementary capital.

28. Hedge valuation reserve

On 18 January 2017 the Company concluded interest rate swap transaction with Credit Agricole Corporate and Investment Bank. The transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 2.0695%.

The transaction was concluded for the period from 31 March 2017 to 30 September 2019. The Transaction protects the nominal amount of a bank loan in the amount of PLN 125.

On 22 June 2018 the Company concluded interest rate swap transaction with Societe Generale Corporate and Investment Bank. The transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 1.9450%.

The transaction was concluded for the period from 28 September 2018 to 30 September 2020. The Transaction protects the nominal amount of a bank loan in the amount of PLN 125.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2018

	IRS
Liabilities	
Long-term	(0.1)
Short-term	(0.7)
Total	(0.8)

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2017

	IRS
Assets	
Long-term	0.2
Short-term	0.4
Liabilities	
Short-term	(0.5)
Total	0.1

Impact of hedging instruments valuation on hedge valuation reserve

	2018	2017
Balance as at 1 January	0.1	1.2
Valuation of cash flow hedges	(0.9)	(1.3)
Deferred tax	0.2	0.2
Change for the period	(0.7)	(1.1)
Balance as at 31 December	(0.6)	0.1

29. Loans and borrowings

Loans and borrowings	31 December 2018	31 December 2017
Short-term liabilities	386.2	379.9
Long-term liabilities	572.4	535.0
Total	958.6	914.9

Change in loans and borrowings liabilities

	2018	2017
Loans and borrowings as at 1 January	914.9	1,021.1
Repayment of capital	-	(213.5)
Revolving facility loan	300.0	-
Repayment of revolving facility loan	(150.0)	-
Repayment of interest and commissions	(33.2)	(30.8)
Net cash from the Cash Management System Agreement	(103.5)	103.5
Cumulative catch-up	(4.2)	-
Interest accrued	34.6	34.6
Loans and borrowings as at 31 December	958.6	914.9

Facilities agreement between the Company and a consortium of financial institutions

On 21 September 2015, the Company, as the borrower, along with 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. 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").

Based on the CP Facilities Agreement the Company has been granted a Term Facility Loan up to PLN 1,200.0 (the "CP Term Facility") and a Revolving Facility Loan up to PLN 300.0 (the "CP Revolving Facility").

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 HY Notes Indebtedness (indebtedness under the senior notes issued on 26 January 2012 by Eileme 2 AB (publ) – a Company's indirect subsidiary), the indebtedness under the PLK Facilities Agreement (facilities agreement between Polkomtel and consortium of financial institutions dated 21 September 2015) was refinanced using the funds made available under the CP Facilities Agreement, as amended in the Amendment, Restatement and Consolidation Deed. The HY Notes Indebtedness have been repaid on 1 February 2016.

The Amendment, Restatement and Consolidation Deed amends 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.

On 26 January 2016, Polkomtel Sp. z o.o. (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.

Amendments and restatement deed to the facilities agreement

On 2 March 2018 the Company (acting as the obligors' agent) and UniCredit Bank AG (acting as finance parties' agent) entered into Second Amendment and Restatement Deed to the Facilities Agreement dated 21 September 2015 and amended by the Amendment, Restatement and Consolidation Deed dated 21 September 2015. The Second Amendment and Restatement Deed amends *inter alia* the termination date of the CP Term Facility and the CP Revolving Facility to 30 September 2022 (originally set on 21 September 2020). Pursuant to the agreement the repayment schedule has been changed - for details please refer to consolidated financial statements for the year ended 31 December 2018 (note 31).

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP 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. As at 31 December 2018 the

CP Term Facility and the CP Revolving Facility are to be repaid in quarterly installments of variable value with the final repayment date for each of these facilities set at 30 September 2022.

The CP Revolving Facility as at 31 December 2018 was partially utilized. The CP Revolving Facility as at 31 December 2017 was utilized.

The Company used the CP Term Facility in particular to:

- (i) repay the indebtedness under the Senior Facilities Agreement of 11 April 2014 between the Company (as the borrower) and a consortium of financial institutions, and
- (ii) fund general corporate needs of the Group.

In accordance with the provisions of the Amendment, Restatement and Consolidation Deed, the Company 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.

Liabilities related to the CP Facilities Agreement are secured by collaterals established by the Company. A detailed description of the established securities is presented in the Management Report in note 4.6.5.

30. Issued bonds

	31 December 2018	31 December 2017
Short-term liabilities	42.3	42.5
Long-term liabilities	976.0	975.7
Total	1,018.3	1,018.2

Change in issued bonds payable

	2018	2017
Issued bonds payable as at 1 January	1,018.2	1,017.9
Repayment of interest and commissions	(43.1)	(43.0)
Interest accrued	43.2	43.3
Issued bonds payable as at 31 December	1,018.3	1,018.2

On 21 July 2015, the Company registered 1.000.000 unsecured series A bearer bonds with a nominal value of PLN 1.000 each (not in million) and a total nominal value of PLN 1.000.000.000 (not in million) (the "Bonds") in the securities depository maintained by the National Depository for Securities (Krajowy Depozyt Papierów Wartościowych S.A.). The Bonds mature in 6 years. The redemption date for the Bonds is 21 July 2021. The interest rate is floating and is based on the WIBOR 6M rate, increased by a margin which depends on the Leverage Ratio level (defined in the terms and conditions of the Bonds' issuance).

31. Company as a lessor and as a lessee

a) Company as a lessor

Operating leases

The Company entered into contracts with third parties, which are classified as operating leases due to their economic substance. The contracts relate to rental of digital satellite reception equipment, lease of TV production studio, garage and lease of premises. Assets connected with such contracts are presented as property, plant and equipment.

Lease contracts for set-top boxes are concluded for a basic contractual period ranging from 12 to 29 months. After the basic period, the contracts are converted into contracts with indefinite terms, unless terminated by subscribers or new contracts are signed.

Future minimum lease payments under operating lease are as follows:

	31 December 2018	31 December 2017
within 1 year	176.6	37.6
between 1 and 5 years	113.6	26.0
in more than 5 years	9.5	11.6
Total	299.7	75.2

b) Company as a lessee

Operating leases

The Company entered into agreements, which are classified as operating lease contracts based on their economic substance. Assets leased under these contracts are not recorded in the financial statements. The contracts comprise *inter alia* leases of office.

Future minimum lease payments under operating leases are as follows:

	31 December 2018	31 December 2017
within 1 year	5.6	107.6
between 1 and 5 years	15.7	369.2
in more than 5 years	15.6	254.9
Total	36.9	731.7

In 2018 the Company incurred costs related to operating lease agreements amounting to PLN 16.7 and in 2017 the costs of the Company amounted to PLN 99.3.

Finance leases

As at 31 December 2018 the Company had agreements classified as financial lease amounting to PLN 1.2. There were no agreements classified as finance lease at 31 December 2017.

For vehicles the duration of a lease is up to 5 years.

Future minimum lease payments under finance leases are as follows:

	31 December 2018	31 December 2017
within 1 year	0.2	-
between 1 and 5 years	1.1	-
in more than 5 years	-	-
Total	1.3	-

Current value of lease payments amounted to PLN 1.2 as at 31 December 2018.

