CYFROWY POLSAT S.A.

Annual Report
for the financial year ended
December 31, 2016

Place and date of publication: Warsaw, March 16, 2017
Place and date of approval: Warsaw, March 15, 2017

CONTENT OF THE ANNUAL REPORT

LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

I have the pleasure of presenting to you the Annual Report of Cyfrowy Polsat S.A. Capital Group for the year 2016 which presents our operating and financial results and which sums up numerous events which were extremely important for our operations.

Similarly as in the past, also last year we consistently pursued our strategy, continued the effective development of the smartDOM program and efficiently responded to changes in our business environment. This was reflected by growth of the Group's operating and financial results and contributed to strengthening our position as one of the leading groups on the market in the area of integrated services.

Being one of the biggest media-and-telecommunications group in the region, in 2016 we consistently pursued our business goals – we maintained a stable base of 5.9 million contract customers of our pay TV, mobile telephony and Internet access services, and we also noted growth of the number revenue generating units (RGUs) – to over 16.5 million, with 80% of that figure being subscription services. Successful completion of another year of our operations has also been confirmed by very good financial results - total consolidated revenue of Cyfrowy Polsat Group reached nearly PLN 9.7 bn, EBITDA was ca. PLN 3.6 bn while net profit amounted to PLN 1 bn. At the same time, we consistently reduced our debt, maintained high margins and increased free cash flows to nearly PLN 1.6 bn.

Along with the acquisition of 100% of shares in Midas S.A., the Group gained access to radio spectrum and telecommunication infrastructure which are of the utmost importance for our business. Moreover, the successfully-completed debt refinancing process enabled the Group to achieve substantial interest savings and increase its operational, financial and investment-related flexibility.

As usual, we continued the development of new products and services. The introduction of a new standard of mobile Internet access – LTE Plus Advanced – was one of the most important achievements. The new standard offers data transfer rates of up to 300 Mbps and covers a territory inhabited by more than 15 million people in Poland. Thanks to regular network coverage development, LTE Internet access can be enjoyed by practically all of the country's inhabitants. We have launched the service Cyfrowy Polsat GO, which offers access to 90 linear channels, live sports coverage as well as thousands of items offered on demand, and enables the subscribers of our satellite TV platform have gained the opportunity of watching content offered in their respective TV packages on many different devices while away from home. IN the past year we have also introduced a new set-top box to the market called EVOBOX PVR. It is the most advanced set-top box among devices offered by satellite TV operators in Poland. The new device has quickly gained recognition among both users and the industry, which was confirmed by numerous awards and distinctions it received, including the Gold Medal of the Poznań International Trade Fair or the Gold Medal – the Consumers' Choice award. Substantial development of the offer of the biggest online TV, IPLA, is another reason for pride. Users of the service can enjoy access to over 80 TV channels as well as to the most diversified, and at the same time legal, base of content offered on demand. We have also started operations in a new area of film production by launching Cyfrowa Strefa Twórców (the Digital Artist Zone), which is an integrated platform for communication with artists, scriptwriters and producers.

We successively continued the development of the biggest integrated offer on the market, i.e. the smartDOM program. Today we offer as many as nine products and services which customers can combine in a flexible manner and obtain savings on each purchased service. Last year the portfolio of the smartDOM program, comprising our flagship services, i.e. Cyfrowy Polsat satellite TV, Plus network mobile telephony, and LTE Plus and Plus Advanced Internet access, as well as additional services: electricity supply and banking services, were joined by insurance services, home monitoring solutions and household appliances, and most recently also natural gas for homes. I can say with satisfaction that our smartDOM program has been well-received in Polish homes and currently it is used by over 1.3 million customers who have more than

3.9 million contract services. One of the most important effects of the program is the growing satisfaction of our customers which is manifested by the decreasing churn ratio and growing average revenue per customer.

The results achieved by the TV broadcasting and production segment are also a reason for satisfaction. We successfully carried out the coverage of all UEFA Euro 2016 football matches in a new model, without commercials and in HD quality, by combining match coverage on the free-to-air channel with coverage in dedicated pay TV channels: Polsat Sport 2 and Polsat Sport 3. We expanded our channel portfolio by adding a new sports channel –Polsat Sport Fight HD. Just like last year, the channel Polsat surpassed its direct competitors in terms of the audience share with the result of 13.2% in the commercial group. Our thematic channels were also readily chosen by the commercial group with an overall audience share of 11.6%. All our efforts led to the growth of Polsat Group's share in the TV advertising market to around 27% in 2016.

Summing up, last year was extremely successful for us. In spite of the many challenges we face in 2017, I remain optimistic. I trust that, just like in the past years, we will be able to achieve our business goals and continue the implementation of our strategy. Use of the best, the latest and the most efficient technologies, offer of top quality content and telecommunication services, investments in high speed LTE-Advanced Internet access as well as development of integrated services continue to be our priorities. The aim of these efforts is to maintain the satisfaction of our customers and consequently to increase the number of RGUs we provide. I would like to thank our customers and shareholders for the trust they have demonstrated, while expressing my gratitude for the Supervisory Board for their support for our efforts and thanking the Group's employees for their involvement which contributed to our success in the past year.

Yours faithfully,

Tobias Solorz

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

LETTER OF THE CHAIRMAN OF THE SUPERVISORY BOARD

Ladies and Gentlemen,

2016 has been yet another year in Cyfrowy Polsat Group's history during which we have consistently pursued our strategy and achieved our goals while developing our business and systematically strengthening areas that constitute our competitive advantage. Our efforts have yielded the expected results.

The media and telecommunication markets are becoming increasingly competitive and are undergoing numerous changes to which we have responded proactively, sometimes even before they actually materialized. Consumer needs continue to evolve and expectations related to new technologies and TV entertainment are growing all the time. As a result, the Group continuously faces new challenges and we were very efficient and successful in responding to them last year. Our activities were very well reflected by our operating and financial results. Thanks to the regular enhancement of our offer, care for the quality of the services we provide as well as effective sales and financial policies, the Group has been able to strengthen its position across all the important areas, i.e. pay TV, telecommunications, TV broadcasting and production and online video services.

Cyfrowy Polsat Group's unique offer of integrated services, the smartDOM program, remains its asset. At present the offer includes an even broader array of products and services for daily use. Today, it is not only satellite TV, LTE Internet access or mobile telephony but also a growing offer of new services that practically every household needs, including banking services, electricity or monitoring. What is more, last year we substantially enriched the portfolio of devices offered together with our services, comprising smartphones, tablets, personal computers, TV sets and household appliances. In consequence, our customers have gained enormous freedom in creating their own personalized offers – offers that are comprehensive but at the same time matched to their needs, that meet their individual expectations and are aligned with their budgets. In today's digital world we have a strong, integrated offer which responds to consumers' needs and has prospects of further development, an offer that is based on a unique combination of competencies of the companies which make up our Group.

State-of-the-art technologies are unquestionably an essential element of building the Group's position on the media and telecommunications market. Last year, Cyfrowy Polsat strengthened its access to both the radio spectrum which is extremely important for its operations and the network infrastructure used by the Group to provide mobile Internet access services. Furthermore, Polkomtel and Cyfrowy Polsat, who have been actively investing in the development of the LTE technology, commercially launched services offered in the new LTE-Advanced standard, which offers much better service parameters to customers.

To recapitulate, in 2016 Cyfrowy Polsat Group successfully achieved its business goals. The number of contract customers as well as the base of provided services increased while its smartDOM program, offering comprehensive services for household, enjoyed unflagging interest, with both the number of customers joining the program and the number of services (RGUs) having increased over the period. Customer satisfaction, measured by the continuously decreasing churn ratio, has also improved. The Group maintained its strong position on the entertainment market – Telewizja Polsat recorded very good viewership results and a high share in the TV advertising market while our IPLA pay online television strengthened its position in the online video segment in spite of the growing competition.

The Group's very good operating results were reflected by an equally good financial performance. Stabilization of revenues, along with cost control, translated into a strong EBITDA margin which was reinforced by the anticipated effects of last year's successful refinancing of the Group's debt and had a highly positive influence on free cash flows. These factors have created a solid foundation for the sustained development of Cyfrowy Polsat Group as well as for the effective pursuit of its ambitious plans.

The Group's goal for this and coming years is the implementation of its strategy of responsible capital resources management. This strategy can be described by three invariable priorities – further implementation of our operational strategy, consistent debt reduction and the new dividend policy which offers predictable return on investment to shareholders.

On behalf of Cyfrowy Polsat's Supervisory Board, I would like to thank all of you – our customers, shareholders and business partners, for the trust that you have demonstrated. I would like to express my special gratitude to the Group's management boards and employees, as well as the supervisory boards of the Group's companies whose efficient and smart work as well as commitment contributed to the achievement of the Group's goals. I have joined Cyfrowy Polsat's Supervisory Board only recently but upon becoming acquainted with the people and the company I have become deeply convinced that Cyfrowy Polsat Group, with its team, vision, ambitions, its products and services as well as its organizational capabilities and technical infrastructure will continue its effective operations, just as it has done to-date and achieve further targets. We have already accomplished a lot and we have enormous potential. Thus, I trust that further cooperation within our unique Group will translate into further achievements, growing employee and customer satisfaction as well as consistent consolidation of the Group's value for its shareholders.

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, 2016

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CYFROWY POLSAT AT A GLANCE

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

We offer our customers access to over 170 TV channels, including over 70 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD) and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market; offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue). We own a set-top box manufacturing plant, where we produce high quality, state-of-the-art devices for satellite television reception.

We provide mobile telecommunication services in the cutting edge technologies LTE and LTE-Advanced, 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 is listed on the Warsaw Stock Exchange since May 2008.

DISCLAIMERS

This constitutes the annual Report of Cyfrowy Polsat S.A. prepared as required by article 82 and article 91 of the Regulation of the Minister of Finance of February 19, 2009 on current and periodic information published by issuers of securities and the conditions of recognizing as equal the information required under non-member states' regulations.

Presentation of financial 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 Capital Group apply to Cyfrowy Polsat S.A. and its consolidated subsidiaries. Expressions such as "we," "us," "our" and similar apply generally to the Company, unless from the context it is clear that they apply to the entire 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 our Financial Statements for the financial year ended December 31, 2016. The Financial Statements for the twelve month period ended December 31, 2016 attached to this Report have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS") and are presented in millions of zlotys.

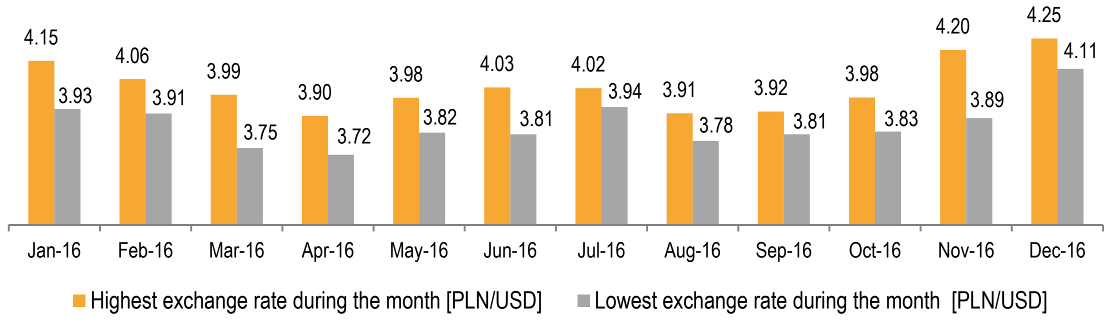
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation

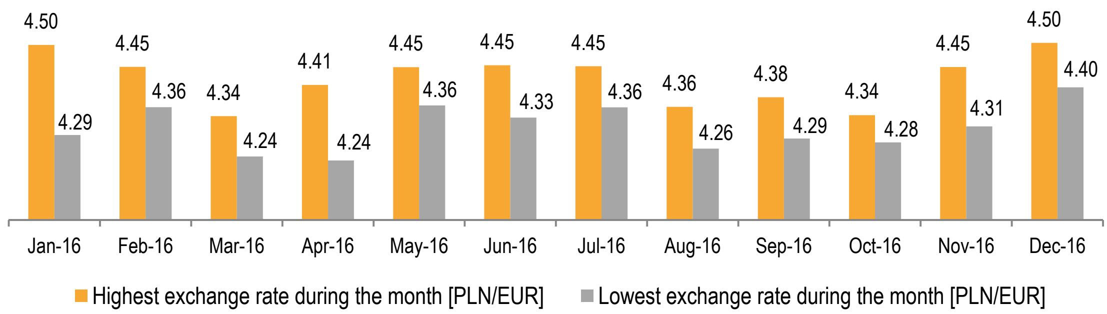
Unless otherwise indicated, all references to "PLN" or "zloty" in this Report are to the lawful currency of the Republic of Poland, all references to "USD" or "US dollars" are to the lawful currency of the United States and all references to "EUR" or the "euro" are to the lawful currency of the member 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 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]	2012	2013	2014	2015	2016
Exchange rate at end of period	3.0996	3.0120	3.5072	3.9011	4.1793
Yearly average exchange rate	3.2570	3.1608	3.1551	3.7701	3.9431
Highest exchange rate during period	3.5777	3.3724	3.5458	4.0400	4.2493
Lowest exchange rate during period	3.0690	3.0105	3.0042	3.5550	3.7193



Year [PLN per EUR 1.00]	2012	2013	2014	2015	2016
Exchange rate at end of period	4.0882	4.1472	4.2623	4.2615	4.4240
Yearly average exchange rate	4.1850	4.1975	4.1852	4.1839	4.3625
Highest exchange rate during period	4.5135	4.3432	4.3138	4.3580	4.5035
Lowest exchange rate during period	4.0465	4.0671	4.0998	3.9822	4.2355



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 forward looking statements. We caution investors not to base investment decisions on such statements, which speak only as at the date of this Report.

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

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);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2016-2020);
- PMR – *Pay TV market in Poland 2016. Market analysis and forecasts for the years 2016-2021*;
- PMR – *Telecommunication market in Poland 2016. Market analysis and forecasts for the years 2016-2021*;
- PMR – *Integrated* telecommunications services market in Poland 2016;*
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected financial data for the twelve month periods ended December 31, 2016 and December 31, 2015. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with the Financial Statements for the financial year ended December 31, 2016 (including the notes thereto) attached to this Report, as well as 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 twelve month period ended December 31, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.3625 per EUR 1.0, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to December 31, 2016;
- from the balance sheet data as at December 31, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.4240 per EUR 1.0 (average exchange rate published by NBP on December 30, 2016).

Such translations should 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 the year ended December 31, 2016 may not be comparable to the year ended December 31, 2015 due to the merger of the Company with Netshare Sp. z o.o. as at November 30, 2016 and the merger of the Company with Redefine Sp. z o.o. as at June 30, 2015.