32. Other non-current liabilities and provisions

	31 December 2018	31 December 2017
Deposits	0.6	0.6
Other provisions	0.9	0.8
Derivative instruments (IRS) liabilities (see note 35)	0.1	-
Total	1.6	1.4

33. Trade and other payables

	31 December 2018	31 December 2017
Trade payables to related parties	78.2	95.8
Trade payables to non-related parties	77.4	58.5
Taxation and social security payables	11.6	10.7
Payables relating to purchases of non-current assets	3.4	1.6
Accruals	121.6	157.7
Short term provisions	14.4	16.7
Derivative instruments (IRS) liabilities (see note 35)	0.7	0.5
Other	5.6	10.0
Total	312.9	351.5

Accruals

	31 December 2018	31 December 2017
Salaries	17.0	19.5
Licence fees and royalties for copyright management organizations	58.2	83.3
Distribution costs	10.1	10.8
Other	36.3	44.1
Total	121.6	157.7

Short-term and long-term provisions

	2018	2017
Opening balance as at 1 January	17.5	23.6
Increases	1.5	0.5
Reversal	(3.7)	(6.6)
Closing balance as at 31 December	15.3	17.5
<i>Of which:</i>		
<i>Short-term</i>	14.4	16.7
<i>Long-term</i>	0.9	0.8

Provisions comprise mainly of provisions for license fees, litigation and disputes.

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2018	31 December 2017
PLN	133.1	131.0
EUR	17.0	15.7
USD	8.9	9.2
Total	159.0	155.9

Accruals by currency

Currency	31 December 2018	31 December 2017
PLN	112.5	139.7
EUR	8.7	17.0
USD	0.4	0.7
CHF	-	0.3
Total	121.6	157.7

34. Deferred income

	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Deferred income	-	233.1
<i>Of which: Short-term</i>	-	229.9
<i>Long-term</i>	-	3.2

As at 31 December 2017 deferred income comprises mainly subscription fees paid in advance and rental fees for reception equipment.

Other notes**35. Financial instruments****Overview**

Cyfrowy Polsat S.A. is exposed to the following financial risks:

- credit risk,
- liquidity risk,
- market risk:
 - a. currency risk,
 - b. interest rate risk.

The Company's risk management policies are designed to reduce the impact of adverse conditions on the Company's results.

The Management Board is responsible for oversight and management of each of the risks faced by the Company. Therefore, the Management Board has established an overall risk management framework as well as risk management policies on market, credit and liquidity risks.

This note presents information about the Company's exposure to each of the above risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these financial statements.

Bank loans, bonds, cash, interest rate swaps and short-term bank deposits are the main financial instruments used by the Company, with the intention of securing the financing for the Company's activities. The Company also holds other financial instruments including trade receivables and payables and payables relating to purchases of tangible and intangible assets which arise in the course of its business activities.

Financial assets	Carrying amount	
	31 December 2018 (IFRS 15 basis)	31 December 2017 (IAS 18 basis)
Loans and receivables, including:	406.0	310.1
Loans granted	6.6	2.5
Trade and other receivables from related parties	27.0	32.8
Trade and other receivables from non-related parties	90.3	224.0
Share in the profits of partnerships receivables	23.8	21.3
Cash and cash equivalents	258.3	29.5
Hedging derivative instruments:	-	0.6
Interest rate swaps	-	0.6

Financial liabilities	Carrying amount	
	31 December 2018	31 December 2017
Other financial liabilities valued at amortised cost, including:	2,267.7	2,259.7
Borrowings and loans	958.6	914.9
Issued bonds	1,018.3	1,018.2
Lease liabilities	1.2	
Trade payables and other payables to third parties and deposits	89.5	72.6
Trade and other payables to related parties	78.5	96.3
Accruals	121.6	157.7
Hedging derivative instruments:	0.8	0.5
Interest rate swaps	0.8	0.5

Credit risk

Credit risk is defined as the risk that counterparties of the Company will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas: it relates to

- the creditworthiness of the customers with whom physical sale transactions are undertaken,
- the creditworthiness of the financial institutions (banks/brokers) with whom, or through whom, hedging or other derivative transactions are undertaken,
- the creditworthiness of the entities in which investments are made, or whose securities are purchased.

Credit risk arises mainly on trade receivables assets related to contracts. In the financial year ended 31 December 2018, the Company was not materially exposed to credit risk arising from sales on credit. The Company's customer base includes a large number of individual subscribers dispersed geographically over the country who prepay subscription fees. Receivables from subscribers are constantly monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a MVNO and Internet client.

The Company pursues a credit policy under which credit risk exposure is constantly monitored.

Due to diversification of risk in terms of the nature of individual entities, their geographical location and cooperation with highly-rated financial institutions, also taking into consideration the fair value of liabilities arising from derivative transactions, the Company is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

Maximum exposure to credit risk

	Carrying amount	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Loans granted	6.6	2.5
Trade and other receivables from related parties	27.0	32.8
Trade and other receivables from non-related parties	90.3	224.0
Share in the profits of partnerships receivables	23.8	21.3
Contract assets	179.7	-
Cash and cash equivalents	258.3	29.5
Total	585.7	310.1

The maximum exposure to credit risk for trade and other receivables and assets related to contracts, by type of customer, was:

	Carrying amount	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Receivables from subscribers	242.0	192.7
Receivables from distributors	0.2	1.3
Receivables from media companies	21.9	19.8
Receivables and loans granted to related parties, including share in the profits of partnerships receivables	57.1	56.4
Other receivables and loans granted to non-related parties	6.2	10.4
Total	327.4	280.6

The ageing of trade and other receivables and assets related to contracts at the reporting date was:

	31 December 2018 (IFRS 15 basis)			31 December 2017 (IAS 18 basis)		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	107.6	8.4	99.2	231.5	6.7	224.8
Past due 0-30 days	14.2	0.8	13.4	27.4	0.5	26.9
Past due 31-60 days	6.6	0.6	6.0	6.5	0.5	6.0
Past due more than 60 days	36.1	13.6	22.5	34.9	14.5	20.4
Total	164.5	23.4	141.1	300.3	22.2	278.1
Assets related to contracts	183.0	3.3	179.7	-	-	-
Total	347.5	26.7	320.8	-	-	-

To estimate impairment due to expected loss model the Company performed analysis using the matrix of accruals. Accrual for impairment is recognized for trade and other receivables in the amount of expected credit losses in instrument's life cycle.

Liquidity risk

The Company's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Surplus cash is invested in bank deposits.

The Company prepares, on an ongoing basis, analyses and forecasts of cash requirements based on projected cash flows.

The following are the contractual maturities of the Company's financial liabilities.