Balance sheet

	December 31, 2016		December 31, 2015	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents(1)	278.8	63.0	136.4	30.8
Assets	13,283.8	3,002.7	13,093.0	2,959.5
Non-current liabilities	1,862.7	421.0	2,069.9	467.9
Non-current financial liabilities	1,757.5	397.3	1,957.3	442.4
Current liabilities	908.9	205.4	1,078.9	243.9
Current financial liabilities	281.5	63.6	547.1	123.7
Equity	10,512.2	2,376.2	9,944.2	2,247.8
Share capital	25.6	5.8	25.6	5.8

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

Cash flow statement

	for the 12-month period ended December 31			
	2016		2015	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	349.6	80.1	285.5	65.4
Net cash from/(used in) investment activities	351.4	80.5	236.7	54.3
Net cash used in financial activities	(558.6)	(128.0)	(399.1)	(91.5)
Net increase in cash and cash equivalents	142.4	32.6	123.1	28.2

Income statement

	for the 12-month period ended December 31			
	2016		2015	
	mPLN	mEUR	mPLN	mEUR
Revenue	**2,213.2**	**507.3**	**2,099.6**	**481.3**
Retail revenue	2,061.6	472.6	1,967.8	451.1
Wholesale revenue	71.7	16.4	45.7	10.5
Sale of equipment	54.3	12.4	59.3	13.6
Other sales revenue	25.6	5.9	26.8	6.1
Total operating cost	**(1,904.1)**	**(436.5)**	**(1,750.4)**	**(401.2)**
Content costs	(590.7)	(135.4)	(527.3)	(120.9)
Technical costs and cost of settlements with mobile network operators	(470.9)	(107.9)	(340.7)	(78.1)
Distribution, marketing, customer relation management and retention costs	(322.4)	(73.9)	(317.1)	(72.7)
Depreciation, amortization, impairment and liquidation	(224.8)	(51.5)	(230.2)	(52.8)
Salaries and employee-related costs	(100.1)	(22.9)	(120.0)	(27.5)
Cost of equipment sold	(53.9)	(12.4)	(69.3)	(15.9)
Cost of debt collection services and bad debt allowance and receivables written off	(12.1)	(2.8)	(23.4)	(5.4)
Other costs	(129.2)	(29.6)	(122.4)	(28.1)
Other operating income, net	**8.3**	**1.9**	**7.6**	**1.7**
Profit from operating activities	**317.4**	**72.8**	**356.8**	**81.8**
Gain/(loss) on investment activities, net	412.0	94.4	276.9	63.5
Financial costs	(102.4)	(23.5)	(141.1)	(32.3)
Gross profit for the period	**627.0**	**143.7**	**492.6**	**112.9**
Income tax	(49.0)	(11.2)	(46.5)	(10.7)
Net profit for the period	**578.0**	**132.5**	**446.1**	**102.3**
Basic and diluted earnings per share in PLN (not in millions)	**0.90**	**0.21**	**0.70**	**0.16**
Weighted number of issued shares	639,546,016		639,546,016	

Other financial data

	for the 12-month period ended December 31			
	2016		2015	
	mPLN	mEUR	mPLN	mEUR
EBIDTA (1)	542.2	124.3	587.0	134.6
EBITDA margin	24.5%	24.5%	28.0%	28.0%
EBIT margin	14.3%	14.3%	17.0%	17.0%
Capital expenditures, net (2)	49.6	11.4	40.6	9.3

(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. The reconciliation between reported net profit and EBITDA is presented in Note 13 of the Financial Statements of the Company for the year ended December 31, 2016.

We believe EBITDA serves as a useful supplementary financial indicator in measuring the profitability of media and telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of net profit/(loss), as an indicator of operating performance, as a measure of cash flow from operations under IFRS, or as an indicator of liquidity. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself our presentation and calculation of EBITDA may not be comparable to that of other companies.

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

1. CHARACTERISTICS OF CYFROWY POLSAT

1.1. Information on organizational or capital connections with other entities

The following table presents the shares in other entities that we held directly as at December 31, 2016 and December 31, 2015.

Company name	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2016	December 31, 2015
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) (1)	Stureplan 4C, 4 TR 114 35 Stockholm, Sweden	financial transactions	-	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	37.75%	30.5%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	73.5%	73.5%
Gery.pl Sp. z o.o.(2)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	web portals activities	-	100%
Netshare Sp. z o.o.(3)	Stanów Zjednoczonych 61 A, 04-028 Warsaw	electronic media (Internet) advertising broker	-	100%
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol, Cyprus	holding activities	100%	100%
Orsen Holding Ltd	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	99.9%	99.9%
Interphone Service Sp. z o.o.(4)	Inwestorów 8, 39-300 Mielec	production of set-top boxes	99%	-
Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp.k.(5)	Al. Jerozolimskie 81, 02-001 Warsaw	premium rate services	99%	-
Karpacka Telewizja Kablowa Sp. z o.o. (6)	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%

(1) Disposal of shares in Rioni 1 AB on January 4, 2016.
(2) Merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o. on June 30, 2016.
(3) Merger of Cyfrowy Polsat with Netshare Sp. z o.o. on November 30, 2016.
(4) Shares acquired on December 23, 2016.
(5) Shares acquired on December 22, 2016.
(6) Investment accounted for at cost less any accumulated impairment losses.

1.2. Who we are

Cyfrowy Polsat is the largest in Poland and a leading satellite platform in Europe in terms of the number of customers. We offer a complete bundle of multimedia services designed for the entire family: pay TV via satellite, terrestrial and online broadcasting, mobile telephony and data transfer services, broadband Internet access in LTE and LTE-Advanced technologies.

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, providing satellite TV services to approximately 3.5 million subscribers. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing over 4.8 million pay TV services as at December 31, 2016.

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 over 170 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to over 70 HD channels and also provide OTT services, such as Cyfrowy Polsat Go, VOD/PPV, online TV, catch-up TV and Multiroom HD services.

Online video

The IPLA service offered by our Company is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles) and in terms of content volume. IPLA also enjoys a leading position in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data the average number of unique users of the IPLA website and application was approximately 3.8 million per month, in 2016 and nearly 4.0 million in the fourth quarter of 2016.

Broadband Internet

We provide broadband mobile internet access based on our subsidiary's – Polkomtel – telecommunications network. In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a significant feature for a large number of consumers. In January 2017, our LTE Internet and HSPA/HSPA+ Internet covered 99% and nearly 100% of Poland's population, respectively. In 2016 we also launched the LTE-Advanced technology on a commercial scale, and in January 2017 40% of the population of Poland were within the coverage footprint of our network. As at December 31, 2016, as a Group, we provided almost 2.0 million broadband Internet access services, mostly in the contract model.

Bundled services

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

smartDOM

As part of our strategy of integrating modern home products and services, Cyfrowy Polsat and Polkomtel promote the program smartDOM (smartHOME), a joint program which enables profitable bundling of innovative services for the home. Customers of the program can combine, in a flexible way, such products as satellite TV, broadband LTE Internet, telephone, banking and insurance services, electricity supply, home security services, or the purchase of telecommunication devices, home electronics and household appliances, while making savings on each service added to their package.

Our bundled services offer is based on a simple and flexible mechanism - a customer subscribed to one service with a specified value who purchases additional products of our Group, obtains attractive discounts throughout the entire term of the contract. Currently, the offer, marketed under the slogan "smartDOM Home Savings Program," provides a choice of nine products and services.

1.3. Strategy

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 and Polkomtel. 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. These services are the product which is most readily up-sold to our existing customer base as part of our combined services offer. Moreover, 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 technologies: LTE and LTE-Advanced – to all consumer devices, from TV sets to PCs to tablets and 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 24 channels (including 14 HD channels), programmed to appeal to most target groups within the Polish audience. 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 the main goals underlying our capital resources management policy. The dividend policy adopted by us assumes an increase of dividend payouts dependent on the reduction of the Group’s total indebtedness. We consistently aim to reduce our debt, which will 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

Together with our subsidiaries we operate a diversified business comprising DTH, mobile telephony, broadband Internet 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 in terms of customers. Since 2006, Cyfrowy Polsat has been the leader of the Polish pay TV market in terms of 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. At the same time we are the leading TV group in Poland in terms of growth dynamics of advertising revenues and audience share, whereas our main channel, Polsat, maintained the position of the leader in terms of audience shares in that period.

Our pay TV, mobile telephony and Internet access services are sold through a distribution network with nationwide coverage. We have a total of over 1.2 thousand stationary points of sale countrywide. 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 and viewers

Our 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 on the pay TV market in November 2016, Cyfrowy Polsat was the best recognized pay TV provider in Poland with spontaneous and aided brand recognition on the level of 75% 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 in Poland to which we can up-sell a broad portfolio of services

Polsat Group has a significant base of unique customers, consisting of the individual customers of Cyfrowy Polsat and Polkomtel, business and corporate customers, as well as prepaid users. This base includes 5.9 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.

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 household appliances at attractive prices, the possibility of using banking, insurance or home security services. We are the only DTH operator in Poland who provides full multi-play services, which is a significant competitive advantage on pay TV market in Poland.

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 should translate 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 technology

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 video communication, online games and HD TV over the Internet.

Internet access services in LTE technology offered by us are provided based on the unique, continuous 20 MHz block of 1800 MHz frequency band. Following the auction of frequencies in 2015, we have gained access to frequencies in the 2600 MHz bandwidth. Currently, our subsidiaries are aggregating frequencies from the 800, 1800 and 2600 MHz bandwidths, which allows us to offer our customers, on a commercial scale, services based on the LTE-Advanced technology with the maximum transmission speed of up to 300 Mbps. In January 2017 already as many as 40% of Poles could use services in LTE-Advanced, while the coverage of our LTE network was 99% of the population of Poland.

We offer the fastest Internet access of all telecommunication operators

According to a UKE (Office of Electronic Communications) survey of mobile services quality ("Report of a comparative survey of service quality indicators in mobile networks of companies operating in Poland," December 2015), Internet access offered by Plus was the fastest in the category of data transmission, with the average download rate of 25.19 Mbps. That is two times faster than in the case of Play and 25% faster than in the case of T-Mobile and Orange (download rates for T-Mobile and Orange were respectively 20.64 Mbps and 19.66 Mbps, while for Play the result was 12.43 Mbps). In addition Plus demonstrated the highest upload rate of 17.71 Mbps. In the case of other operators, the results were as follows: T-Mobile 16.87 Mbps, Orange – 15.85 Mbps, and Play – 12.60 Mbps.

Another survey commissioned by UKE and published in December 2016 also confirmed that Plus network offered the highest transmission speed. This survey was focused on main railway lines in Poland.

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

Our IPLA online video service makes us the only company in Poland to offer access to video content through a wide range of electronic 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.

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 the success of our projects, increase in their coverage potential and the number of concurrent viewers.

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. 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 2016, 7.5 million high technology devices left our production line, including over 5.9 million were HD set-top boxes. 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 to compete effectively in the markets in which we operate

We believe that we benefit from significant market entry barriers that will aid us in maintaining our leadership positions in the competitive Polish pay TV and telecommunication 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 telecommunications 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 our own set-top-box manufacturing plant which is part of our Capital Group, proprietary IT solutions, or the centralization of selected back-office processes within our Capital Group.

We have an experienced management team

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. 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 European Commission ("E-Communications and the Digital Single Market," May 2016) the penetration rate of multi-play services (defined as more than one service within the offer of one operator) in Poland in October 2015 amounted to 37% while the average penetration rate in the European Union reached 50%, while in countries leading in this respect – namely the Netherlands and Malta – is amounted to 87% and 78%, 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.

Development of the Internet market in Poland

Based on the data published by UKE, in 2015, 101.6% of households in Poland had access to the Internet, which translated into a penetration rate of around 35.7% for the entire population. At the same time, while referring in its report to the Digital Agenda Scoreboard dated June 2015, UKE disclosed that fixed-line Internet access penetration was merely 18.8% in Poland. This was the lowest rate among European Union countries, where the average penetration was 31.6%, while in the case of selected countries (Denmark, the Netherlands) it exceeded 42%. Low penetration with fixed-line broadband Internet access services in Poland together with the progressing development of mobile technologies make mobile data transmission the fastest growing telecommunication market segment at present.

According to PMR estimates ("*Telecommunication market in Poland 2016, Development forecast for the years 2016-2021*"), in 2016, there were nearly 16.3 million users of broadband Internet, out of which almost 55% used mobile connections. According to PMR, by 2021 the number of broadband users is supposed to grow by ca. 21%, with the number of mobile broadband users growing by approximately 31% (the data concerning mobile Internet include exclusively customers using modems 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.

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 2016, video content is the biggest and fastest growing segment of the mobile data transmission. It is expected that in the years 2016-2022 the use of data related to watching video content will grow by 50% per year on average, reaching ca. 75% of the entire mobile data traffic in 2022. 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.

Growing popularity of smartphones

Replacing of traditional handset models, used mainly for voice communication, with smartphones designed for communication via data transmission is a universal trend on the mobile telephony market. Currently, smartphones constitute the majority of handsets sold by us. Moreover, according to the forecasts of emarketer.com from February 2015, the number of smartphones used in Poland will grow by ca. 64% between 2014 and 2018 (from 12.7 million to 20.8 million units). The continuous growth of popularity of smartphones, along with their technological development, will drive the growing demand for the mobile data transmission packs purchased by our customers, which in turn should have a positive impact on the level of ARPU.

Development of the online advertising market in Poland

The Internet advertising market in Poland is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 17.0% y-o-y and reached the value of over PLN 2.5 billion in the first three quarters of 2016. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures on the video advertising segment, in which we generate our revenue. In the first three quarters of 2016 those expenditures increased by 25% and represented 10% of the total expenditures on online advertising. According to PwC forecasts *(Global entertainment and media outlook: 2016-2020)* the online video advertising in Poland will grow by 15.1% (CAGR) in the years 2015-2020. We believe that thanks to the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

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 telephony, data transmission and broadband mobile Internet, as well as a wide array of complementary OTT services (such as Cyfrowy Polsat GO, PPV, VOD Home Movie Rental, TV online, catch-up TV), Multiroom. Through our online service IPLA we also 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 joined customer bases of Cyfrowy Polsat and Polkomtel 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 lower by half 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 satellite TV and telecommunication services, including in particular high quality LTE mobile broadband 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 has become the standard for mobile broadband Internet access in Poland, effectively replacing the older UMTS standard. Thanks to the aggregation of frequency bands we were able to offer our customers the LTE-Advanced technology, which offers transmission speed of up to 300 Mbps. The trend of substituting fixed-line internet access by mobile solutions is becoming more and more visible on the market. Due to its technical characteristics and quality parameters, mobile LTE Internet is successfully replacing fixed-line connections while at the same time responding to increasing consumer needs and growing capabilities offered by the Internet. We strongly believe that over the long term, as the necessary radio infrastructure and LTE and LTE-Advanced-enabled devices develop, the technology will revolutionize not only the broadband Internet market but also content distribution. 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.

We consistently strive to strengthen our position as the aggregator and distributor of content. Currently, the attractive content and the wide range of Cyfrowy Polsat's services are delivered through a variety of reliable distribution channels – via satellite (DTH), within digital terrestrial television (DVB-T), through mobile technologies: 3G and LTE – 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, as well as in the low ARPU market segment.

2. Business overview of Cyfrowy Polsat

2.1. Activities on the pay TV market

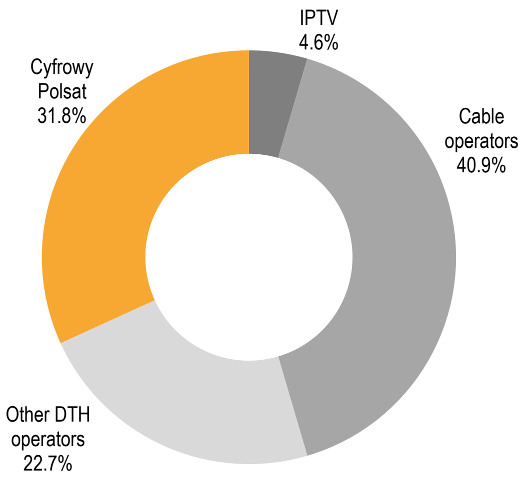
2.1.1. Pay TV market in Poland

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 2015 the penetration of pay TV services among households (with at least one person aged 16-74) in Poland was at the level of approximately 75%.

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, which is connected with a limited number of channels available under the DVB-T offer, as well as their low quality in general.

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 services 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.

Pay TV market in Poland in 2016 in terms of subscriber base



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

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 2016 operators of satellite TV platforms had the dominant share, both in terms of the number of subscribers and revenue on the pay TV market – nearly 55% in terms of subscriber base, followed by cable TV operators with slightly over 40%. Despite strong growth dynamics, the significance of IPTV remains marginal, with market share of almost 5%.

DTH providers, who are able to provide their services to customers residing in both, urban and less densely populated areas without incurring significant additional costs, compete with cable TV operators only to a limited extent. 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.

DTH operators

According to own estimates and PMR forecasts, the subscriber base of the DTH market in Poland is relatively stable and in 2016 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.

Cyfrowy Polsat is the market leader in terms of the number of customers. At the end of 2016 we provided pay TV services to over 3.5 million subscribers. At the same time we actively expanded our offer, selling paid access to online television or the Multiroom service, as a result of which as at December 31, 2016 we provided nearly 4.8 million contract pay TV services (together with services of paid access to online television), including over 1 million Multiroom services. Based on PMR forecasts we estimate that at the end of 2016 our share in the Polish pay TV market, in terms of the number of subscribers, was close to 32%.

The second player in terms of subscriber base was nc+ platform, provided services to approximately 2.1 million subscribers at the end of 2016, as reported by Vivendi (shareholder of the platform), which translated into a market share in the pay TV market of ca. 19%. Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV operators

According to the data of the Polish Chamber of Electronic Communication, ca. 400 cable TV operators are active on the Polish cable TV market. The market is dominated by three major operators: UPC Polska Sp. z o.o., Vectra S.A. and Multimedia Polska S.A. At the end of the third quarter of 2016 the total combined share in the Polish pay TV market of these three operators was estimated at ca. 23%.