	31 December 2018						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	958.6	1,019.1	271.7	119.9	234.4	393.1	-
Issued bonds	1,018.3	1,128.8	21.6	21.3	43.0	1,042.9	-
Financial lease liabilities	1.2	1.3	0.1	0.1	0.2	0.9	-
Trade and other payables to non-related parties and deposits	89.5	89.5	89.5	-	-	-	-
Trade and other payables to related parties	78.5	78.5	78.5	-	-	-	-
Accruals	121.6	121.6	121.6	-	-	-	-
Hedging derivative instruments:							
IRS*	0.8	0.7	0.4	0.2	0.1	-	-
	2,268.5	2,439.5	583.4	141.5	277.7	1,436.9	-

* pursuant to the agreements settlements shall be on a net basis

	31 December 2017						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	more than 5 years
Loans and borrowings	914.9	961.8*	240.5*	145.8*	318.0*	257.5*	-
Issued bonds	1,018.2	1,172.5	21.7	21.4	43.1	1,086.3	-
Trade and other payables to non-related parties and deposits	72.6	72.6	72.6	-	-	-	-
Trade and other payables to related parties	96.3	96.3	96.3	-	-	-	-
Accruals	157.7	157.7	157.7	-	-	-	-
Hedging derivative instruments:							
IRS**	0.5	0.5	0.3	0.2	-	-	-
	2,260,2	2,461,4	589,1	167,4	361,1	1,343,8	-

* loan agreements' contractual cash flows changed pursuant to the new agreement entered into on 2 March 2018 (see note 29 for details)

** pursuant to the agreements settlements shall be on a net basis

The Company may utilize revolving facility line of credit up to the amount of 1.000 PLN. As at 31 December 2018 the final maturity date was set on 30 September 2022. At 31 December 2018 the revolving facility was partially utilized and as at 31 December 2017 the revolving facility was fully utilized.

Market risk

The Company has an active approach to managing its market risk exposure. The objectives of market risk management are:

- to limit fluctuations in profit/loss before tax,
- to increase the probability of meeting budget assumptions,
- to maintain the healthy financial condition, and
- to support the process of undertaking strategic decisions relating to investing activity, with attention to sources of capital for this activity.

All the market risk management objectives should be considered as a whole, while their realisation is dependant primarily upon the internal situation and market conditions.

The Company applies an integrated approach to market risk management. This means a comprehensive approach to the whole spectrum of identified market risks, rather than to each of them individually. The primary technique for market risk management is the use in the Company of hedging strategies involving derivatives. Apart from this, natural hedging is also used to the extent available.

All of the potential hedging strategies and the selection of those preferred reflect the following factors: the nature of identified market risk exposures of the Company, the suitability of instruments to be applied and the cost of hedging, current and forecasted

market conditions. In order to mitigate market risk, derivatives are primarily used. The Company transacts only those derivatives for which it has the ability to assess their value internally, using standard pricing models appropriate for a particular type of derivative, and also these which can be traded without significant loss of value with a counterparty other than the one with whom the transaction was initially entered into. In evaluating the market value of a given instrument, the Company relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:

- Swaps (IRS/CIRS),
- Forwards and futures,
- Options.

Currency risk

One of the main risks to which the Company is exposed is currency risk related to fluctuations in the exchange rate between the Polish zloty and other currencies. The revenues generated by the Company are denominated mainly in Polish zloty, however, a portion of operating costs and capital expenditures are incurred in foreign currencies. The Company's currency risk is related to royalties for TV and radio broadcasters (USD and EUR), transponder capacity leases (EUR), fees for conditional access system (EUR and USD) and purchases of reception equipment and accessories for reception equipment (USD and EUR).

In respect of licence fees and transponder capacity leases, the Company partly reduces its currency risk exposure by means of an economic hedge as it denominates receivables from signal broadcast and marketing services in foreign currencies.

The Company did not have any assets held for trading denominated in foreign currencies.

The Company's exposure to foreign currency was as follows based on currency amounts:

	31 December 2018		31 December 2017	
	EUR	USD	EUR	USD
Trade receivables	3.4	0.2	4.3	0.3
Cash and cash equivalents	1.2	3.3	0.1	2.4
Trade payables	(4.0)	(2.4)	(3.8)	(2.6)
Gross balance sheet exposure	0.6	1.1	0.6	0.1
Net exposure	0.6	1.1	0.6	0.1

Following foreign exchange rates were applied in the presented periods:

(in PLN)	Average rate		Rates at the balance sheet date	
	2018	2017	31 December 2018	31 December 2017
1 EUR	4.2623	4.2576	4.3000	4.1709
1 USD	3.6134	3.7777	3.7597	3.4813

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2018 and 31 December 2017 it was assumed that probable volatility will be in the +/- 5% band. This analysis assumes that all other variables, in particular interest rates, remain constant.

	2018					2017					
	As at 31 December 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2017		Estimate d change in exchang e rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	
	in currency	in PLN				in currency	in PLN				
Trade receivables											
EUR	3.4	14.8	5%	0.7	-	-	4.3	17.9	5%	0.9	-
USD	0.2	0.6	5%	-	-	-	0.3	0.9	5%	-	-
Cash and cash equivalents											
EUR	1.2	5.0	5%	0.3	-	-	0.1	0.6	5%	-	-
USD	3.3	12.3	5%	0.6	-	-	2.4	8.5	5%	0.4	-
Trade payables											
EUR	(4.0)	(17.0)	5%	(0.9)	-	-	(3.8)	(15.7)	5%	(0.8)	-
USD	(2.4)	(8.9)	5%	(0.4)	-	-	(2.6)	(9.2)	5%	(0.5)	-
Change in operating profit				0.3	-	-				-	-
Income tax				-	-	-				-	-
Change in net profit				0.3	-	-				-	-

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

	2018					2017				
	As at 31 December 2018		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	3.4	14.8	-5%	(0,7)	-	4.3	17.9	-5%	(0,9)	-
USD	0.2	0.6	-5%	-	-	0.3	0.9	-5%	-	-
Cash and cash equivalents										
EUR	1.2	5.0	-5%	(0,3)	-	0.1	0.6	-5%	-	-
USD	3.3	12.3	-5%	(0,6)	-	2.4	8.5	-5%	(0,4)	-
Trade payables										
EUR	(4.0)	(17.0)	-5%	0,9	-	(3.8)	(15.7)	-5%	0,8	-
USD	(2.4)	(8.9)	-5%	0,4	-	(2.6)	(9.2)	-5%	0,5	-
Change in operating profit				(0,3)	-				-	-
Income tax				-	-				-	-
Change in net profit				(0,3)	-				-	-

	2018		2017	
	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN
Estimated change in exchange rate by 5 %				
EUR	0.1	-	0.1	-
USD	0.2	-	(0.1)	-
Estimated change in exchange rate by -5 %				
EUR	(0.1)	-	(0.1)	-
USD	(0.2)	-	0.1	-

Had the Polish zloty strengthened 5% against the basket of currencies as at 31 December 2018, the Company's net profit would have increased by PLN 0.3 and other comprehensive income would have been unchanged in 2018. Had the Polish zloty appreciated 5%, the Company's net profit would have decreased by PLN 0.3 in 2018 and other comprehensive income would have been unchanged in 2018. Had the Polish zloty strengthened 5% against the basket of currencies as at 31 December 2017 or there would be an appreciation of the Polish zloty by 5%, the Company's net profit and other comprehensive income would have been unchanged in 2017, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

Changes in market interest rates have no direct effect on the Company's revenues, however, they do have an effect on net cash from operating activities due to interest earned on overnight bank deposits and current accounts, and on net cash from financing activities due to interest charged on bank loans and bonds.

The Company regularly analyses its level of interest rate risk exposure, including refinancing and risk minimising scenarios. Based on these analyses, the Company estimates the effects of changes in interest rates on its profit and loss.

In order to reduce interest rate risk exposure resulting from interest payments on floating rate senior facility, the Company stipulated interest rate swaps.

At the reporting date, the interest rate risk profile of interest-bearing financial instruments was:

	Carrying amount	
	31 December 2018	31 December 2017
Fixed rate instruments		
Financial assets*	156.1	2.3
Variable rate instruments		
Financial assets*	108.8	29.7
Financial liabilities*	(1,967.2)	(1,919.7)
Net interest exposure	(1,702.3)	(1,887.7)

* nominal values

The Company's management classifies loan liabilities as variable rate instruments. Changes in the interest rate components do not result in a change in the carrying amount of the loan liability. The changes are reflected prospectively in the interest expense on loans and borrowings.

Cash flow sensitivity analysis for variable rate instruments (pre-tax effect):

	Income statement		Other comprehensive income		Equity	
	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
31 December 2018						
Variable rate instruments*	(18.6)	18.6	3.1	(3.1)	(15.5)	15.5
Cash flow sensitivity (net)	(18.6)	18.6	3.1	(3.1)	(15.5)	15.5
31 December 2017						
Variable rate instruments*	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8
Cash flow sensitivity (net)	(18.9)	18.9	3.1	(3.1)	(15.8)	15.8

* include sensitivity in fair value changes of derivative instruments (interest rate swaps) due to changes in interest rate

The Company applies cash flow hedge model under IAS 39 for interest rate exposure from floating rate interest payments in PLN on senior facility hedged by interest rate swap.

Fair value vs. carrying amount

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 assets and liabilities not measured in fair value.

	Category according to IFRS 9	Level of the fair value hierarchy	31 December 2018 (IFRS 15 basis)		31 December 2017 (IAS 18 basis)	
			Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	6.6	6.6	2.5	2.5
Trade and other receivables	A	*	141.1	141.1	278.1	278.1
Cash and cash equivalents	A	*	258.3	258.3	29.5	29.5
Loans and borrowings	B	2	(964.3)	(958.6)	(918.7)	(914.9)
Issued bonds	B	1	(1,028.9)	(1,018.3)	(1,036.7)	(1,018.2)
Lease liability	B	2	(1.2)	(1.2)	-	-
Accruals	B	*	(121.6)	(121.6)	(157.7)	(157.7)
Trade and other payables and deposits	B	*	(168.0)	(168.0)	(168.9)	(168.9)
Total			(1,878.0)	(1,861.7)	(1,971.9)	(1,949.6)
Unrecognized gain/(loss)				(16.3)		(22.3)

A – assets subsequently measured at amortised cost

B – liabilities subsequently measured at amortised cost

* it is assumed that the fair value of these financial assets and liabilities 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 or EURIBOR interest rate plus a margin regarding the 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 the effect of time value of money into account, would approximately be equal to their nominal value.

As at 31 December 2018 loans and borrowings comprised term facility loan and revolving facility loan. As at 31 December 2017 loans and borrowings comprised term facility loan and cash from 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 31 December 2018, forecasted cash flows from the reporting date to 30 September 2022 (assumed date of repayment of the loan). When determining the fair value of senior facility as at 31 December 2017, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan as at 31 December 2017) were analyzed. The fair value of the revolving facility loan as well as the Cash Management System Agreement is set as the nominal value, which is equal to carrying amount.

The fair value of bonds as at 31 December 2018 and 31 December 2017 is calculated based on the last bid price as at the balance sheet date as quoted on the Catalyst market.

As at 31 December 2018, the Company held the following financial instruments carried at fair value on the statement of financial position:

Liabilities measured at fair value				
	31 December 2018	Level 1	Level 2	Level 3
IRS		-	(0.8)	-
Total		-	(0.8)	-

The fair value of interest rate swaps is determined using financial instruments valuation models, based on generally published interest rates. 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 31 December 2017, the Company held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value				
	31 December 2017	Level 1	Level 2	Level 3
IRS			0.6	
Total		-	0.6	-

Liabilities measured at fair value				
	31 December 2017	Level 1	Level 2	Level 3
IRS			(0.5)	
Total		-	(0.5)	-

Items of income, costs, profit and losses recognized in profit or loss generated by loans and issued bonds (including hedging transactions)

For the period from 1 January 2018
to 31 December 2018

	Loans and borrowings	Issued bonds	Hedging instruments	Total
Interest expense on loans and borrowings	(30.4)	-	(0.2)	(30.6)
Interest expense on issued bonds	-	(43.2)	-	(43.2)
Total finance costs	(30.4)	(43.2)	(0.2)	(73.8)
Total gross profit/(loss)	(30.4)	(43.2)	(0.2)	(73.8)
Hedge valuation reserve	-	-	0.9	0.9

**For the period from 1 January 2017
to 31 December 2017**

	Loans and borrowings	Issued bonds	Hedging instruments	Total
Interest expense on loans and borrowings	(34.6)	-	0.2	(34.4)
Interest expense on issued bonds	-	(43.3)	-	(43.3)
Total finance costs	(34.6)	(43.3)	0.2	(77.7)
Total gross profit/(loss)	(34.6)	(43.3)	0.2	(77.7)
Hedge valuation reserve	-	-	1.3	1.3

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2018, the Company held a number of interest rate swaps, designated as hedges of floating interest payments on senior facility denominated in PLN. The interest rate swaps are being used to hedge the interest rate risk of the Company's floating rate financing in PLN.

The terms of the interest rate swaps have been negotiated to match the terms of the floating rate financing in PLN. There were no highly probable transactions for which hedge accounting has been claimed that have not occurred and no significant element of hedge ineffectiveness requiring recognition in the income statement.

Table below presents the basic parameters of IRS designated as hedging instruments, including the periods in which cash flows occur due to cash flow hedges, periods they will affect the financial results and fair value in PLN of hedging instruments as at the balance sheet date.

	31 December 2018	31 December 2017
Type of instrument	Interest rate swap	Interest rate swap
Exposure	Floating rate interest payments in PLN	Floating rate interest payments in PLN
Hedged risk	Interest rate risk	Interest rate risk
Notional value of hedging instrument (PLN)	250.0	375.0
Fair value of hedging instruments	(0.8)	0.1
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 30 September 2020	Until 30 September 2019

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2018	2017
Opening Balance	0.1	1.5
Effective part of gains or losses on the hedging instrument	(1.1)	(1.2)
Amounts recognized in equity transferred to the profit and loss statement, of which:	0.2	(0.2)
- adjustment of interest costs	0.2	(0.2)
Closing Balance	(0.8)	0.1

36. Capital management

This note presents information about the Company's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Company's ability to operate as a going concern in order to provide the shareholders return on investment as well as benefits for other stakeholders. The Company might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

The Company monitors capital on the basis of leverage ratio, which is calculated as a ratio of net debt to sum of equity and net debt. Net debt represents interest-bearing loans and borrowings and issued bonds less cash and cash equivalents (including restricted cash).