According to PMR estimates, after several years of decline due to the process of digitization and the migration of customers to digital terrestrial television, the cable TV market stabilized at approximated 4.5 million subscribers. Additionally, the migration of cable TV users from analogue services towards digital services is still in progress. 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. 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.

IPTV

The leading IPTV providers in Poland are Orange Polska S.A. and Netia S.A. The remaining part of the IPTV market is divided among Multimedia Polska S.A. and local ISPs.

The IPTV market is developing at a relatively slow rate in Poland, mainly due to technological constraints resulting from the lack 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. 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 2016-2021 the pay TV market in Poland will face stagnation with slightly declining number of subscribers. This is mainly due to high market penetration and high saturation of the target group for terrestrial TV services with DVB-T standard services. 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 significance in own customer base retention. 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.

PMR expects a slight decline of the market value in the years 2016-2021, whereas the change dynamics will remain at a low level. According to PMR, in the years 2016-2021 satellite platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of 57% (in terms of market value) at the end of the forecast period. Cable TV operators will remain the second major segment, with a market share of 37% at the end of the forecast period. Despite the highest growth dynamics, the significance of IPTV services will remain low during the forecasted period, although the development of broadband access and optical fiber networks may have a positive effect on the development of this segment.

2.1.2. Cyfrowy Polsat's DTH 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 over 170 TV channels (including over 70 in HD standard) 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 sports channels. This is a significant element that helps build the value of our pay TV offer.

It is worth emphasizing that two sports channels from the portfolio of our subsidiary, TV Polsat, namely Polsat Sport HD and Polsat Sport News HD were ranked the first two most widely viewed sports channel in Poland in 2016 in the commercial group 16-49 (Nielsen Audience Measurement).

In order to meet the changing trends in television content consumption, in March 2016 we launched a new online service - Cyfrowy Polsat GO. This service ensures access to thousands of programs on demand and over 90 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, available for a monthly fee of PLN 5, the service is simultaneously accessible on three chosen devices: a personal computer, a tablet or smartphone.

Programming packages

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

- Rodzinny HD which provides access to 81 encoded channels (including 19 HD channels);
- Familijny HD which provides access to 109 encoded channels (including 30 HD channels);
- Familijny Max HD which provides access to 142 encoded channels (including 47 HD channels).

Monthly subscription fees for the basic packages range from PLN 19.99 to PLN 49.99. Moreover, we offer 6 additional thematic packages, VOD rental on television, and access to popular on-line services: Cyfrowy Polsat GO and HBO GO. This approach allows our customers to construct an offer tailored to their specific needs, for example by purchasing, as a complement to each basic package, the Package HBO HD accompanied by the HBO GO for PLN 20 monthly or the Package Eleven Sports HD for PLN 15 monthly.

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 (172 channels, including 69 HD) or the Premium Max offer (178 channels, including 75 HD) addressed to our most demanding customers, comprising additional channels – HBO together with the online service HBO GO, the Package Eleven Sports HD and the option On the Go, which enables to watch over 90 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, e.g. the subscription fee for our Premium Max offering is only PLN 99.99 per month.

Flexible offer

In order to provide our customers with the possibility to better acquaint themselves with 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 up to 2 months of the subscription period (e.g. customers who subscribe to the Familijny Max HD Package can get access to the Film HD and Sport HD packages).

Set-top boxes

We offer our set-top boxes only in the lease model. 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 warranty service designed to help ensure customer satisfaction.

The software of set-top boxes manufactured by our subsidiary Interphone Service Sp. z o.o. is being developed on an on-going basis. In 2014, our set-top boxes gained a new functionality, which allows for wireless connection between the set-top box and the home WiFi network making it easier to use online services.

Following the latest trends and consumer preferences with respect to video content consumption, in January 2016 we offered our customers the EVOBOX PVR set-top box. Apart from a 500 GB disc, the possibility of recording 3 programs simultaneously and an internal WiFi module, this device offers an intuitive interface, allowing quick access to interesting content. The EVOBOX PVR set-top box is currently the most cutting-edge set-top box available in the offer of operators in Poland.

Multiroom HD

We also offer our customers the Multiroom HD service, which provides access to the same range of TV channels through two or more set-top boxes in one household, for a single subscription fee. Customers who decide to purchase the Familijny 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 varies from PLN 5 to PLN 15 per month, depending on the chosen programming package.

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

In June 2012, we expanded our service portfolio to include the Mobile TV service in the DVB-T standard. The Mobile TV service enables the reception of television on mobile devices via a DVB-T set-top box, connecting through the radio network with a smartphone, tablet or laptop. As a result, no Internet connection is necessary to use the service. Using the service does not generate data transmission hence the user does not incur any related fees.

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 12 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 online TV offer

IPLA online television offers the broadest database of legal video content and live broadcasts: 80 online TV channels, an average of 200 hours monthly of live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international producers. IPLA offers its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download content and view it offline. Approximately 90% of IPLA VOD content is available free of charge, whereas broadcast 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 75% of IPLA's total revenue is generated by the advertisement-based model, while about 25% is derived from content purchases made by users.

IPLA offers access to TV content on a one-off basis in the form of 48-hour access to selected items or in the form of thematic packages (IPLA SPORT, IPLA FILMY I SERIALE, IPLA DZIECI, IPLA WIEDZA I NEWS, IPLA ROZRYWKA, IPLA WORLD, IPLA ELEVEN SPORTS) and the package IPLA EXTRA, which are activated for a period of 30 or 90 days. Cyfrowy Polsat and Polkomtel customers enjoy special price reductions. In addition, customers of our satellite TV, internet services and Plus customers are offered dedicated packages in IPLA (IPLA MIX, IPLA PLUS and FILMBOX LIVE), some of them included in the subscription fee for a promotional period dependent on the basic package purchased by the customer.

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.

2.1.5. Video on demand offer

As of 2009 our pay TV customers can also use our video on demand service VOD – Home Video Rental, offering paid access to new movies and hits via set-top boxes. The service requires no additional technology solutions and can be accessed via a TV set. The service is available only to customers who have an HD set-top box.

VOD - Home Video Rental is based on 10 satellite channels, with as many as 40 films available each month. Our customers may usually choose from a selection of about 10 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. 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 the company Irdeto in the field of security of digital content transmitted using DVB-T technology. Irdeto provides us with a conditional access system with the necessary technical support, as well as specialized and complete monitoring of the Internet enabling the collection and analysis of occurrences that may infringe our copyrights.

Satellite

We entered into Hot Bird satellite capacity contracts with Eutelsat S.A. The contracts involve 5 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. The contracts expire in 2017, however, we have the right to extend the agreements for additional successive periods. 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 system

In 2016 we conducted another modernization of our compression systems dedicated to service 2 transponders. Thanks to this operation we gained capacity for additional HD channels without incurring additional costs related to transponder capacity lease.

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 unit production costs by approximately 20% compared to equipment purchased from foreign suppliers and the costs of servicing was reduced by approximately 50%. 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 requirements.

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. In 2015 we carried out extensive work in the area of research and development related to state-of-the-art technologies applied in the products offered by world class manufacturers. As a result of our efforts, in 2015 we developed 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 Wi-Fi, 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. The STB has been designed in 100% by Cyfrowy Polsat and it is manufactured by our subsidiary InterPhone Services. Thus far we have not experienced any serious manufacturing problems which would result in the necessity of massive phasing out or replacement of the STBs that we have manufactured.

By the end of 2016, 19 different models of set-top boxes have left our production belts. Currently, to meet our needs we produce HD set-top boxes, zapper set-top boxes and PVR set-top boxes with a built-in hard drive, as well as three models in the DVB-T standard and LTE ODU/IDU modems.

The most advanced set-top box available in our offer, EVOBOX PVR, has gained wide acclaim in the industry, which was demonstrated by numerous prizes and awards it received in 2016. During the Poznań Media Expo Fairs in April 2016, the latest satellite set-top box manufactured by Cyfrowy Polsat – EVOBOX PVR, state-of-the-art and most technologically advanced satellite equipment available on the Polish market, was awarded the Gold Medal of the Poznań International Fair (MTP) – one of the best recognized and prestigious prizes on the market awarded to innovative products of the highest quality. During the second phase of the competition, following a consumer vote, our set-top box was awarded the Gold Medal – Consumers' Choice. During the international fair IBC 2016 the state-of-the-art, multimedia software of the EVOBOX PVR set-top box won a double award. The graphyne2 platform, developed by the company ADB, which constitutes the software of the EVOBOX PVR set-top box was awarded in the category "Best interactive TV application or technology" at the CSI Awards and was awarded an IBC 2016 Best of Show Award as an innovative product. During the SAT Kurier Awards 2016 gala accompanying the SAT KRAK 2016 trade fair, the EVOBOX PVR set-top box was ranked number 1 in the category "Best dedicated set-top box" in a poll for best products and services on the digital television market.

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. Customers can also use the Multiroom service on our set-top-boxes.

In 2016 set-top boxes manufactured in-house represented almost 92% of the overall number of set-top boxes leased. As of the end of 2016, we produced a total of 7.5 million set-top boxes, including over 5.9 million HD 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. 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 80 linear channels, PPV or single sports events (during one round of qualifiers to the Football World Championships we offered up to 9 simultaneous broadcasts available only on IPLA). Our platform enables us to offer multi-camera broadcasts live, which is a unique service on the Polish Internet market. The protection system (DRM), applied in IPLA, also enables us to offer paid content on different browsers, mobile devices, smartTV sets and independent 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. Activities on the telecommunications market

2.2.1. 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, possibly LTE-Advanced, technologies. In Poland broadband Internet access is provided through fixed-line and wireless networks.

Based on the data from the UKE report, nearly 14 million individual broadband Internet access services were provided in Poland in 2015, both in fixed-line and mobile technologies. This translated to a population penetration ratio of 35.7% (the relation of the number of services to the population). At the same time however, referring to the Digital Agenda Scoreboard of June 2015, UKE shows in its report that fixed-line Internet access saturation was merely 18.8% in Poland, which consistently remained the lowest level among all European Union countries, where the average penetration was 31.6%, while in the case of selected countries (Denmark, the Netherlands) it exceeded 40%.

The level of mobile Internet penetration in Poland is significantly higher compared to the average level in the European Union. According to UKE report, 94.1% of Poland's inhabitants connected to the Internet with the use of mobile technologies (the EU average is 75.3%).

In the 2017 Digital Agenda Scoreboard Poland was ranked 23rd out of 28 EU countries in terms of the Digital Economy and Society Index, which measures the development of individual member states in the areas of digitization of the economy and the society. This report also underscores the weakness and the low popularity of fixed-line broadband infrastructure, contrasting it with the favorable indicators for mobile broadband technologies.

Due to the relatively low saturation of the Polish broadband Internet access market and the progressing development of mobile technologies, mobile data transmission consistently remains the fastest growing segment of the telecommunication market.

According to UKE report, in 2015, 7.13 million Internet users in Poland used fixed-line access (no growth as compared to 2014), whereas the number of mobile Internet users reached 6.67 million (growth by 15% versus 5.79 million reported by UKE for 2014). 2G/3G/4G modems are gaining popularity (growth of market share from 39.4% in 2013 to 48.3% in 2015), while the popularity especially of the xDSL technology and cable modems is declining. The market share of the first decreased from 25.7% in 2013 to 19.6% in 2015, and in the case of the latter from 21.1% in 2013 down to 18.5% in 2015. According to UKE data, fiber optic technologies constituted as little as 2.2% of broadband access market (growth from 1.3% in 2014).

According to the UKE report, in 2015, 39.3% of Internet users in Poland used access links with throughputs below 10 Mbps, while links offering over 30 Mbps were used by only 36.8% of Poles.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sale of services, was PLN 5.07 billion in 2015, decreasing slightly (by 0.5%) as compared to 2014, which, according to the UKE report, was due to a substantial erosion of revenue obtained from xDSL technology. Concurrently, mobile technologies once again increased their share in terms of value in the revenue structure to 33.1% (from 31.7% in 2014). According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 2.3 in 2015 as compared to 2014, down to PLN 30.6.

Fixed broadband Internet access in Poland

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, access to xDSL technology in 2015 remained the most popular form of fixed-line Internet access (19.6% market share), although its advantage over the cable technology visibly declined. Orange is the dominant player operating in xDSL technology, whose share in the total number of xDSL customers amounted to 75.3% in 2015.

Cable modems, offered by cable TV operators, are the second most popular fixed-line access technology (18.5% market share). Based on the UKE report, UPC Polska (40.2% share in user base), Vectra (20.1%) and Multimedia (14.7%) were the major operators on this market in 2015.

It is worth mentioning that in June 2016, UPC Polska announced an investment plan as a result of which the coverage of services provided by UPC should be doubled (the services should finally reach nearly 6 million households) within 5 years. Furthermore, in October 2016 UPC signed a preliminary agreement for the purchase of Multimedia shares, the third biggest cable TV operator on the Polish market.

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 80.1% of the market in 2015. The remaining 19.9% is divided between MVNO operators and Cyfrowy Polsat, who actively promotes and sells mobile Internet 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 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 2015 revenue from mobile technologies grew in nominal terms at the fastest rate on the entire broadband Internet access market, and mobile broadband became the most popular Internet access technology in terms of the number of users (market share of 48.3%, up from 44.9% in 2014). 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

The continuing development of LTE and LTE Advanced technologies, offering high-quality mobile broadband Internet access to the majority of the population of Poland, combined with the provision of new services and products (such as those based on video streaming), will make this form of broadband Internet access even more popular among Polish users. As network investments by fixed-line operators in suburban and rural areas are limited, mobile broadband technologies will be also the key factor contributing to further increase in the penetration of Internet access services in Poland. In addition, high quality of LTE-based services will lead to increased data usage by customers, which will improve ARPU, reduce churn, and increase the broadband Internet market share of mobile operators.

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will remain the fastest growing segment of the telecommunication market. Further investments into broadband network roll out as well as further development of the LTE technology will be the most significant factors. According to PMR forecasts, in coming years the value of the broadband Internet access market will demonstrate continuous positive dynamics, reaching the level of PLN 6.6 billion in 2021.

In accordance with the PMR forecasts, in 2021 the number of broadband Internet access subscribers in Poland will increase to 19.775 million, out of which 59% will be serviced by mobile technologies. PMR forecasts that increments of the number of mobile Internet subscribers will systematically exceed 400 thousand annually in the years 2016-2021, hence the rate of growth of the number of mobile broadband Internet subscribers will be several times higher than that of fixed-line access users. 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.

2.2.2. Internet access offer

We provide our residential customers with broadband mobile internet access based on the telecommunications networks of our subsidiary Polkomtel. In the Mobility Trends 2016 plebiscite Cyfrowy Polsat and Polkomtel were awarded Golden Bells (Złoty Bell) in the categories “Mobile Internet - 2016 Best Offer” and “2016 Operator of the year.”

Since 2011 we offer our mobile broadband Internet services in the LTE technology and since 2016 in the latest LTE-Advanced technology. 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 Cyfrowy Polsat’s Internet service, while 99% of them can access our LTE Plus Internet. At the beginning of 2017, 40% of Poles were within the footprint of our LTE Plus Advanced Internet service, which offers transmission speed of up to 300 Mbps.

We offer several data plans with different allowances and price tiers, tailored to customers' individual needs. 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 unlimited data transmission in the LTE network. Under our contract plans customers may purchase or lease internet access devices (including dongle modems, fixed and mobile routers). 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 the customer can continue to use the Internet thanks to the service Unlimited LTE. Monthly subscription fees range from PLN 29.99 for the smallest data packs to PLN 89.99 for a 100 GB package. The term of the contract is usually 24 months.

Thanks to our LTE Plus Internet access service combined with the set Home LTE Plus Internet, created specifically for Cyfrowy Polsat and Polkomtel, we can offer customers a product that constitutes a substitute for fixed-line Internet. Based on a unique technical solution ODU-IDU technology (Outdoor Unit Indoor Unit), the Home LTE Plus Internet Set consisting of an external LTE modem (ODU) and an internal router Wi-Fi (IDU), is an innovative and unique product on the market. It significantly improves the coverage and quality of our LTE Plus Internet, thus enabling the use of the state-of-the-art LTE technology in places, where it was so far impossible to do. The existing TV installation (satellite or terrestrial) can be used to install the set and transmit both the TV signal and LTE Plus Internet over one concentric cable.