	Carrying amount	
	31 December 2018 <i>(IFRS 15 basis)</i>	31 December 2017 <i>(IAS 18 basis)</i>
Loans	958.6	914.9
Issued bonds	1,018.3	1,018.2
Cash and cash equivalents	(258.3)	(29.5)
Net debt	1,718.6	1,903.6
Equity	11,161.1	10,912.4
Equity and net debt	12,879.7	12,816.0
Leverage ratio	0.13	0.15

37. Barter transactions

The Company is a party to barter transactions. The table below presents revenues and costs of barter transactions executed on an arm's-length basis. Revenue comprise revenue from services, goods and materials sold, costs comprise costs of sales.

	for the year ended	
	31 December 2018	31 December 2017
Revenues from barter transactions	6.0	3.1
Cost of barter transactions	5.1	2.5
	31 December 2018	31 December 2017
Barter receivables	2.4	1.1
Barter payables	-	-

38. The impact of mergers on assets, equity and liabilities

The impact of merger with Eileme 1 AB (publ) on assets, equity and liabilities

On 28 April 2018 the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register registered the cross-border merger of the Company with its subsidiary, Eileme 1 AB (publ) ('Eileme 1') seated in Sweden.

The merger was effected by:

- i. transferring to Company, as the sole shareholder of Eileme 1, all the assets of Eileme 1 by the way of universal succession, and
- ii. dissolving of Eileme 1 without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of Eileme 1, effective on the date of the merger. Given that the Company held all the shares of Eileme 1 the merger was effected without increasing the share capital of the Company.

The detailed terms of the merger are specified in the Merger Plan prepared on 6 December 2017 and made publicly available, free of charge, on the Company's website. The merger was performed in order to optimize costs of operations and simplify the organizational structure of Cyfrowy Polsat Group.

The merger between the Company and Eileme 1 was accounted for as an acquisition of cash assets (Eileme 1's cash and cash equivalents and other smaller amounts of net assets, i.e. receivables and liabilities) and non-cash assets (shares in Eileme 1's subsidiary) in an exchange for non-cash item (i.e. shares in Eileme 1).

The merger's effects on the Company's assets and liabilities were as follows:

	Change resulting from the merger as at 28 April 2018
Shares in Eileme 1 AB (publ)	(6,723.5)
Shares in Polkomtel Sp. z o.o.	6,719.8
Receivables and other current assets	0.3
Cash and cash equivalents	4.0
Current liabilities	(0.6)
Total	-

As a result of the merger, net assets of Cyfrowy Polsat remain unchanged.

The impact of merger with Cyfrowy Polsat Trade Marks Sp. z o.o. on assets, equity and liabilities

On 30 November 2018 the District Court for the Capital City of Warsaw in Warsaw, XIII Business Division for the National Court Register registered the merger of the Company with Cyfrowy Polsat Trade Marks Sp. z o.o. ('CPTM') seated in Warsaw.

The merger was effected by:

- i. transferring to Company, as the sole shareholder of CPTM, all the assets of CPTM by the way of universal succession, and
- ii. dissolving of CPTM without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of CPTM, effective on the date of the merger. Given that the Company held all the shares of CPTM the merger was effected without increasing the share capital of the Company.

The detailed terms of the merger are specified in the Merger Plan prepared on 12 September 2018 and made publicly available, free of charge, on the Company's website. The merger was performed in order to optimize costs of operations and simplify the organizational structure of Cyfrowy Polsat Group.

For business combinations under common control the Company applies a predecessor accounting method as presented in the consolidated financial statements of the parent company (a higher-level parent), which prepares consolidated financial statements. The predecessor accounting method, as applied by the Company, is based on the combination of balance sheets values and results of the merging companies from the date of business combination under common control (not the date of acquisition and establishing control over the merging entity by the capital group). The Company's balance sheet as at the date of business combinations under common control includes relevant assets, equity and liabilities of the merging entity as presented in the consolidated financial statements of the capital group as at the date of the merger, with appropriate eliminations. As a consequence, goodwill, trademark, other assets and liabilities (excluding deferred tax liability) presented in the historical consolidated financial statements are recognized following the merger of the entities. The value of shares held by the Company in the merging entity and the value of equity of the merging entity as at the date of establishing control by the capital group are eliminated. Following this elimination, the difference between assets and liabilities is recognized in the retained earnings.

Receivables and liabilities between the Company and the merging entity are also eliminated. The Company's income statement includes financial results of the merging entity from the date of the merger.

The merger's effects on the Company's assets and liabilities were as follows:

	Change resulting from the merger as at 30 November 2018
Shares in CPTM	(615.4)
Shares held by CPTM	4.6*
Brands	7.8
Other property, plant and equipment as well as intangible assets	3.0
Deferred tax asset	1.6
Receivables and other current assets	12.3
Cash and cash equivalents	301.9
Current liabilities	(2.0)
Total	(286.2)

* includes shares in TVO Sp. z o.o., Orsen Holding Limited, Orsen Limited, CPSPV1 Sp. z o.o. and CPSPV2 Sp. z o.o. (see note 20)

As a result of the merger, net assets of Cyfrowy Polsat decreased by PLN 286.2, which was reflected in a decrease in retained earnings.

39. Transactions with related parties

Receivables

	31 December 2018	31 December 2017
Subsidiaries	48.7	53.3
Joint ventures	1.2	0.4
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.	1.5	1.0
Total	51.4	54.7

A significant portion of receivables is represented by receivables from share of the profits of partnerships and receivables related to sale of Polkomtel Sp. z o.o. ("Polkomtel") services.

Other assets

	31 December 2018	31 December 2017
Subsidiaries	102.9	131.4
Total	102.9	131.4

Other current assets comprise mainly deferred costs related to the agreement with Polkomtel for the provision of data transfer services.

Liabilities

	31 December 2018	31 December 2017
Subsidiaries	98.3	113.4
Joint ventures	0.2	0.4
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.	4.7	5.7
Total	103.2	119.5

A significant portion of liabilities is represented by programming licence fees and Polkomtel services.

Loans granted

	31 December 2018	31 December 2017
Subsidiaries	1.9	2.3
Joint ventures	4.6	-
Total	6.5	2.3

Revenues

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries	103.6	85.0
Joint ventures	0.6	0.1
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	0.9
Total	105.9	86.0

The most significant transactions include revenues from subsidiaries from accounting services, signal broadcast, advertising, programming fees, property rental services.

Expenses

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries	825.0	850.6
Joint ventures	-	0.1
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.	26.6	26.9
Total	851.6	877.6

The most significant transactions include data transfer services.

The Company also pays license fees for broadcasting Telewizja Polsat's programs, commissions on sales, and incurs expenses for using 'Cyfrowy Polsat' trade mark, IT services, purchasing advertising time, rental of properties, telecommunication services with respect to the Company's customer call center and advertising production.

Gains on investment activities, net

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries	288.6	450.9
Total	288.6	450.9

Gains and losses on investment activities comprises of dividends, income from share of the profits of partnerships and guarantees granted by the Company in respect to Polkomtel's and Netia's term facilities.

Finance costs

	for the year ended	
	31 December 2018	31 December 2017
Subsidiaries	5.2	4.9
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.	5.3	-
Total	10.5	4.9

Finance costs comprise mostly of guarantee fees in respect to the term facilities and finance costs related to the agreement on the acquisition of Netia, concluded between the Company and Karswell.

40. Litigations

Management believes that the provisions for litigations as at 31 December 2018 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 Company's Management, such disclosure could prejudice the outcome of the pending cases.