The standard LTE Plus 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, we offer our customers access to chosen packages of online television IPLA and HBO GO free of charge for the first two months of the duration of the contract. Customers of Plus network also have the possibility to test the service “Internet Protection” for a month free of charge.

2.2.3. Mobile telephony offer

We have been operating in the mobile telephony services market as an MVNO since 2008. From the beginning we have regarded these services as complementary to pay TV and then also broadband Internet services and we have had no intention to compete with domestic mobile operators by promoting an offer on a stand-alone basis. Therefore, following the acquisition of Metelem, the indirect parent of Polkomtel, one of the leading mobile operators on the Polish market, we have resigned from active selling of own mobile telephony services in the MVNO model, in order to provide clients with a stronger telephony offer of Plus mobile telephony. Currently, our customers can choose the joined offer of Cyfrowy Polsat and Polkomtel, which guarantees additional benefits with each additional service purchased.

2.2.4. Offer of consumer devices

Internet equipment

We offer technologically advanced modems, routers and tablets enabling broadband access to the Internet. The price of the device depends on the terms of the agreement and data pack purchased by the customer. Typically, the longer the term of the agreement and the larger the data pack, the lower the price of the equipment and the greater the choice of available types of modems.

We offer our broadband Internet access customers a wide array of cutting edge modems and routers, which operate in both the LTE technology, as well as older HSPA/HSPA+ and EDGE/GPRS technologies. The majority of devices that we offer allow for data transmission speed up to 150 Mbps for download and 50 Mbps for upload. We are also expanding our offer by devices that support the LTE-Advanced technology, which enables data transmission speed of up to 300 Mbps.

Moreover, we offer our customers a selection of top-of-the-art laptops and tablets, comprising devices produced by Samsung, LG, Lenovo, Huawei, Prestigio or Acer. Our offer also comprises other categories of equipment. Television sets, which were 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).

We also offer a solution enabling fixed access to LTE Internet using the ODU/IDU modules and the TV/SAT installation. Thanks to the external modem (ODU – outdoor unit) signal transmission is significantly improved and allows for the use of LTE Internet. The existing TV installation (satellite or terrestrial) can be used to install the set and transmit both the TV signal and LTE Internet over one concentric cable. The WiFi router (IDU – indoor unit) is used to provide access to the Internet inside the house or apartment.

2.2.5. Technology and infrastructure of telecommunication services

Network

Our broadband Internet access services are based on a radio infrastructure provided by our subsidiaries, in particular Polkomtel, Aero2 and Sferia.

The HSPA+ network based on the 900 MHz band has a maximum transfer speed of 21 Mbps (42 Mbps when using the Dual Carrier technology) for data downloaded from the Internet. In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, and currently we are introducing services in the LTE-Advanced technology, which is able to provide maximum transmission speed of up to 300 Mbps. The service is provided based on the LTE network in the 800, 1800 and 2600 MHz frequency bands. Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a 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 high bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet.

In December 2015, UKE commissioned a study of the quality of services provided by the largest Polish mobile operators. Results of this study demonstrate that Plus stands out among its competitors with very good results in terms of average transmission speed (both download and upload), a low ratio of package loss and short time of establishing voice connection.

According to the published report, the average download speed in Plus network was 25.19 Mbps while in T-Mobile and Orange it was 20.64 Mbps and 19.66 Mbps, respectively, and in Play network – 12.43 Mbps. Plus also had the highest upload speed of 17.71 Mbps. In the case of the remaining telecoms this parameter was as follows: T-Mobile – 16.87 Mbps, Orange – 15.85 Mbps and Play – 12.60 Mbps.

Another survey commissioned by UKE and published in December 2016 also confirmed that Plus network offered the highest transmission speed. This survey was focused on main railway lines in Poland.

MVNO technology and infrastructure

We operate as a Mobile Virtual Network Operator. We use the network infrastructure of our subsidiary Polkomtel. Our mobile telephony services, realized in the MVNO model, are provided in 2G and 3G systems and are based on GSM/UMTS/HSPA radio interface of Polkomtel. The services include voice calls, SMS, MMS as well as GPRS/EDGE/UMTS/HSPA/LTE data transmission. We offer our customers the possibility to use international connections and international roaming service.

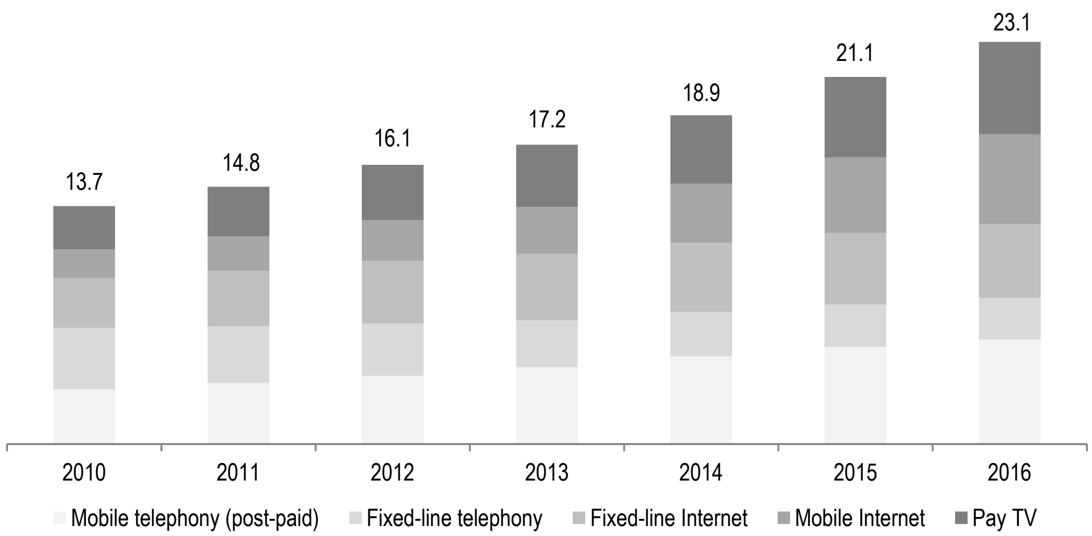
2.3. Activities on the bundled services market

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 estimations by PMR ("Bundled telecommunication services market in Poland 2016"), as at the end of 2016 the number of services sold in bundles exceeded 23 million, i.e. 2 million more than in the previous year. PMR estimates that the total number of subscribers (both residential and business) of bundled services amounted to over 10.1 million in 2016 and each of them had on average 2.3 services.

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



Source: PMR, "Bundled telecommunication services market in Poland 2016" (estimated data)

The multi-play market is consistently growing since 2010 in terms of value. According to PMR estimations, in 2016 operators' revenue from sales of bundled services grew at a rate of 12.4% Y-o-Y, reaching PLN 10.2 billion. ARPU is characterized by a similar trend – PMR estimates that the average revenue per customer from sales of multi-play packages will increase to PLN 86.6 in 2016 from PLN 84.1 in 2015.

Multi-play services in Poland are provided primarily by cable TV operators and telecommunications service providers. According to PMR, as at the end of 2015 nearly half of the bundled services market was held by four largest players – Orange, Polsat Group, T-Mobile and UPC. With respect to the number of subscribers the share of Polsat Group on the bundled services market in Poland in 2015 was 15.4%. Other important players on the market included the mobile operator P4 and cable operators Vectra, Multimedia Polska and Netia. Neither of the remaining operators offering bundles had market shares exceeding 2%.

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 2016, 62% of households in Poland declared that they use at least two telecommunication services provided by the same supplier and multi-play packages.

Research by PMR demonstrates that a bundle combining two services remains the most popular option. In the fourth quarter of 2016, 57% of Poles chose this option. At that time, 35% of Poles used triple-play services (a bundle comprised of three services), while only 7% of customers decided to purchase a bundle containing four services. As for the structure of the bundles, fixed-line Internet access services and pay TV dominate, followed by fixed-line and mobile telephony. 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. The expected average annual compound growth rate in the years 2016-2021 will be 7.4%. In 2021 the number of subscribers using bundled services will exceed 12.7 million. The number of services sold in bundles will come close to 33.5 million in 2021.

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 infrastructure and improving quality of network access, 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, 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 of Cyfrowy Polsat

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. Since 2014 we provide bundled service to our customers under a loyalty scheme smartDOM, launched together with our subsidiary Polkomtel.

smartDOM is a unique savings program for the home offering a wide array of products and services, which enable our customers to create a comfortable, safe and modern home. The program is based on a simple and flexible mechanism – a customer subscribed to one service with a specified value who purchases additional products of our Group, obtains attractive discounts throughout the entire term of the contract. This way every customer has the possibility to create a set of services for the family consisting of satellite TV, access to LTE Internet and telephony services.

Successively the program is being expanded by new products and services. In 2017 we began a new phase in the communication of our strategic bundled offer. The program, marketed under the slogan "smartDOM Home Savings Program," will ultimately comprise nine products and services, which our customers can combined and hence generate savings on household bills. Apart from our basic, core products and services: mobile telephony, Plus and Plus Advanced LTE Internet and satellite TV from Cyfrowy Polsat, smartDOM customers can also use services such as the sale of electric energy in the Electricity from Plus offer, the sale of gas, banking services offered by PlusBank, comprehensive insurance services offered in cooperation with ERGO Hestia and home security services, such as monitoring. Moreover, the offer also comprises telecommunication devices, home electronics and domestic appliances.

All the products and services offered play an important role in the household. Thanks to the unique formula of the smartDOM program the customer can purchase all products and services necessary in the household 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 main brands "Cyfrowy Polsat." 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.

According to the Ranking of Strongest Polish Brands 2016, prepared by the daily Rzeczpospolita in cooperation with Acropolis Advisory and Kantar Millward Brown, our main brand "Cyfrowy Polsat" was one of the strongest and most recognizable brands in the industry. According to a survey conducted in November 2016 by the agency GfK on the Polish pay TV market, Cyfrowy Polsat is the most recognizable provider of pay TV in Poland, with the spontaneous awareness ratio of 75% and aided awareness ratio of 95%.

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 press. Key nationwide campaigns are supported by local campaigns. Advertising campaigns related to our offering are additionally supported in social media.

Our commercial website is 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 (through which our customers have access to information concerning their subscription) and the Internet Customer Service Center).

Sales network

We sell our services through an integrated sales network covering the entire territory of Poland. As at December 31, 2016, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,269 stationary points of sale. Both Cyfrowy Polsat's pay TV and Internet offers and Polkomtel's telecommunications offer are available at a majority of those points. A majority of points of sale offer additional products and services to customers of both operators, such as Energy from Plus.

The sale of our services also takes place through remote channels. As at December 31, 2016 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.

We systematically restructure and modernize our sales network in order to fully integrate the sales networks of Cyfrowy Polsat and Polkomtel. We aim to unify sales processes with a single point of sales, build common logistics and warehousing systems, as well as fully integrate training and education of our sales channels. The above measures are designed to improve the efficiency of sales and to adjust our sales network to the expanding portfolio of our services.

Call center

Our call center is an important channel of communication with our customers. We provide Cyfrowy Polsat's sales call center numbers in advertisements of 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 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 Cyfrowy Polsat, order selected equipment together with a package of their choice or locate our nearest point of sale.

We run a commercial website that contains detailed information about our offer, as well as the bundled offer available in the smartDOM program. On Cyfrowy Polsat's website (http://www.cyfrowypolsat.pl/) customers can find information about the current pay TV and telecommunication offer, they can chose a TV or Internet access package they are interested in, select a device (set-top box, tablet, laptop or router) and verify current promotions in the VOD section. Moreover, our website contains details on the offer and most interesting content available in our online TV IPLA as well as HBO GO and Filmbox Live services with links which transfer the user directly to the webpage of the chosen service. We provide the users of our website www.cyfrowypolat.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 an online account – the Internet Customer Service Center. This functionality allows our customers to 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.

Central warehouse

The central warehouse of our Group is managed by the logistics operator Arvato Polska, Centrum Usługowo-Logistyczne in Błonie, who provides services to us in the scope of reception, distribution, returns of goods, packaging, assembly, archiving, purchase of consumables and sending packages within all existing channels of sales. The total area of the warehouse owned by Arvato Polska and used by us is 6,300 m^2 currently offering 4,000 pallet holding spaces with the possibility of increasing this number by 1,000. Following the Group's integration on the level of storage logistics, this central warehouse stores Cyfrowy Polsat's equipment, e.g. set-top boxes, hard drives, DVB-T set-top boxes, modems, routers, SIM cards, advertising/event-related materials, etc., as well as our subsidiaries' telecommunication goods. Distribution of these items is also conducted from our warehouse in Błonie.

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 four 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.

Since 2014 Cyfrowy Polsat offers its customers an improved version of the Internet Customer Service Center (ICSC) - an advanced tool which provides our customers with 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.

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 our 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.

In the past year the first contracts concluded by customers of the smartDOM program terminated. The proactive and reactive measures taken, as well as customers' decision to prolong their contracts prove, that the program has a positive impact on customer loyalty. Consistent implementation of retention schemes and upselling of further services to our customer base helps us reduce the churn ratio.

2.6. Other aspects of our business

Trademarks

We use a number of trademarks 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" and "IPLA."

Research and development - new services and implementations

In 2016 we continued activities in the scope of implementation of state-of-the-art technologies and latest technical solutions, which ensure that our customers enjoy the highest quality and better functionality of services they own, and which allow us to expand our offer by new services and products.

In January 2016, Cyfrowy Polsat added a new **EVOBOX PVR** set-top box to its offer – a new generation device based on the latest global solutions. A set-top box with a 500 GB hard drive allows for recording of up to 3 programs simultaneously and has a built-in WiFi module. It ensures access to online services - Cyfrowy Polsat GO and HBO GO.

The **Cyfrowy Polsat GO** application was launched in March 2016. It offers access to over 90 linear TV channels on mobile devices for the customers of Cyfrowy Polsat.

In May 2016, we introduced a new offer of car insurances which can be ordered by phone, from a mobile application. With the use of a special ***uBezpiecz*** *(eSecure)* application the customer may select the most beneficial car insurance policy out of several customized offers, pay for it and save it on his or her smartphone. In August 2016, the insurance offer was extended with the products of one of the biggest insurance companies on the Polish market – ERGO Hestia. Customers may purchase a property insurance, motor vehicle insurance and travel insurance at Polkomtel's and Cyfrowy Polsat's points of sale.

In 2016, we launched commercially the "LTE Plus Advanced" standard offering data transmission speed of up to 300 Mbps for the mobile internet customers. Faster LTE standard is available to all customers of contract, mobile Internet and Mix offers.

As an element of further operational integration of Polkomtel and Cyfrowy Polsat, and also in connection with the pursued strategy of development on the bundled services market, we continue the implementation of a new integrated system supporting sales and customer care, as well as a convergent billing system for its products and services. The system will be implemented in cooperation with Huawei. The new approach is based on the omnichannel strategy – a multi-channel approach to sales, customer retention and customer support. The implemented system will enable even simpler and more effective management of sales, as well as flexible response to dynamic changes on the market by facilitating and accelerating the process of launching of new products and services.

IT systems

IT systems are crucial in multiple aspects of our business operations. We use 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 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 our 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 both, our proprietary IPLA solutions, and systems provided by third party suppliers and our business partners.

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. At the same time, growing competitiveness among our suppliers has helped to considerably reduce IT system costs in many areas.

In pursuit of the operational integration of Cyfrowy Polsat and Polkomtel while relying on already existing IT solutions, a joint project has been launched at the Group level 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 project involving implementation of the new integrated system which will support sales and customer service, as well as the 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 contact channels. 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 our Group 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, part of our 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, 2016, 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.

Environmental matters

All issues related to environmental protection are very important to us. Compliance with regulations regarding environmental protection and fulfillment of our obligations are a priority. We make every effort to ensure that our operations do not violate environmental protection laws and regulations in force in Poland. We regularly monitor our compliance with the applicable environmental laws and regulations and any other environmental requirements that may apply to us. When necessary, we contact the relevant authorities and cooperate with them in monitoring compliance with the applicable laws and regulations. Moreover, we cooperate on a regular basis with independent companies specializing in environmental consulting and complex service of entities, whose activities may impact the environment.

At the date of preparation of this Report, to our best knowledge, no proceedings regarding breach of such environmental regulations were pending against us.

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 and telecommunication operators in Poland.

We have motor vehicle insurance policies, all risk property insurance policies, as well as third party liability insurance on business operations, liability on business interruption, and third-party liability insurance for members of the management and supervisory board of the Company.

In 2016, Cyfrowy Polsat was party to the insurance agreements described below.

In the scope of property insurance general agreements were concluded for the years 2014-2017 with TUiR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU 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 2014-2017 with TUiR Warta S.A. in co-insurance with STU Ergo Hestia S.A. and PZU 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 liability insurance policy of directors and management board members of companies belonging to Polsat Group: TUiR Allianz Polska S.A., AIG Branch in Poland, ACE Branch in Poland, TUiR Warta S.A., Sopockie TU Ergo Hestia S.A. and PZU S.A.

In 2016 our subsidiary, Polkomtel, concluded 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 Polsat Group.

In 2016 the international business travel health insurance with AIG Europe Limited Sp. z o.o. Branch in Poland and personal injury insurance with Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. were continued.

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. In particular, we are involved life-saving and healthcare 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, and WIOSNA Association.

TV Polsat was the first commercial station in Poland to engage in charity and has been cooperating in this area with the Polsat Foundation, established in 1997. The Foundation aids ill children and is currently one of the biggest NGOs operating in Poland. So far the Foundation has provided assistance to nearly 30 thousand little patients and has offered financial support to almost 1.2 hospitals and medical centers nationwide, which have been renewed or equipped with modern medical equipment. The Foundation has so far transferred nearly PLN 217 million for its statutory purposes. The funds used to conduct Polsat Foundation's operations come from nationwide campaigns, donations from both enterprises and private persons.

The most recognizable projects of Polsat Foundation include the campaign "We are for the Children" and the "St. Nicholas Day Commercial Block," which has been realized jointly with Polsat TV and Polsat Media Biuro Reklamy for 13 years. The "St. Nicholas Day Commercial Block" has become a tradition for our Group. Every year it is aired on the main channel POLSAT on December 6, at 6:45 p.m. TV spots encouraging to watch the charity block feature reporters known from our flagship news program "*Wydarzenia*" ("News"). Engaging trailers and announcements are aired on all key channels of TV Polsat, as well as in the online TV IPLA and the radio channel MUZO.FM.

Revenue from the "St. Nicholas Day Commercial Block," calculated on the basis of viewership results, is donated in full to the Polsat Foundation for the purpose of treatment and rehabilitation of ill children. In 2016 the charity commercial block attracted almost 6.1 million viewers, which translated into an audience share of 36.5% in the commercial group. Thanks to such a large audience the campaign generated nearly PLN 1.25 million.

Since 2010 Cyfrowy Polsat's budget planned for traditional Christmas gifts has been used for medical treatment and rehabilitation of the patients supported by Polsat Foundation. In 2016 the funds were spent on the purchase of prosthesis for 14-year-old Błażej from Józefów.

Despite the fact that employee volunteer activities are not subject any formal procedures, our employees are very active in supporting charity initiatives. In 2016 four such projects were realized: "Fill the School Backpack" (over 2.9 thousand school articles and gadgets divided into 35 school starter kits were donated for children in care of Przyjaciółka Foundation), "Santa Claus Courier" (106 gifts worth almost 13 thousand zlotys for children in care of Przyjaciółka Foundation), and "Noble Box Project" (132 boxes worth approximately 19.5 thousand zlotys for 9 families participating in the project Stowarzyszenie WIOSNA) and finally the Christmas fair "Small things, big help" (by selling hand-made Christmas decorations, the students of Primary Charter School no.14 in Warsaw gathered a total of 4.8 thousand zlotys to help finance schools in Cisna and Nowy Łupków in the Bieszczady region).

Apart from charity activities, we are also involved in numerous sponsoring activities. In its to-date sponsoring activities Cyfrowy Polsat supported, among others, Kevin Mirocha (a Formula 2 driver) and Aleksander Arian (a sailor of UKS Sailing Team Rzeszów).

3. SIGNIFICANT EVENTS AND AGREEMENTS

3.1. Corporate events

Finalization of the process of refinancing of the Group's debt, initiated in 2015

Conclusion of hedging agreements

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

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

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

Consolidation of Term Loans

In connection with the early repayment, made on February 1, 2016, by our subsidiaries of indebtedness under the senior notes with the total nominal value of EUR 542.5 million and USD 500.0 million, maturing in 2020 (PLK Senior Notes) amendments provisioned for in the Amendment, Restatement and Consolidation Deed of September 21, 2015 (for details see item 4.6.4 - *Operating and financial overview of Cyfrowy Polsat – Review of our financial situation - Liquidity and capital resources – Material financing agreements executed by the Company)* were incorporated to the CP Senior Facilities Agreement. Moreover, debts under the PLK Facilities Agreement were repaid on a cashless basis, from funds made available to our subsidiary Polkomtel under the CP Facilities Agreement and Polkomtel and other subsidiaries of the Company have acceded to the CP Facilities Agreement as a borrower and guarantor or a guarantor.

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

Upgrade of Cyfrowy Polsat's rating

On May 16, 2016 Moody's Investors Service upgraded the corporate family rating (CFR) of the Company from Ba3 to Ba2, with a stable outlook. Further details regarding ratings are discussed in item 4.6.4. – *Operating and financial review of Cyfrowy Polsat – Review of our financial situation – Liquidity and capital resources – Ratings.*

Changes in the composition of the Management Board

On August 24, 2016, Mr. Tomasz Szeląg resigned from his position as Member of the Management Board of the Company, effective on September 30, 2016.

On August 25, 2016, the Supervisory Board appointed Ms. Katarzyna Ostap-Tomann to the position of Member of the Management Board effective on October 1, 2016.

Merger of Cyfrowy Polsat with Netshare Sp. z o.o.

Following the decision of the Management Board of the Company of September 14, 2016, approved by the Extraordinary General Meeting on November 10, 2016, the merger of Cyfrowy Polsat and Netshare Sp. z o.o. was effected on November 30, 2016. The merger was effected by transferring to the Company – as the sole shareholder – all the assets of Netshare and termination of Netshare without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of Netshare, effective on the date of the merger. Given that the Company held all the shares of Netshare, the merger was effected without increasing the share capital of the Company. The aim of the merger was to optimize costs and simplify the organizational structure of the Group in line with our long-term strategy.

Changes in the composition of the Supervisory Board

On September 30, 2016, Mr. Zygmunt Solorz resigned from membership in the Supervisory Board of the Company, effective immediately.

Pursuant to resolutions adopted on September 30, 2016 the Extraordinary General Meeting of the Company appointed Mr. Tomasz Szeląg and Mr. Marek Kapuściński to the Supervisory Board of the Company as of October 1, 2016. On October 25, 2016 the Supervisory Board appointed Mr. Marek Kapuściński to the function of Chairman of the Supervisory Board.

New dividend policy

On November 8, 2016 the Management Board of the Company 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. The complete wording of the dividend policy is presented on item 7.5 – *Cyfrowy Polsat on the capital market – Dividend policy.*

3.2. Business related events

European Football Championship UEFA EURO 2016

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

Implementation of an integrated IT environment

As an element of the continued operational integration of Cyfrowy Polsat and Polkomtel, and also in connection with the pursued strategy of development on the bundled services' market, Polsat Group is currently implementing a new integrated system supporting sales and customer care as well as a convergent billing system for its products and services. The system is being implemented in cooperation with HUAWEI who provides the IT systems and who assumed responsibility for the implementation process as the integrator.

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

The completion of the implementation phase of the project is planned for the end of 2018 and its costs have been distributed throughout the entire duration of the implementation process and have been included in the Group's investment plans assuming capital expenditures below 10% of the Group's revenue, as communicated earlier.

Expansion of Cyfrowy Polsat's offer

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

Cyfrowy Polsat by two thematic channels: Zoom TV and Metro. Both channels are available starting from the Mini HD package.

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

Both channels, available in the form of a paid package, are an addition to the 13 sports channels already available on Cyfrowy Polsat, covering a wide range of sports events including the most important Polish league competitions: Ekstraklasa, PlusLiga, Tauron Basket Liga, PGNiG Superliga, 2018 FIFA World Cup Russia qualifiers, Bundesliga and the UEFA Europa League, national volleyball team matches, tennis tournaments such as the Australian Open, Wimbledon and US Open, and combat sports including KSW and top boxing galas.

Expansion of the offer of IPLA online television

In 2016 the largest online television IPLA, which belongs to Polsat Group, expanded its offer by including nearly 40 online TV channels. Apart from thousands of videos on demand, popular films, series and animations, the widest array of legal sports broadcasts in Poland, news and journalistic videos, IPLA currently also offers over 80 online television channels. The offer is available to all users on the territory of Poland, irrespective of the provider of internet access services. IPLA is available on a wide selection of devices: computers, smartphones, tablets, selected set-top boxes and smart TV sets, without long-term contracts and commitments. The expansion of IPLA's offer is a strategic phase in its development and addresses the increasing needs of IPLA's users and the changing global trends in online video and television consumption patterns.

During the SAT Kurier Awards 2016 gala IPLA online television was ranked number 1 in the category "Best service" in a poll for best products and services on the digital television market.

Cyfrowy Polsat GO

In line with the adopted strategy of expanding the world of multimedia family entertainment, Cyfrowy Polsat introduced a new online service - Cyfrowy Polsat GO, which expands the existing package of satellite channels by adding online, on-demand access to over 90 linear channels and thousands of materials on demand. Our customers who decide to purchase the option ON THE GO can watch television on mobile devices powered by Android OS and on the website go.cyfrowypolsat.pl.

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

Expansion of the offer of the service Mobile TV

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

Commercial launch of LTE Plus Advanced Internet

On August 23, 2016, we offered our customers services based on the technology of frequency band aggregation, marketed under the name LTE Plus Advanced. LTE Advanced service from Polsat Group is provided in two variants. The first one involves aggregation of two 20 MHz carriers in LTE FDD standard which operate in the 1800 and 2600 MHz frequency bands. The second one, in turn, involves aggregation of a 20 MHz carrier in the 1800 MHz frequency band and a 5 MHz carrier in the 800 MHz frequency band.

Carrier aggregation across bandwidths allowed us to increase data transmission speed within our internet access services to a maximum of 300 Mbps, and, together with the continued network roll-out, will contribute to increased stability and capacity of our mobile network. This in turn translates into improved quality of Internet access services for our existing customers and the possibility of comfortable use of the network by a larger number of users. In January 2017 already over 40% of Poland's population lived within the coverage footprint of our LTE Plus Advanced Internet service, which means that this cutting-edge technology was available to over 15 million people.

3.3. Events after the balance date

Cross-border merger of Cyfrowy Polsat with Metelem Holding Company Ltd.

On January 23, 2017 the Extraordinary General Meeting of the Company adopted a resolution regarding the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Metelem Holding Company Ltd. (Ceasing Company). The merger will be effected by transferring to the Acquiring Company of all assets and liabilities of the Ceasing Company and dissolving the Ceasing Company.

Development of the smartDOM program

In February 2017 we began a new phase in the communication of our strategic bundled offer. The program, currently marketed under the slogan "smartDOM Home Savings Program," comprises nine products and services for every home. Apart from our basic, core products and services: mobile telephony, Plus and Plus Advanced LTE Internet and satellite TV from Cyfrowy Polsat, smartDOM customers can also use services such as the sale of electric energy, banking, insurance and home security services, as well as the sale of telecommunication devices, home electronics and domestic appliances. In the near future the offer will be expanded to include the sale of gas. One of the main, unchangeable principles of the smartDOM program is the simple relation – the more products and services a customer has, the more he can save thanks to obtained rebates.

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4. Operating and financial review of Cyfrowy Polsat

4.1. Key factors impacting our operating activities and financial results

4.1.1. Factors related to the 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 the Company and are expected to continue affecting them in the future. The key factors affecting our operations, in particular expenditures on our services, include GDP growth, unemployment rate, changes in salaries in real terms, household consumption, and capital expenditure incurred by enterprises.

Based on Eurostat data, a noticeable recovery of economies both of Poland and other EU countries took place in 2014 and 2015. GDP growth for Poland in 2015 and 2016 was 3.9% and 2.8%, respectively. Current forecasts, published by domestic and international institutions, regarding growth prospects of the Polish economy assume that the high rate of growth of Poland's GDP will be sustained in 2017 and 2018 and that it will continue to significantly outperform corresponding indices for the whole European Union.

We believe that average consumer spending, including spending on pay TV, Internet access and bundled services generally will grow in line with the overall GDP growth in Poland, and will support our future revenue growth.

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 almost saturated.

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

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

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still at an early stage of development in Poland as compared to Western European countries and in our opinion has significant growth prospects. 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 new service Cyfrowy Polsat GO. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of the online advertising market in Poland

The Internet advertising market is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 17.0% y-o-y and reached the value of over PLN 2.5 billion in the first three quarters of 2016. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures on the video advertising segment, in which we generate our revenue. In the first three quarters of 2016 those expenditures increased by 25% and represented 10% of the total expenditures on online advertising. According to PwC forecasts *(Global entertainment and media outlook: 2016-2021)* the online video advertising in Poland will grow by 15.1% (CAGR) in the years 2015-2020. We believe that thanks to the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

Fixed-mobile substitution and growth of mobile broadband Internet saturation

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

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

In our opinion, the high preference of Poles for mobile technologies combined with the systematically improving quality of mobile data transmission as a result of the development of the LTE/LTE Advanced technologies, and 5G in the future, create the opportunity for dynamic growth of the value of broadband Internet market in Poland in the next years, which we intend to utilize.

Growing demand for smartphones and data transmission

In Poland the popularity and sales of smartphones has been gradually growing, which translates into growing sales of data transmission products in the segment of small screen devices. According to estimates presented in the Ericsson Mobility Report dated November 2016, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow at an average annual rate of 40% over the next 6 years (CAGR 2016-2022), which translated into a twelve-fold increase in 2022.

According to our estimates, in the fourth quarter of 2016 customers of Polkomtel and Cyfrowy Polsat transferred 152 PB of data, or 23% more than a quarter earlier and 63% more than in the corresponding period of 2015. A total of 514 PB of data was transferred by our residential customers during the entire 2016, i.e. 80% more than in 2015.

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

4.1.2. Factors related to the operations of the Company

The growing importance of integrated services

Growing interest in integrated services, observed among our customers base, provides us with a possibility to generate growth of average revenue per user. We carefully follow the evolution of expectations of our customers and strive to meet their growing needs by combining our pay TV, broadband Internet access and mobile television services into attractive packages, complementing them with products and services outside our core activity, such as financial and insurance services, gas and electric energy supply or sale of household appliances.

Our bundled services offer enables our customers to combine products into packages in a flexible way and benefit from attractive discounts that we offer. The program smartDOM, launched in 2014, yields excellent sales results. The possibility to sell additional products and services (cross-selling) to current customers of Cyfrowy Polsat and our subsidiary Polkomtel has a positive impact both on our revenue and the level of ARPU per contract customer and in the future we expect positive effects of increased loyalty of customers, who use our integrated services.

We strive to meet the needs of our customers by offering to every basic service a broad range of complementary services. We combine our traditional pay TV services with VOD, PPV, Multiroom, online video services and mobile television.

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

Development of Internet access services in LTE and LTE-Advanced technologies

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. Thanks to its technical characteristics and quality parameters, mobile LTE Internet often replaces fixed-line connections and satisfies increasingly demanding customers. In addition, it has the advantage of mobility, a feature that is systematically gaining importance with changing consumer preferences. We strongly believe that over the long term, as the necessary radio infrastructure and appropriate end-user devices develop, the LTE and LTE-Advanced technologies, and 5G in the future, will revolutionize not only the broadband Internet market but also content distribution. The wide availability of our LTE Internet service and its high quality confirmed by UKE research constitute a significant competitive advantage and help us to further increase our customer base both of stand-alone and integrated services.

We provide telecommunication services in the LTE and LTE-Advanced technologies based on frequencies in the 1800, 2600 and 800 MHz bandwidths (including carrier aggregation) owned by our subsidiaries. In 2016, we introduced services in the LTE-Advanced technology, based on carrier aggregation. In January 2017, 99% of Poles lived within the coverage of our LTE Internet service and 40% were within the coverage of the fastest LTE-Advanced Internet access service.