Proceedings before the Office of Competition and Consumer ("UOKiK")

On 30 December 2016 the President of UOKiK issued a decision stating that the Company's operations were allegedly infringing collective consumer interests by presenting advertising slogans, which in the opinion of the authorities were misleading and suggested that the LTE data transmission will not be limited. Pursuant to the decision of the President of UOKiK the Company was charged with a penalty in the amount of PLN 5.3. The Company appealed to SOKiK against the decision.

On 30 December 2016 the President of UOKiK issued a decision stating that the Company's operations were allegedly infringing collective consumer interests by presenting sale offers, which in the opinion of the authorities were impossible to conclude. Pursuant to the decision of the President of UOKiK the Company was charged with a penalty in the amount of PLN 4.4. The Company appealed to SOKiK against the decision.

Other proceedings

On 28 April 2017, ZASP filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On 10 January 2018 the Court issued a decision to refer the case to mediation proceedings. Mediation ended without a settlement. The date of the next hearing was scheduled for 9 May 2019.

41. 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 SFA. Detailed information in respect to the agreements is presented in the Management Report in note 4.6.5.

Other securities

The Company provided guarantees and surety to its subsidiaries in respect to purchase contracts. Information regarding the amounts of guarantees provided was not separately disclosed, as in the opinion of the Group's Management, such disclosure could have a negative impact on the relations with the third parties.

Contractual liabilities related to purchases of non-current assets

Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 2.5 as at 31 December 2018 (PLN 0.4 as at 31 December 2017). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2018 was PLN 0.3 (PLN 0.3 as at 31 December 2017).

Other

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. Furthermore, on 15 July 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax system, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

42. Remuneration of the Management Board

The table below presents the remuneration of the Management Board members of the Company in 2018 and 2017.

Name	Function	2018	2017
Tobias Solorz	President of the Management Board	0.2	0.2
Dariusz Działkowski	Member of the Management Board	0.6	0.6
Tomasz Gillner-Gorywoda	Member of the Management Board	0.7	0.7
Aneta Jaskólska	Member of the Management Board	0.6	0.6
Agnieszka Odorowicz	Member of the Management Board	0.6	0.6
Katarzyna Ostap-Tomann	Member of the Management Board	0.5	0.5
Maciej Stec	Member of the Management Board	0.1	0.1
Total		3.3	3.3

The bonuses payable to each member of the Management Board of the Company for years 2018 and 2017 from the Company and subsidiaries are presented below:

Name	Function	2018	2017
Tobias Solorz	President of the Management Board	9.5	1.5
Dariusz Działkowski	Member of the Management Board	-	1.1
Tomasz Gillner-Gorywoda	Member of the Management Board	1.5	1.4
Aneta Jaskólska	Member of the Management Board	1.5	1.3
Agnieszka Odorowicz	Member of the Management Board	0.8	0.6
Katarzyna Ostap-Tomann	Member of the Management Board	1.6	1.4
Maciej Stec	Member of the Management Board	1.7	1.5
Total		16.6	8.8

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2018 and 2017 from other related companies:

Name	Function	2018	2017
Tobias Solorz	President of the Management Board	1.3	1.2
Dariusz Działkowski	Member of the Management Board	0.3	0.1
Tomasz Gillner-Gorywoda	Member of the Management Board	0.5	0.5
Aneta Jaskólska	Member of the Management Board	0.3	0.3
Katarzyna Ostap-Tomann	Member of the Management Board	0.5	0.5
Maciej Stec	Member of the Management Board	0.8	0.8
Total		3.7	3.4

43. The Supervisory Board remuneration

The Supervisory Board receives remuneration based on the resolution of the Extraordinary General Shareholders' Meeting of Cyfrowy Polsat S.A. dated 5 September 2007. On 29 June 2016 the Annual General Meeting adapted the resolution concerning changes in remuneration of members of the Supervisory Board.

The table below presents the total remuneration payable to the Supervisory Board members in 2018 and 2017:

Name	Function	2018	2017
Marek Kapuściński	President of the Supervisory Board	0.24	0.24
Józef Birka	Member of the Supervisory Board	0.18	0.18
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.18	0.18
Aleksander Myszk	Member of the Supervisory Board	0.18	0.18
Leszek Reksa	Independent Member of the Supervisory Board	0.18	0.18
Heronim Ruta	Member of the Supervisory Board (until 30 November 2017)	-	0.17
Tomasz Szelaąg	Member of the Supervisory Board	0.18	0.18
Piotr Źak	Member of the Supervisory Board (from 28 June 2018)	0.09	-
Total		1.23	1.31

44. Important agreements and events

Cross-border merger

On 9 January 2018 the Extraordinary General Meeting of the Company adopted a resolution concerning the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Eileme 1 AB (Ceasing Company). The merger was completed by transferring all of the assets and liabilities of the Ceasing Company to the Acquiring Company and dissolving the Ceasing Company without liquidation. On 28 April 2018 the cross-border merger of Cyfrowy Polsat S.A. and Eileme 1 AB (publ) was registered. The surviving entity is Cyfrowy Polsat S.A.

Merger

On 31 October 2018 the Extraordinary General Meeting of the Company adopted a resolution concerning the merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Cyfrowy Polsat Trade Marks Sp. z o.o. (Ceasing Company). The merger was completed by transferring all of the assets and liabilities of the Ceasing Company to the Acquiring Company and dissolving the Ceasing Company without liquidation. On 30 November 2018 the merger of Cyfrowy Polsat S.A. and Cyfrowy Polsat Trade Marks Sp. z o.o. was registered. The surviving entity is Cyfrowy Polsat S.A.

Decision of the Head of the Mazovian Tax Office in Warsaw

On 30 April 2018 the Director of the Revenue Administration Regional Office in Warsaw issued a decision upholding the appealed decision of the Head of the Mazovian Tax Office in Warsaw ("Tax Office") dated 25 May 2017. The Tax Office's decision dated 25

May 2017 determines the value of tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 plus accrued penalty. The Company informed about the decision in its financial statements for the year 2017.

The Company does not agree with the decision of the Director of the Revenue Administration Regional Office in Warsaw in question and appealed against it to the Voivodship Administrative Court. The first hearing will be on 30 April 2019.

At present the Company does not intend to create any provisions encumbering its financial results.

Decision of the Head of the Małopolska Tax Office in Cracow

On 15 February 2018 the Head of the Małopolska Tax Office in Cracow ("Tax Office") issued the decision assessing the tax liability from uncollected withholding corporate income tax in 2012 in the amount of PLN 24.2 increased by interest on tax arrears.

In the issued decision the Tax Office contested the Company's right to an exemption from the obligation to withhold income tax on certain interest payments in 2012. The Company appealed against the decision of the Tax Authority on the basis of acquired opinions issued by renowned entities. The Company has not created any provisions encumbering its financial results.

On 10 July 2018 the Tax Office upheld the previous decision dated 15 February 2018. The Company does not agree with the decision of the Tax Office in question and appealed against it to the Voivodship Administrative Court in Cracow. The Provincial Administrative Court in Cracow dismissed the mentioned complaint in the ruling as of 21 February 2019. The Company does not agree with this decision and intends to file a cassation complaint in this respect with the Supreme Administrative Court in Warsaw.