Development of the IPLA service

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

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated November 2016, mobile video traffic is expected to grow at an average annual rate of 50% (CAGR 2016-2022). Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

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 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.

Refinancing of the Group's debt

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

The new debt financing structure of the Group is characterized by more favorable financial terms and guarantees greater flexibility of current operational and investing activities of the Group. As a result of the refinancing of the Group's debt, in 2016 we recorded a decline in interest costs at the consolidated level in the amount of PLN 224.4 million, that is by 29.2%. In 2017 we expect a further decrease of interest costs resulting from the finalized refinancing, which will significantly increase the potential for generating free cash flows.

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

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

4.2. Key market trends impacting our business

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:

- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- growing smartphone penetration among mobile network users; which entails the development of the mobile data transmission market;
- 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;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- development of the programming offer of digital terrestrial TV;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution; and
- growing spending on video advertising on the Internet.

4.3. Major investments in 2016

Implementation of an integrated IT environment

As an element of continued operational integration of Cyfrowy Polsat and Polkomtel, and also in connection with the pursued strategy of development on the bundled services' market, we are currently implementing a new integrated system supporting sales and customer care as well as a convergent billing system for its products and services. The system is being implemented in cooperation with HUAWEI who provides the IT systems and who assumed responsibility for the implementation process as the integrator.

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

The completion of the implementation phase of the project is planned for the end of 2018 and its costs have been distributed throughout the entire duration of the implementation process and have been included in the Group's investment plans assuming capital expenditures below 10% of the Group's revenue, as communicated earlier.

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 for the fourth quarter and the entire 2016 include the operating results of Polsat Group comprising Aero2 Group (formerly Midas Group), acquired on February 29, 2016. In light of the above, the operating results for the analyzed periods of 2016 are not fully comparable with the operating results for the analyzed periods of 2015. However, the effect of consolidation of the operating results of Aero2 Group on the overall reported operating results of Polsat Group is immaterial.

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

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

	for the 3-month period ended December 31			for the 12-month period ended December 31		
	2016	2015	change / %	2016	2015	change / %
Total number of RGUs, EOP (contract + prepaid)	**16,524,936**	**16,469,696**	**0.3%**	**16,524,936**	**16,469,696**	**0.3%**
CONTRACT SERVICES						
Total number of RGUs (EOP), including:	**13,254,598**	**12,614,703**	**5.1%**	**13,254,598**	**12,614,703**	**5.1%**
Pay TV, including:	4,766,429	4,503,320	5.8%	4,766,429	4,503,320	5.8%
Multiroom	*1,021,720*	*936,307*	9.1%	*1,021,720*	*936,307*	9.1%
Mobile telephony	6,730,427	6,516,643	3.3%	6,730,427	6,516,643	3.3%
Internet	1,757,742	1,594,740	10.2%	1,757,742	1,594,740	10.2%
Number of customers	**5,882,804**	**5,916,103**	**(0.6%)**	**5,882,804**	**5,916,103**	**(0.6%)**
ARPU per customer [PLN]	90.7	88.3	2.7%	88.7	87.3	1.6%
Churn per customer	8.3%	10.0%	(1.7 p.p.)	8.3%	10.0%	(1.7 p.p.)
RGU saturation per one customer	2.25	2.13	5.6%	2.25	2.13	5.6%
Average number of RGUs, including:	**13,119,033**	**12,496,080**	**5.0%**	**12,886,254**	**12,410,649**	**3.8%**
Pay TV, including:	4,712,813	4,441,918	6.1%	4,623,881	4,404,966	5.0%
Multiroom	*995,820*	*915,940*	8.7%	*971,381*	*887,766*	9.4%
Mobile telephony	6,667,869	6,502,872	2.5%	6,579,467	6,528,524	0.8%
Internet	1,738,351	1,551,290	12.1%	1,682,906	1,477,159	13.9%
Average number of customers	**5,868,541**	**5,922,397**	**(0.9%)**	**5,876,500**	**6,004,937**	**(2.1%)**
PREPAID SERVICES						
Total number of RGUs (EOP), including:	**3,270,338**	**3,854,993**	**(15.2%)**	**3,270,338**	**3,854,993**	**(15.2%)**
Pay TV	79,306	31,972	148.0%	79,306	31,972	148.0%
Mobile telephony	2,972,443	3,591,736	(17.2%)	2,972,443	3,591,736	(17.2%)
Internet	218,589	231,285	(5.5%)	218,589	231,285	(5.5%)
ARPU per total prepaid RGU [PLN]	19.2	18.5	3.8%	18.6	18.3	1.6%
Average number of RGUs, including:	**3,341,220**	**3,917,979**	**(14.7%)**	**3,662,780**	**3,990,706**	**(8.2%)**
Pay TV	54,083	56,743	(4.7%)	46,356	56,798	(18.4%)
Mobile telephony	3,058,691	3,630,863	(15.8%)	3,362,107	3,724,268	(9.7%)
Internet	228,446	230,373	(0.8%)	254,317	209,640	21.3%

As at December 31, 2016, in the segment of services to individual and business customers, our Group provided a total of 16,524,936 services, which constitutes an increase of o 55,240 compared to 16,469,696 services provided as at December 31, 2015. As at the end of 2016 we noted a dynamic YoY growth in the number of all our core services provided in the contract model, i.e. pay TV and mobile telephony services, and broadband Internet. This growth was partially offset by a strong decline in the number of provided prepaid mobile telephony services in the analyzed period, which was related to the mandatory registration of prepaid SIM cards imposed by the Anti-terrorist Act of June 10, 2016. Similar declines were also recorded by other large mobile operators on the Polish market.

As at December 31, 2016 the share of contract services in the total number of services provided was 80.2%. This ratio increased from 76.6% as at December 31, 2015.

Contract services

As at December 31, 2016, we provided contract services to a total of 5,882,804 customers, i.e., 0.6% less compared to 5,916,103 customers as at December 31, 2015. The decline of the customer base clearly decelerated in the second half of 2016, while in the fourth quarter we noted a QoQ increase, *inter alia,* due to the intensified migration of prepaid services users to contract tariffs as an effect of our actions aimed at encouraging customers to switch to postpaid tariffs while registering their prepaid SIM cards. We continue to observe the trend of merging of contracts under one, common contract for the household and the outflow of customers with only one service. In line with the our strategic assumptions, the Group avoids conducting an aggressive sales policy for individual products and concentrates rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of contract services provided by us increased by 639,895, that is, by 5.1%, to 13,254,598 as at December 31, 2016, from 12,614,703 as at December 31, 2015. We recorded growth in the number of all services provided in the contract model. We noted the highest growth dynamics with respect to the number of contract services provided in the area of broadband Internet access due, among other things, to the broad coverage offered by our LTE//LTE-Advanced network, as well as its high quality, which is confirmed by surveys by UKE published in January and December 2016. As at December 31, 2016, we provided 1,757,742 mobile Internet RGUs in the contract model, that is 163,002, or 10.2%, more than as at December 31, 2015 (1,594,740). The number of pay TV services provided in the contract model amounted to 4,766,429 as at December 31, 2016, which constitutes an increase by 263,109, or 5.8%, compared to 4,503,320 as at December 31, 2015. This increase in due, among other things, to the growing popularity of our Multiroom service (YoY increase by over 85 thousand provided services), as well as to increasing sales of OTT paid services. The number of provided mobile telephony services in the contract model increased by 213,784, or 3.3%, reaching the level of 6,730,427 as at December 31, 2016, up from 6,516,643 as at December 31, 2015. This growth was driven by the successful implementation of our strategy of cross-selling, as well as by the intensified migration of users of prepaid services to contract tariffs. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM, 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., the sale of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer. As a result of the implementation of our multi-play strategy, we continue to record a successive increase of ARPU in the contract services segment. In 2016 ARPU increased by 1.6% to PLN 88.7 from PLN 87.3 in 2015. Factors influencing the growth dynamics of APRU per contract customer in 2016 include the intensified migration of users of prepaid services, characterized by a relatively low ARPU, to contract tariffs, as well as the regulation of roaming tariffs and gradual reduction of the scale of sales of telecommunication contracts comprising subsidized equipment. In the fourth quarter of 2016 ARPU per customer increased by 2.7% to PLN 90.7 from PLN 88.3 in the corresponding period of 2015. This is the effect of the success of our multi-play strategy and the price stabilization on the telecommunications market, additionally supported by, i.a. by intensified use during the holiday season of premium rate services, as well as high sales of PPV services.

Our churn rate decreased by 1.7 p.p. to 8.3% in the twelve-month period ended December 31, 2016, compared to 10.0% in the twelve-month period ended December 31, 2015. This is primarily the effect of the systematically growing loyalty of our customers connected with the successful implementation of our multi-play strategy, as well as the continued price stabilization on the highly competitive telco market.

The saturation of our customer base with additional services offered in bundles is systematically growing. As at December 31, 2016, each customer in our customer base had on average 2.25 active contract services which constitutes an increase of 5.6% compared to 2.13 active contract services per customer as at December 31, 2015. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to a single customer.

Our bundled services offer remains very popular and continues to record very good sales results, which has a positive effect on the level of RGU saturation per customer, ARPU per contract customer, and the churn rate. At the end of December 2016, already 1,306,463 customers were part of the smartDOM program, which constitutes an increase of 285,291, or 27.9%, YoY. This group of customers had a total of 3,870,173 RGUs, over 831 thousand, or 27.4%, more than in the previous year. A customer of the smartDOM program owns 3 services, on average. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through cross-selling, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2016, decreased by 584,655, that is, 15.2%, to 3,270,338 from 3,854,993 as at December 31, 2015. The erosion of the prepaid RGUs base is driven mainly by the statutory obligation to register newly purchased prepaid SIM cards starting from July 25, 2016, that led to a significant decline in the number of new activations in the second half of 2016 on the entire market. The decrease of our prepaid RGUs base is further deepened by intensified migration, which we encourage, of our prepaid tariff users towards the contract services segment, driven by relatively more attractive terms of post-paid tariffs, as well as discounts offered with the purchase of bundled services. A strong increase, by 148%, in the number of prepaid pay TV services in 2016 was due primarily to the popularity of sports events broadcasts offered in the PPV model.

In the fourth quarter of 2016 ARPU per prepaid RGU increased by 3.8% to PLN 19.2 from PLN 18.5 in the corresponding period of 2015. In 2016 ARPU per prepaid RGU increased by 1.6% to PLN 18.6 from PLN 18.3 in 2015. Similarly as in the case of contract ARPU, high dynamics of growth of prepaid ARPU in the fourth quarter of 2016 was, among other things, the effect of high sales of premium rate services and sports events broadcasts offered in the PPV model.

4.5. Key positions in the consolidated income statement

Revenue

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

Retail revenue

Retail revenue consists primarily of:

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

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

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

(iv) 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, accessories and other equipment.

Other revenue

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

Operating costs

Operating costs consist of:

(i) content costs;

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

(iii) depreciation, amortization, impairment and liquidation;

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

(v) salaries and employee-related costs;

(vi) cost of equipment sold;

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

(viii) other costs.

Content costs

Content costs consist 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 our distributors and retail points of sale when they conclude sale or retention agreements with our customers for pay television and telecommunication services;

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

(iii) costs of warranty service; and

(iv) costs of maintenance of points of sales.

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

Depreciation, amortization, impairment and liquidation

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

(i) depreciation of set-top boxes 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 charges ; 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, and accessories that we sell to our customers.

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

In this group of costs we present:

(i) bad debt recovery fees;

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

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

Other costs

Key items of other costs include:

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

(ii) 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 invested funds, 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 at fair value through profit or loss, net foreign currency gains/losses (other than on valuation of senior notes), 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 and other charges on borrowings and guarantee fees resulting from indebtedness, and costs of guarantees resulting from concluded agreements regarding loans or notes.

4.6. Review of our financial situation

The following review of results for the twelve month periods ended December 31, 2016 was prepared based on the Financial Statements for the twelve month period ended December 31, 2016 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analyses.

It should be noted that the year ended December 31, 2016 may not be comparable to the year ended December 31, 2015 due to the merger of the Company with Netshare Sp. z o.o. as at November 30, 2016 and the merger of the Company with Redefine Sp. z o.o. as at June 30, 2015.

4.6.1. Income statement analysis

[mPLN]	for the 12 month period ended December 31		change	
	2016	2015	[mPLN]	[%]
Retail revenue	2,213.2	2,099.6	113.6	5.4%
Total operating cost	(1,904.1)	(1,750.4)	153.7	8.8%
Other operating income, net	8.3	7.6	0.7	9.2%
Profit from operating activities	**317.4**	**356.8**	**(39.4)**	**(11.0%)**
Gain/(loss) on investment activities, net	412.0	276.9	135.1	48.8%
Financial costs	(102.4)	(141.1)	(38.7)	(27.4%)
Gross profit for the period	**627.0**	**492.6**	**134.4**	**27.3%**
Income tax	(49.0)	(46.5)	2.5	5.4%
Net profit for the period	**578.0**	**446.1**	**131.9**	**29.6%**
EBIDTA	**542.2**	**587.0**	*(44.8)*	*(7.6%)*
EBITDA margin	*24.5%*	*28.0%*	*-*	*(3.5 p.p.)*

Revenue

Our total revenue increased by PLN 113.6 million, or 5.4%, to PLN 2,213.2 million in 2016 from PLN 2,099.6 million in 2015.

	for the 12 month period ended December 31		change	
	2016	2015	[mPLN]	[%]
Retail revenue	2,061.6	1,967.8	93.8	4.8%
Wholesale revenue	71.7	45.7	26.0	56.9%
Sale of equipment	54.3	59.3	(5.0)	(8.4%)
Other revenue	25.6	26.8	(1.2)	(4.5%)
Revenue	**2,213.2**	**2,099.6**	**113.6**	**5.4%**

Retail revenue

Retail revenue increased by PLN 93.8 million, or 4.8%, to PLN 2,061.6 million in 2016 from PLN 1,967.8 million in 2015. 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, Multiroom in particular, higher revenue from PPV, as well as growing revenue from the mobile Internet access service.

Wholesale revenue

Wholesale revenue increased by PLN 26.0 million, or 56.9%, to PLN 71.7 million in 2016 from PLN 45.7 million in 2015. This increase was caused by higher revenue related to the wholesale sales of packages of channels dedicated to the UEFA EURO 2016.

Sale of equipment

Revenue from the sale of equipment decreased by PLN 5.0 million, or 8.4%, to PLN 54.3 million in 2016 from PLN 59.3 million in 2015. This decrease was due primarily to a lower total volume of equipment sold to our residential customers in 2016.

Other revenue

Other revenue decreased by PLN 1.2 million, or 4.5%, to PLN 25.6 million in 2016 from PLN 26.8 million in 2015.

Operating costs

Our total operating costs increased by PLN 153.7million, or 8.8%, to PLN 1,904.1 million in 2016 from PLN 1,750.4 million in 2015. Operating costs grew for the reasons set forth below.

	for the 12 month period ended December 31		change	
	2016	2015	[mPLN]	[%]
Content costs	590.7	527.3	63.4	12.0%
Distribution, marketing, customer relation management and retention costs	322.4	317.1	5.3	1.7%
Depreciation, amortization, impairment and liquidation	224.8	230.2	(5.4)	(2.3%)
Technical costs and cost of settlements with telecommunication operators	470.9	340.7	130.2	38.2%
Salaries and employee-related costs	100.1	120.0	(19.9)	(16.6%)
Cost of equipment sold	53.9	69.3	(15.4)	(22.2%)
Cost of debt collection services and bad debt allowance and receivables written off	12.1	23.4	(11.3)	(48.3%)
Other costs	129.2	122.4	6.8	5.6%
Operating costs	**1,904.1**	**1,750.4**	**153.7**	**8.8%**

Content costs

Content costs increased by PLN 63.4million, or 12.0%, to PLN 590.7 million in 2016 from PLN 527.3 million in 2015. This increase is due primarily to the recognition of higher costs of programming licenses related to the development of our pay TV offer, as well as stronger depreciation in 2016 of the PLN versus the EUR than in 2015.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs amounted to PLN 322.4 million in 2016 and remained at a similar level compared to PLN 317.1 million in 2015.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 5.4 million, or 2.3%, to PLN 224.8 million in 2016 from PLN 230.2 million in 2015, primarily as the result of lower costs of depreciation of equipment leased to the customers of our satellite platform.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 130.2 million, or 38.2%, to PLN 470.9 million in 2016 from PLN 340.7 million in 2015, mainly as a result of growing costs of wholesale purchase of data traffic from our subsidiaries related to the dynamic growth of traffic generated within our broadband Internet access service.

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 19.9 million, or 16.6%, to PLN 100.1 million in 2016 from PLN 120.0 million in 2015, which was related to a lower level of employment in Cyfrowy Polsat resulting primarily from the reorganization of the employment structure within the Group.

Cost of equipment sold

Cost of equipment sold decreased by PLN 15.4 million, or 22.2%, to PLN 53.9 million in 2016 from PLN 69.3 million in 2015. This decrease was due primarily to a lower total volume of equipment sold to our residential customers in 2016.

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

The cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 11.3 million, or 48.3%, to PLN 12.1 million in 2016 from 23.4 million in 2015, primarily due to a change in the method of calculating write-offs on receivables.

Other costs

Other costs increased by PLN 6.8 million, or 5.6%, to PLN 129.2 million in 2016 from PLN 122.4 million in 2015.

Other operating income/costs, net

Other operating income, net amounted to PLN 8.3 million in 2016 and remained on a similar level compared to PLN 7.6 million in 2015.

Gains/losses on investment activities, net

Net gains on investment activities increased by PLN 135.1 million, or 48.8%, to PLN 412.0 million in 2016 from PLN 276.9 million in 2015, primarily due to higher dividends received from subsidiaries.

Finance costs

Finance costs amounted to PLN 102.4 million in 2016 and decreased by PLN 38.7 million, or 27.4%, from PLN 141.1 million in 2015, due, *inter alia*, to lower interest costs related to the servicing of our indebtedness, which is the effect of having obtained more favorable terms of debt financing.

Net profit

As a consequence of the changes described above, net profit increased by PLN 131.9 million, or 29.6%, to PLN 578.0 million in 2016 from PLN 446.1 million in 2015.

EBITDA & EBITDA margin

EBITDA decreased by PLN 44.8 million, or 7.6%, to PLN 542.2 million in 2016 from PLN 587.0 million in 2015. EBITDA margin amounted to 24.5 % in 2016, decreasing by 3.5 p.p. compared to 28.0% in 2015.

Employment

The average employment of permanent workers not engaged in production in Cyfrowy Polsat, excluding workers who did not perform work in the reporting period due to long-term absences, was 681 full-time equivalents in 2016 compared to 891 full-time equivalents in the corresponding period of 2015. This is primarily the effect of the reorganization of the employment structure within the Group.

4.6.2. Balance sheet analysis

As at December 31, 2016 our balance sheet amounted to PLN 13,283.8 million and increased by PLN 190.8 million, or 1.5%, from PLN 13,093.0 million as at December 31, 2015.

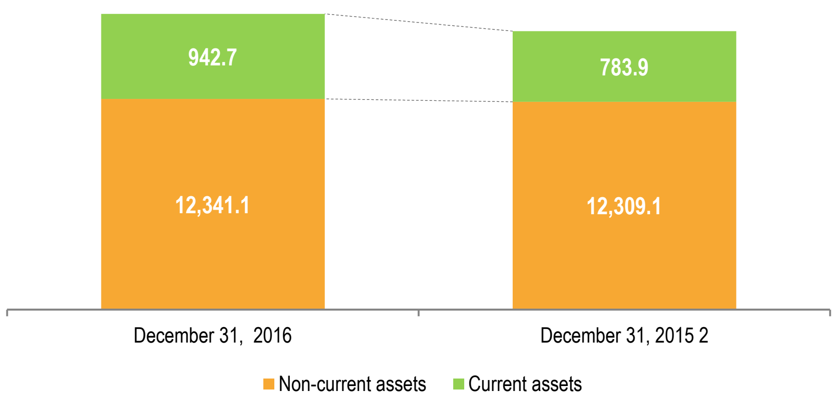
Assets

[mPLN]	December 31, 2016	December 31, 2015	change	
			[mPLN]	%
Reception equipment	372.2	374.6	(2.4)	(0.6%)
Other property, plant and equipment	131.4	143.3	(11.9)	(8.3%)
Goodwill	197.0	197.0	-	-
Other intangible assets	73.7	81.4	(7.7)	(9.5%)
Investment property	31.2	12.9	18.3	141.9%
Shares in subsidiaries	11,469.3	11,424.8	44.5	0.4%
Non-current deferred distribution fees	28.3	32.1	(3.8)	(11.8%)
Other non-current assets	38.0	43.0	(5.0)	(11.6%)
includes derivative instruments assets	*0.9*	-	*0.9*	-
Total non-current assets	**12,341.1**	**12,309.1**	**32.0**	**0.3%**
Inventories	84.9	76.0	8.9	11.7%
Trade and other receivables	279.3	323.4	(44.1)	(13.6%)
Current deferred distribution fees	76.2	86.9	(10.7)	(12.3%)
Other current assets	223.5	161.2	62.3	38.6%
includes derivative instruments assets	*0.6*	-	*0.6*	-
Cash and cash equivalents	278.8	136.4	142.4	104.4%
Total current assets	**942,7**	**783,9**	**158,8**	**20,3%**
Total assets	**13.283,8**	**13.093,0**	**190,8**	**1,5%**

As at December 31, 2016 and December 31, 2015, our non-current assets amounted to PLN 12,341.1 million and PLN 12,309.1 million, respectively, and accounted for 92.9% and 94.0% of total assets, respectively.

As at December 31, 2016 and December 31, 2015, our current assets amounted to PLN 942.7 million and PLN 783.9 million, respectively, and accounted for 7.1% and 6.0% of the total assets, respectively.

Change in assets [mPLN]



The value of reception equipment amounted to PLN 372.2 million as at December 31, 2016 and remained on a stable level compared to PLN 374.6million as at December 31, 2015.

The value of other property, plant and equipment decreased by PLN 11.9 million, or 8.3%, to PLN 131.4 million as at December 31, 2016 from PLN 143.3 million as at December 31, 2015, mainly due to the recognition depreciation of technical equipment and machinery for 2016, and was partially compensated by expenditures on the construction of a recording studio and the purchase of servers.

The value of goodwill amounted to PLN 197.0 million as at December 31, 2016 and remained unchanged compared to the balance as at December 31, 2015.

The value of other intangible assets amounted to PLN 73.7 million as at December 31, 2016 which constitutes a decrease by PLN 7.7 million, or 9.5%, compared to PLN 81.4 million as at December 31, 2015. The main reason behind this decrease was the recognition of amortization for 2016, which was partially compensated by expenditures on IT software.

Investment property amounted to PLN 31.2 million as at December 31, 2016, and increased by PLN 18.3 million, or 141.9%, compared to PLN 12.9 million as at December 31, 2015, which is the effect of the construction of a recording studio for television production purposes.

The value of shares in subsidiaries amounted to PLN 11,469.3 million as at December 31, 2016 and increased by PLN 44.5 million, or 0.4%, compared to PLN 11,424.8 as at December 31, 2015. This increase was caused by the valuation and recognition of shares in Interphone Services Sp. z o.o. and was partially off-set by the merger of Cyfrowy Polsat with Netshare Sp. z o.o.

The value of non-current and current deferred distribution fees amounted to PLN 104.5 million as at December 31, 2016, which constitutes a decrease by PLN 14.5 million, or 12.2%, from PLN 119.0 million as at December 31, 2015, mainly due to an increase in the value of current deferred distribution fees.

The value of other non-current assets amounted to PLN 38.0 million as at December 31, 2016 and decreased by PLN 5.0 million, or 11.6%, compared to PLN 43.0 million as at December 31, 2015.

The value of inventories was PLN 84.9 million as at December 31, 2016 and increased by PLN 8.9 million, or 11.7%, from PLN 76.0 million as at December 31, 2015 due to, *inter alia*, a higher stock of set-top boxes and components for their production.

The value of trade and other receivables decreased by PLN 44.1 million, or 13.6%, to PLN 279.3 million as at December 31, 2016 from PLN 323.4 million as at December 31, 2015, among others due to lower receivables from unrelated parties and lower public receivables.

The value of other current assets amounted to PLN 223.5 million as at December 31, 2016, which constitutes an increase by PLN 62.3 million, or 38.6%, compared to PLN 161.2 million as at December 31, 2015, primarily due to the higher value of accruals related to the purchase of data packages from our subsidiary Polkomtel in connection with the growing volume of traffic generated within our broadband mobile internet access.

The value of cash and cash equivalents and restricted cash increased by PLN 142.2 million, or 104.4%, to PLN 278.8 million as at December 31, 2016 from PLN 136.4 million as at December 31, 2015, due, among other things, to higher dividends received in 2016 from subsidiaries and a higher stream of cash generated from operating activities in 2016.

Equity and liabilities

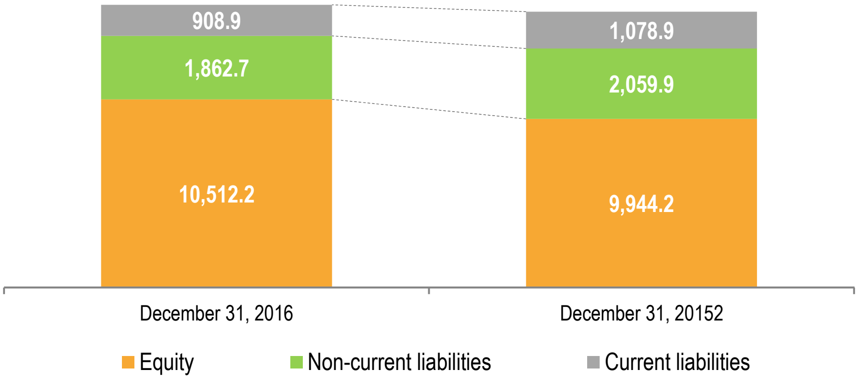
[mPLN]	December 31, 2016	December 31, 2015	change	
			[mPLN]	%
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Hedge valuation reserve	1.2	(6.7)	7.9	(117.9%)
Retained earnings	3,311.4	2,751.3	560.1	20.4%
Total equity	**10,512.2**	**9,944.2**	**568.0**	**5.7%**
Loans and borrowings	782.0	982.0	(200.0)	(20.4%)
Issued bonds	975.5	975.3	0.2	-
Deferred tax liabilities	91.0	97.3	(6.3)	(6.5%)
Deferred income	4.2	4.7	(0.5)	(10.6%)
Other non-current liabilities and provisions	10.0	10.6	(0.6)	(5.7%)
Total non-current liabilities	**1,862.7**	**2,069.9**	**(207.2)**	**(10.0%)**
Loans and borrowings	239.1	504.7	(265.6)	(52.6%)
Issued bonds	42.4	42.4	-	-
Trade and other payables	385.2	299.8	85.4	28.5%
includes derivative instruments liabilities	-	*8.3*	*(8.3)*	*(100.0%)*
Income tax liability	8.0	6.2	1.8	29.0%
Deposits for equipment	1.9	1.6	0.3	18.8%
Deferred income	232.3	224.2	8.1	3.6%
Total current liabilities	**908.9**	**1,078.9**	**(170.0)**	**(15.8%)**
Total liabilities	**2,771.6**	**3,148.8**	**(377.2)**	**(12.0%)**
Total equity and liabilities	**13,283.8**	**13,093.0**	**190.8**	**1.5%**

Equity increased by PLN 568.0 million, or by 5.7%, to PLN 10.512.2 million as at December 31, 2016 from PLN 9.944.2 million as at December 31, 2015, primarily due to profit generated in the twelve-month period ended December 31, 2016, in the amount of PLN 578.0 million.

As at December 31, 2016 and December 31, 2015 the value of our non-current liabilities amounted to PLN 1,862.7 million and PLN 2,069.9 million, which constituted 67.2% and 65.7% of the Group's total liabilities, respectively.

As at December 31, 2016 and December 31, 2015 the value of our current liabilities amounted to PLN 908.9 million and PLN 1,078.9 million, which constituted 32.8% and 34.3% of the Group's total liabilities, respectively.

Change in liabilities [mPLN]



The value of loans and borrowings (long- and short-term) decreased by PLN 465.5 million, or 31.3%, to PLN 1,021.1 million as at December 31, 2016 from PLN 1,486.7 million, due to debt repayment according to schedule.

Liabilities from issued bonds (long- and short-term) amounted to PLN 1,017.9 million as at December 31, 2016 and remained on a practically unchanged level compared to PLN 1,017.7.0 million as at December 31, 2015.

Deferred income tax liabilities decreased by PLN 6.3 million, or 6.5%, to PLN 91.0 million as at December 31, 2016 from PLN 97.3 million as at December 31, 2015.

Non-current and current deferred income amounted to PLN 236.5 million as at December 31, 2016, and increased by PLN 7.6 million, or 3.3%, from PLN 228.9 million as at December 31, 2015.

The value of other non-current liabilities and provisions amounted to PLN 10.0 million as at December 31, 2016 and remained on a similar level compared to PLN 10.6 million as at December 31, 2015.

The value of trade and other payables amounted to PLN 385.2 million as at December 31, 2016 which constitutes an increase by PLN 85.4 million, or 28.5%, compared to PLN 299.8 million as at December 31, 2015. This increase was driven primarily by a higher balance of accruals and higher liabilities towards related parties.

Income tax liabilities increased by PLN 1.8 million, or 29.0%, to PLN 8.0 million as at December 31, 2016 from PLN 6.2 million as at December 31, 2015.

4.6.3. Cash flow analysis

The table below presents selected data from the cash flow statement for the twelve month periods ended December 31, 2016 and 2015.

[mPLN]	12 months ended December 31		change	
	2016	2015	mPLN	%
Net profit	578.0	446.1	131.9	29.6%
Adjustments	(174.1)	(146.6)	27.5	18.8%
Net cash from operating activities	**349.6**	**285.5**	**64.1**	**22.5%**
Net cash from investing activities	**351.4**	**236.7**	**114.7**	**48.5%**
Capital expenditure	*53.5*	*41.8*	*11.7*	*28.0%*
Net cash used in financing activities	**(558.6)**	**(399.1)**	**159.5**	**40.0%**
Net increase in cash and cash equivalents	142.4	123.1	19.3	15.7%
Cash and cash equivalents at the beginning of the period	136.4	13.3	123.1	925.6%
Cash and cash equivalents at the end of the year	**278.8**	**136.4**	**142.4**	**104.4%**

Net cash from operating activities

Net cash from operating activities amounted to PLN 349.6 million in 2016 and increased by PLN 64.1 million compared to net cash from operating activities in the amount of PLN 285.5 million in 2015.

In 2016, the stream of cash from operating activities was mainly the result of a higher by PLN 131.9 million net profit of the Company, adjusted by a series of factors, the most significant being:

- higher income from dividends and shares in the profits of partnerships,
- a lower increase in receivables and other assets in 2016 than in 2015,
- an increase in liabilities, provisions and deferred income as at the end of 2016 compared to a decrease in liabilities, provisions and deferred income as at the end of 2015,
- an increase in inventories as at the end of 2016 compared to the decrease in inventories as at the end of 2015,
- higher income tax paid in 2016,
- lower interest costs in 2016,
- a higher increase of the net value of set-top boxes provided to our customers.

Net cash from investing activities

Net cash obtained from investing activities amounted to PLN 351.4 million in 2016 and was higher by PLN 114.7 million, or 48.5%, than PLN 236.7 million in 2015. The value of net cash obtained from investing activities in 2016 was primarily the effect of dividends received from subsidiaries and was partially compensated by capital expenditure on the purchase of property, plant and equipment, and intangible assets in the amount of PLN 53.5 million.

Expenditures on the purchase of property, plant and equipment and intangible assets in the twelve months of 2016 comprised, among others, investments related to the implementation of the new integrated system supporting sales and customer and the convergent billing system, as well as related to the construction of a new recording studio.

Net cash used in finance activities

Net cash used in financing activities amounted to PLN 558.6 million in 2016, which constitutes an increase by PLN 159.5 million, or 40.0%, compared to PLN 399.1 million in 2015. In 2015 the stream of cash used in financing activities was mainly influenced by the refinancing of the Company's indebtedness, while in 2016 this position primarily comprised outflows related to current debt service.