The Tax Office control activities in the aforesaid matter were in progress in relation to 2013 and 2014. Custom and tax control activities has been transformed into tax proceedings. If an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, the Tax Authority may issue a decision assessing additional tax liabilities respect for 2013 and 2014.

At present the Company does not intend to create any provisions encumbering its financial results.

Acquisition of shares of Netia S.A.

The subscription for the shares of Netia S.A. under the tender offer to place subscriptions for the sale of shares of Netia S.A. as announced by Cyfrowy Polsat on 5 December 2017 ("Tender Offer"), was terminated on 14 May 2018. On 22 May 2018 the Tender Offer Settlement has been completed resulting in:

- (i) Cyfrowy Polsat acquired 34,662,045 shares of Netia S.A. constituting in total 10.33% of the company's share capital and carrying the right to 34,662,045 votes at the company's general meeting as well as representing 10.33% of the total number of votes at the company's general meeting;
- (ii) Karswell Ltd acquired 76,040,399 shares of Netia S.A. constituting in total 22.67% of the company's share capital and carrying the right to 76,040,399 votes at the company's general meeting as well as representing 22.67% of the total number of votes at the company's general meeting;

- (iii) Cyfrowy Polsat and Karswell Ltd., which entered into an agreement, acquired jointly 110,702,444 shares in Netia S.A. constituting in total 33% of the company's share capital and carrying the right to 110,702,444 votes at the company's general meeting.

Directly prior to the Tender Offer Settlement, Cyfrowy Polsat held directly 110,702,441 shares in Netia S.A. constituting in total 33% of the company's share capital and carrying the right to 110,702,441 votes at the company's general meeting as well as representing 33% of the total number of votes at the company's general meeting.

After the Tender Offer Settlement Cyfrowy Polsat and Karswell Ltd. hold jointly 221,404,885 shares of Netia S.A. constituting in total 66% of the company's share capital and carrying the right to the total of 221,404,885 votes at the company's general meeting as well as representing 66% of the total number of votes at the company's general meeting.

Pursuant to the agreement entered into on 5 December 2017, Karswell shall sell all the shares to the Company acquired for the price paid by Karswell for shares under the tender offer. Karswell received an additional premium for the period between the settlement date on which Karswell acquired the last share under the tender offer and a date on which the shares acquired by Karswell under the tender offer was sold to the Company (the "Interim Period") in an amount equivalent to the average weighted cost of financing of the Company's capital group provided by financial institutions, prorated to the specific portion of the price paid by Karswell for shares under the tender offer for each day of the Interim Period. Additionally, during the Interim Period Karswell shall exercise the voting rights attached to the Netia shares acquired in the Tender Offer as instructed by the Company.

On 2 July 2018 an amendment to the agreement on the joint acquisition of shares in a tender offer and preliminary share purchase agreement of 5 December 2017 was entered into with Karswell Ltd., which amends the acquirers' agreement in such way that the obligation of Cyfrowy Polsat to effect one-off acquisition of all the shares in Netia S.A. acquired by Karswell Ltd. under the tender offer was replaced by the obligation of Cyfrowy Polsat to acquire said shares in subsequent instalments.

On 3 July 2018 the Company purchased from Karswell Ltd. 17,331,023 shares in Netia S.A. for the total amount of PLN 100.0 and on 2 October 2018 the Company purchased from Karswell Ltd. 58,709,376 shares in Netia S.A. for the total amount of PLN 338.8. Following the above mentioned transactions Cyfrowy Polsat directly holds 65.98% of Netia's share capital.

Changes in shareholder structure

On 29 January 2018, Sensor Overseas Limited disposed of 21,041,375 shares of the Company, constituting 3.29% of the share capital and representing 5.14% of the total number of the votes at the General Meeting of the Company.

On 26 January 2018, Karswell Limited ("Karswell") disposed of 16,577,107 shares of the Company, constituting 2.59% of the share capital and representing 2.02% of the total number of the votes at the General Meeting of the Company. On 26 April 2018, Karswell disposed of 123,411,161 shares of the Company, constituting 19.30% of the share capital and representing 15.07% of the total number of the votes at the General Meeting of the Company.

On 29 January 2018 Reddev Investments Limited ("Reddev") acquired 21,041,375 shares of the Company, constituting 3.29% of the share capital and representing 5.14% of the total number of the votes at the General Meeting of the Company. On 26 April

2018 Reddev acquired 123,411,161 shares of the Company, constituting 19.30% of the share capital and representing 15.07% of the total number of the votes at the General Meeting of the Company.

45. Events subsequent to the reporting date

Changes in the Management Board

At the meeting of the Supervisory Board of the Company held on 17 January 2019 Mr. Tobias Solorz resigned from the position of President of the Management Board of the Company, effective 31 March 2019. Subsequently, the Supervisory Board of the Company adopted resolutions on changes in the Management Board of the Company concerning:

- a) the appointment of Mr. Mirosław Błaszczuk, the existing President of the Management Board of Telewizja Polsat Sp. z o.o., a subsidiary of the Company, to the position of President of the Management Board of Cyfrowy Polsat S.A., effective 1 April 2019;
- b) the appointment of Mr. Maciej Stec, the existing Member of the Management Board of Cyfrowy Polsat S.A., to the position of Vice-President of the Management Board, effective 1 April 2019.

On 14 March 2019 Mr. Dariusz Działkowski and Mr. Tomasz Gillner-Gorywoda resigned from the positions of Members of the Management Board of the Company, effective 31 March 2019. On the same date, the Supervisory Board of the Company adopted a resolution concerning the appointment of Mr. Jacek Felczykowski, the existing Member of the Management Board of Polkomtel, to the position of Member of the Management Board of Cyfrowy Polsat S.A., effective 1 April 2019.

Adoption of a new dividend policy of the Company

On 15 March 2019 the Management Board of Cyfrowy Polsat S.A. has adopted a resolution regarding the dividend policy which assumes that dividend payout proposals, along with the Management Board's recommendations, will be presented every year to the General Meeting, subject to the observance of the following general principles:

1. the amount of a dividend paid out every year shall guarantee the Company's shareholders an attractive return from invested capital;
2. the level of the obtained return shall be shaped in relation to the commonly available on the Polish market forms of safe investing of funds, in particular in relation to the level of bank deposits rates, while taking into account a risk premium associated with floating of Cyfrowy Polsat's share prices on the Warsaw Stock Exchange;
3. in parallel, a yearly submitted proposal for distribution of the Group's net profit for the previous financial year should allow for the continuation of gradual reduction of Cyfrowy Polsat Group's net debt in order to achieve the desired ratio of net debt to EBITDA at the level below 1.75x.

Simultaneously, the Management Board of Cyfrowy Polsat S.A. reviewed the plans of Cyfrowy Polsat Capital Group and evaluated possibilities of allocating the expected cash resources of the Group with an aim to pay out a stable and predictable dividend stream to its shareholders in medium term. Based on the conducted analysis, the Management Board intends to recommend for 2019-2021 the dividend payout in the total amount of not less than PLN 2.79 per share in three equal installments as follows:

1. at least PLN 0.93 per share to be paid out in 2019;

2. at least PLN 0.93 per share to be paid out in 2020;
3. at least PLN 0.93 per share to be paid out in 2021.

In parallel, the Management Board notes that every time when presenting a proposal for distribution of the profit for the previous year it will take into account the Group's net profit, financial standing and liquidity, existing and future liabilities (including potential restrictions related to facility agreements and other financial documents), the assessment of the Group's prospects in specific market and macroeconomic conditions, potential necessity of spending funds for the Group's development, in particular through acquisitions and embarking on new projects, one-off items, as well as valid legal regulations.

The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board expects modification to the aforementioned dividend policy following the refinancing of Polsat Group's debt which is expected in 2022.

The new dividend policy will take effect from 1 April 2019.

46. Judgments, financial estimates and assumptions

The preparation of 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 most significant estimates and assumptions made primarily related to the following:

- *Classification of lease agreements*

The Company classifies leasing agreements as operating or financial based on the assessment as to what extent the risks and rewards incidental to ownership of a leased asset lie with the lessor or the lessee. The assessment is based on the economical substance of each transaction. The Company concludes agreements for the rental of reception equipment (set-top boxes, modems and routers) to its customers in the course of its business operations. These lease agreements are classified as operating leases as the Company holds substantially all the risks and rewards incidental to ownership of the reception equipment. For more information see note 31.

- *Depreciation rates of property, plant and equipment and intangible assets with definite useful lives*

Depreciation rates are based on the expected economic useful lives of property, plant and equipment (including reception equipment provided to customers under lease agreements) and intangible assets. The expected economic useful lives are reviewed on an annual basis based on the experience of the entity.

The economic useful lives of the set-top boxes rented to customers under operating lease agreements are estimated for 5 years, modems and routers 3 years. For information on the useful lives of property, plant and equipment, programming assets and other intangible assets with definite useful lives see notes 6i and 6j. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 16 and 18.

- *The impairment of goodwill*

The Company performed impairment test on goodwill arising on the acquisition of M.Punkt Holdings and Redefine. The impairment test was based on the value-in-use calculations of the "Services to individual and business customers" cash-generating unit to which the goodwill has been allocated on the initial recognition. The value-in-use calculations included estimation of discounted cash flows for the given cash-generating unit and the relevant discount rate. The value of goodwill tested at each cash-generating unit, the key assumptions used in the value-in-used calculations for each cash-generating unit, impairment test results and sensitivity analysis of reasonably possible changes in the key assumptions are presented in note 17.

- *The impairment of investment in subsidiaries*

The Company analyzed whether any indicators of potential impairment of investments in subsidiaries exist as at the balance sheet date. The analysis did not indicate such impairment indicators therefore the Company did not perform an impairment test for these assets.

- *The impairment of non-financial non-current assets*

As at the reporting date the Company has assessed whether there are any indications that intangible and tangible assets with definite useful lives may be impaired. The impairment loss recognised equals the difference between net book value and recoverable amount. The impairment values are presented in notes 16 and 18.

- *Impairment of receivables*

IFRS 9 replaced the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This requires considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Judgment is required in evaluating the likelihood of collection of customer debt after revenue has been recognized. This evaluation requires estimates to be made including the level of bad debt allowance made for amounts with uncertain recovery profiles. Allowances are based on the probability of receivables collection, and on more detailed reviews of individually significant balances. Depending on the type of the customer and the source of the receivable, the assessment of the probability of receivable collection is done either based on the analysis of individual balances or based on the statistical probability of recoverability for each receivable's ageing profile. Recoverability rates are defined based on the analysis of the historical recoverability and the customers' behavior as well as other factors that, according to the Management Board, might influence the recoverability of the receivables. For more information see notes 6n, 24 and 35.

- *Provisions for pending litigation*

During the normal course of its operations the Company participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Company, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Company's lawyers who participate in the current litigations and who estimate Company's possible future obligations taking the progress of litigation proceedings into account. The Company also recognizes provisions for potential unreported claims resulting from past events, should the Management Board find that the resulting outflow of economic benefits is likely. Provisions regarding probable claims are recognized as a result of Management

Board's estimates based on accessible information regarding market rates for similar claims. Management believes that the provisions as at 31 December 2018 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.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 6w and 13.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 6g.

- *Loan liabilities measured at amortised cost*

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA. Accordingly, the Company's management classifies loan liabilities as variable rate instruments.

Financial results for the 3 months ended 31 December 2018 and 31 December 2017**47. Income Statement**

	for the 3 months ended	
	31 December 2018 unaudited <i>(IFRS 15 basis)</i>	31 December 2017 unaudited <i>(IAS 18 basis)</i>
Revenue	607.1	589.5
Operating costs	(525.6)	(527.1)
Other operating income/(costs), net	2.3	(1.8)
Profit from operating activities	83.8	60.6
Gain on investment activities, net	20.9	18.5
Finance costs, net	(23.1)	(20.7)
Gross profit for the period	81.6	58.4
Income tax	(23.6)	(11.4)
Net profit for the period	58.0	47.0
Basic and diluted earnings per share (in PLN)	0.09	0.08

48. Statement of Comprehensive Income

	for the 3 months ended	
	31 December 2018 unaudited <i>(IFRS 15 basis)</i>	31 December 2017 unaudited <i>(IAS 18 basis)</i>
Net profit for the period	58.0	47.0
Valuation of hedging instruments	(0.4)	(0.1)
Income tax relating to hedge valuation	0.1	0.0
Items that may be reclassified subsequently to profit or loss	(0.3)	(0.1)
Other comprehensive income, net of tax	(0.3)	(0.1)
Total comprehensive income for the period	57.7	46.9

49. Revenue

	for the 3 months ended	
	31 December 2018 unaudited <i>(IFRS 15 basis)</i>	31 December 2017 unaudited <i>(IAS 18 basis)</i>
Retail revenue	556.1	545.2
Wholesale revenue	29.6	21.4
Sale of equipment	7.7	11.1
Other revenue	13.7	11.8
Total	607.1	589.5

50. Operating costs

	Note	for the 3 months ended	
		31 December 2018 unaudited	31 December 2017 unaudited
Content costs		170.5	144.9
Technical costs and costs of settlements with telecommunication operators		150.3	160.2
Distribution, marketing, customer relation management and retention costs		85.9	82.4
Depreciation, amortization, impairment and liquidation		46.6	52.2
Salaries and employee-related costs	a	39.5	31.8
Cost of equipment sold		7.6	11.0
Cost of debt collection services and bad debt allowance and receivables written off		-	2.3
Other costs		25.2	42.3
Total		525.6	527.1

a) Salaries and employee-related costs

	for the 3 months ended	
	31 December 2018 unaudited	31 December 2017 unaudited
Salaries	34.6	27.8
Social security contributions	3.2	2.9
Other employee-related costs	1.7	1.1
Total	39.5	31.8

51. Gain on investment activities, net

	for the 3 months ended	
	31 December 2018 unaudited	31 December 2017 unaudited
Share in the profits of partnerships	19.8	15.2
Other	1.1	3.3
Total	20.9	18.5

52. Finance costs, net

	for the 3 months ended	
	31 December 2018 unaudited	31 December 2017 unaudited
Interest expense on loans and borrowings	10.1	8.1
Interest expense on issued bonds	10.9	10.9
Valuation and realization of hedging instruments	0.2	-
Guarantee fees	1.6	1.1
Bank and other charges	0.3	0.6
Total	23.1	20.7