4.6.4. Liquidity and capital resources

We maintain cash and cash equivalents to fund the day-to-day requirements of our business. Our objective is to ensure cost-efficient access to various financing sources, including bank loans, 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) are sufficient to fund the future cash needs for our operational activity, development of our services, service of our debt as well as for realization of a majority of investment plans in the field of the Company's activity. Moreover, the Company has access to a revolving loan facility of up to PLN 1,000 million with a final maturity date on September 21, 2020. As at December 31, 2016 the revolving facility was not used.

Material financing agreements executed by the Company

Presented below is information on significant agreements executed by the Company, 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. Given the above, we will refer to the amended CP SFA as the Combined SFA, and the term loan and revolving facility granted under this agreement as the Term Loan and Revolving Facility, respectively.

On May 27, 2016 subsidiaries acquired by Polkomtel on February 29, 2016 ceded to the Combined SFA - Litenite Limited, as an Additional Guarantor, and Midas (whose legal successor is Aero2), as an Additional Borrower and Additional Guarantor.

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

Pursuant to the Combined SFA the Company and its Group companies established certain collaterals for the credit facilities granted thereunder. In particular, these collaterals include registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of the Company and its selected subsidiaries, registered and financial pledges on shares in the Company's subsidiaries, registered and financial pledges on receivables related to bank accounts kept for the Company or its selected subsidiaries, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares or assets of the Company's subsidiaries, to be governed by foreign laws. A detailed description of established securities is presented in item 4.6.5. of this Report – *Operating and financial review of Cyfrowy Polsat – Review of our financial situation - Information on guarantees granted by the Company or subsidiaries.*

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

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

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

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

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

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

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

As at December 31, 2016, the balance value of the debt attributable to Cyfrowy Polsat under the Combined SFA amounted to PLN 1,021.1 million.

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 plus an applicable premium depending on the date of redemption, specified as follows:

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

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

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

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

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

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

(iii) granting loans;

(iv) disposing of assets;

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

(vi) incurring of financial indebtedness and

(vii) entering into composition agreements.

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

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

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

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

Contractual liabilities

Contractual liabilities related to purchases of non-current assets

The amount of deliveries and services committed to under agreements for the purchases of licences and software as at December 31, 2016 was PLN 0.3 million (PLN 0.3 million as at 31 December 2015).

Contractual liabilities related to purchase of data transfer services

Total amount of capital commitments resulting from agreements on data transfer services as at December 31, 2016 was PLN 696.0 million.

Ratings

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

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

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

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

4.6.5. 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, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Plus TM Management Sp. z o.o., and Aero2, governed by Polish law;

(ii) financial and registered pledges on shares in Cyfrowy Polsat Trade Marks Sp. z o.o. (with an aggregate nominal value of PLN 615,445,000), Telewizja Polsat (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 3,525,300,000) and in Plus TM Management Sp. z o.o. (with a total nominal value of PLN 2,106,000), and Aero2 (with a total nominal value of PLN 260,000,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;

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

(iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme 4, Plus TM Management Sp. z o.o., Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., Telewizja Polsat Holdings Sp. z o.o., 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., and Aero2, governed by Polish law;

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

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

(vii) 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;

(viii) 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;

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

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

(xi) 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;

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

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

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

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

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

(xvii) 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;

(xviii) 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;

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

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

(xxi) pledge on shares in Polsat Brands AG (with the total nominal value of CHF 250,074), governed by the Swiss law;

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

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

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

5. Other significant information

5.1. Transactions with related parties

Transactions concluded in 2016 by the Company have all been concluded on market conditions and are described in Note 39 of the Financial Statements for the financial year ended December 31, 2016.

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, 2016.

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

Cyfrowy Polsat did not publish any financial forecasts for 2016.

5.4. Information on material proceedings at the court, arbitration body or public authorities

Management believes that the provisions for litigations as at December 31, 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Group's Management, such disclosure could prejudice the outcome of the pending cases.

Proceedings before the Office of Competition and Consumer Protection

On December 30, 2016 the President of the Office of Competition and Consumer Protection ("UOKiK") issued a decision stating that practices used by the Company for allegedly infringing collective consumer interests consisting in the use of the advertising slogans, which in its opinion suggests that the data transmission implemented in LTE will not be limited. Pursuant to the decision of the President of UOKiK imposed a penalty 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 practices used by the Company for allegedly infringing collective consumer interests consisting in presentation of promotional offers, while in its opinion it was not possible to conclude the given conditions. Pursuant to the decision of the President of UOKiK imposed a penalty of PLN 4.4 million. The Company appealed to SOKiK against the decision.

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 2016.

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.

6. KEY RISK AND THREAT FACTORS

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

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

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

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

To some extent, the profitability of our operations depends on our ability to obtain broadcasting rights to the most attractive programmes in a cost-effective manner. Consequently, if customers do not accept our programming offer or we are unable to acquire broadcasting rights in a profitable manner, it may have a material adverse effect on our financial condition, results of operations or prospects.

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

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

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

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

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

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

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

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

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

Our ability to grow our customer base depends on our ability to provide high-quality, reliable services and products. In offering products and services, we rely on a number of third-party providers of network, services, equipment and content over whom we have no control. If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Company, 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, thus affecting our business, financial condition, results of operations or prospects.

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

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

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

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

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

It is expected certain communications technologies that are currently under development, namely LTE, LTE-Advanced or 5G, as well as fibre optics technology allowing for faster data transmission and lower unit cost per GB transmitted traffic, to become increasingly important in the markets in which we operate. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. We cannot currently predict how emerging and future technological changes will affect the Company’s operations, nor can it predict that new technologies required to support its planned services will be available when expected, if at all.

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

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

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

The good name of the “Cyfrowy Polsat” and “IPLA” brands is a significant component of the Company’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 the “Cyfrowy Polsat” and “IPLA” brands, will not materialise in the future. Any damage to our good name may have a material adverse effect on our business, financial condition, results of operations or prospects.

Goodwill and brand values may be impaired

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

We may lose our management staff and key employees

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

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

To reduce acquisition costs of satellite TV reception equipment and to be able to offer our pay TV customers the option to purchase or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at the manufacturing plant belonging to our subsidiary Interphone Service Sp. z o.o. In 2016 set-top boxes manufactured by our Group accounted for more than 91% of all the set-top boxes sold or leased by us. Should any batch of the set-top boxes manufactured by our Group prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers and to cover (potentially considerable) costs of replacing or repairing any set-top boxes we have sold on the market. Furthermore, the withdrawal of reception equipment due to its defectiveness could be harmful to our reputation. Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased depreciation expense. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As the 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 the production plant belonging to our Group 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 the set-top box production process and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

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

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

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

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

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

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

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

Our broadcasting licences may be revoked or may not be renewed

With respect to services to individual and business customers, broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT.

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

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

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 our 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 and Metelem, and completion of the related financial transactions.

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

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

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

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

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

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

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

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

6.3. Risks related to market environment and economic situation

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

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

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 Company'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. The growing variety of leisure and entertainment options offered by our current and future competitors may bring about a decrease in demand for our products and services, and weaken the effect of television as an advertising medium. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

Given the intense competition across all market segments in which we operate, there can be no assurance that in the future our customers 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 will be satisfactory compared to that of our competitors. Our current and future competitors may outmatch us in terms of financial and marketing resources, which may allow them to attract customers and advertisers more effectively.

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

The loss of customers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

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

Following completion of the digital switchover process in July 2013, the number of terrestrial FTA TV channels has risen considerably, and their programming is becoming increasingly more attractive, which may reduce the demand for our DTH and DVB-T pay TV services, leading to a deterioration in customer churn. This may have a material adverse effect on our business, financial condition, results of operations or prospects.

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 purchases of reception equipment and accessories for reception equipment (EUR and USD).

In respect of license 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 does not hold any assets held for trading denominated in foreign currencies.

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

mPLN	December 31, 2016		December 31, 2015	
	EUR	USD	EUR	USD
Trade receivables	4.2	0.2	4.4	6.1
Cash and cash equivalents	0.3	0.1	0.2	0.8
Trade payables	(0.2)	(1.7)	(1.5)	(1.9)
Gross balance sheet exposure	**4.3**	**(1.4)**	**3.1**	**5.0**
Net exposure	**4.3**	**(1.4)**	**3.1**	**5.0**

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

PLN	Average rate		Rates at the reporting date	
	2016	2015	December 31, 2016	December 31,2015
1 EUR	4.3625	4.1839	4.4240	4.2615
1 USD	3.9431	3.7701	4.1793	3.9011

For the purposes of the exchange rate sensitivity analysis as at December 31, 2016 and December 31, 2015, exchange rate volatility in the range of +/-5% was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity analysis below is performed on the same basis for 2015.

mPLN	2016					2015				
	as at December 31, 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2015		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	4.2	18.7	5%	0,9	-	4.4	18.6	5%	0.9	-
USD	0.2	0.7	5%	-	-	6.1	23.9	5%	1.2	-
Cash and cash equivalents										
EUR	0.3	1.5	5%	0,1	-	0.2	0.9	5%	-	-
USD	0.1	0.5	5%	-	-	0.8	3.1	5%	0.2	-
Trade payables										
EUR	(0.2)	(0.9)	5%	-	-	(1.5)	(6.6)	5%	(0.3)	-
USD	(1.7)	(7.1)	5%	(0,4)	-	(1.9)	(7.6)	5%	(0.4)	-
Change in operating profit				**0.6**	**-**				**1.6**	**-**
Income tax				(0.1)	-				(0.3)	-
Change in net profit				**0.5**	**-**				**1.3**	**-**

mPLN	2016					2015				
	as at December 31, 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	as at December 31, 2015		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	4.2	18.7	-5%	(0,9)	-	4,4	18,6	-5%	(0,9)	-
USD	0.2	0.7	-5%	-	-	6,1	23,9	-5%	(1,2)	-
Cash and cash equivalents										
EUR	0.3	1.5	-5%	(0,1)	-	0,2	0,9	-5%	-	-
USD	0.1	0.5	-5%	-	-	0,8	3,1	-5%	(0,2)	-
Trade payables										
EUR	(0.2)	(0.9)	-5%	-	-	(1,5)	(6,6)	-5%	0,3	-
USD	(1.7)	(7.1)	-5%	0,4	-	(1,9)	(7,6)	-5%	0,4	-
Change in operating profit				**(0.6)**	**-**				**(1,6)**	**-**
Income tax				0.1	-				0,3	-
Change in net profit				**(0.5)**	**-**				**(1,3)**	**-**

mPLN	2016		2015	
	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	0.8	-	0.5	-
USD	(0.3)	-	0.8	-
Estimated change in exchange rate by -5 %				
EUR	(0.8)	-	(0.5)	-
USD	0.3	-	(0.8)	-

Had Polish zloty strengthened 5% against the basket of currencies as at December 31, 2016 and December 31, 2015, the Company's net profit would have increased by PLN 0.5 million and increased by PLN 1.3 million, respectively and other comprehensive income would have been unchanged in 2016 and 2015. Had the Polish zloty weakened by 5%, the Company's net profit would have correspondingly decreased by PLN 0.5 million in 2016 and decreased by PLN 1.3 million in 2016 and other comprehensive income would have been unchanged in 2016 and 2015, 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 minimizing 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, 2016	December 31, 2015
Fixed rate instruments		
Financial assets*	10.0	100.0
Variable rate instruments		
Financial assets*	281.6	54.0
Financial liabilities*	(2,029.5)	(2,499.0)
Net interest exposure	**(1,737.9)**	**(2,445.0)**

*Nominal value

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	Decrease by 100 bp	Increase by 100 bp	Decrease by 100 bp
December 31, 2016						
Variable rate instruments*	(17.5)	17.5	3.7	(3.7)	(13.8)	13.8
Cash flow sensitivity (net)	**(17.5)**	**17.5**	**3.7**	**(3.7)**	**(13.8)**	**13.8**
December 31, 2015						
Variable rate instruments*	(24.4)	24.4	6.6	(6.6)	(17.8)	17.8
Cash flow sensitivity (net)	**(24.4)**	**24.4**	**6.6**	**(6.6)**	**(17.8)**	**17.8**

* includes sensitivity in fair value changes of hedging instruments (interest rate swaps) due to changes in interest rates

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:

- price change risk, credit risk, risk of significant disruptions to cash flows and risk of financial insolvency, to which the Company is exposed and
- objectives and methods established by the Company 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, 2016.

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. Therefore, the application of tax regulations by taxpayers and tax authorities gives rise to controversies and disputes, which are usually finally settled by administrative courts.

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

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

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

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

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

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

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

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 they will be entered in the Register of Abusive Contract Clauses maintained by the President of UOKiK and their application will be no longer possible, which will require amendment to our standard contracts.

If the President of UOKiK determines that any of our practices had the effect of limiting competition or violating consumer rights, we could be required to discontinue the unlawful practice. In addition, the President of UOKiK could impose on us a cash fine of up to 10% of our revenue generated in the financial year immediately preceding the year in which the fine is imposed and additionally, pursuant to the provisions of the amended legislation on consumer and competition protection, can, for example, impose on us the obligation to pay compensation to consumers, who were affected by the practises in question or apply other measures. 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 our business, financial condition, results of operations and prospects.

We may violate the acts of law and regulations governing our satellite TV distribution and telecommunications business, 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 mobile 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, both in relations with individual and business customers (for instance, by specifying the scope of customers' rights or the content of standard terms and conditions for the provision of telecommunications services, setting caps for pricing of international roaming services, or restricting the maximum time for which contracts can be concluded with customers). We cannot give any assurance that we will be able to meet the numerous requirements imposed on us by the Polish Telecommunications Law. In the event of our non-compliance with any provisions of the Telecommunications Law, we may face a fine from the President of UKE of up to 3% of our revenue generated in the year proceeding the year in which such fine is imposed.

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 Inspector General for the Protection of Personal Data

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

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

6.6. Risk factors associated with the Series A Bonds

The Bonds may not be repaid

Investing in Bonds is connected with the Company’s credit risk, the extent of which is determined by the Company’s ability to repay its debts. This risk can materialise if the Bonds are not redeemed, the interest on the Bonds is not paid, or both of these payments are not made on the dates indicated in the Bonds Terms. The Company’s ability to repay its debts depends on numerous factors, both within and outside the Company’s control. Some of the existing or future financial liabilities of the Company, including loans, or other liabilities of similar nature can become due before the Bonds’ redemption date. If the Company is unable to generate sufficient cash flows, it may not have the funds to repay all or part of its debts as they become due, including the debt under the Bonds.

The Company’s ability to service its debt depends, among others, on the Company’s financial situation at a given time and in case of refinancing – the limitations regarding the ability to incur debt, which are indicated in the facility agreements to which the Company or its assets are subject, as well as on the market conditions based on which the debt could potentially be refinanced. The availability of refinancing in the future on terms and conditions acceptable for the Company cannot be guaranteed. Moreover, the possibility of raising additional funds in the future cannot be guaranteed. If refinancing or raising additional funds proves impossible in the future, the Company may be forced to sell its assets in circumstances which may prevent it from obtaining optimum terms of such sale.

Materialisation of the Company's credit risk may have material adverse impact on the value of the Bonds, leading to a situation in which the Bondholders will not be able to recover the amounts that they have invested in the Bonds, or they may recover amounts which are lower than invested.

The Bonds are not secured by collateral

The Bonds will not entitle the Bondholder to security interests in any collateral. Some of our debts have been secured by establishing mortgages or pledges over our assets, or by transferring or assigning our assets. In the future we may also grant other security interests, whether collateralised or not, in connection with existing or future debt. This means that if creditors seek to collect from our assets, assets that serve as collateral will used to satisfy the claims of creditors who have collateralised claims first. It cannot be ruled out that in such a situation the value of the remaining assets intended to satisfy other creditors, including the Bondholders, may prove insufficient to satisfy their claims and hence the Bondholders may not recover the amounts they invested in the Bonds, or they may recover amounts lower than invested.

The Bonds may be subject to early redemption at a Bondholder's request

The Bondholders may demand an early redemption of the Bonds in situations specified in the Bonds Act. Additionally, the Bonds Terms provide for the possibility of Bondholders' requesting early redemption of the Bonds they hold, following an Event of Default. The Bondholders should be aware that with regard to a majority of Events of Default, the right to request early redemption can be exercised only upon obtaining the consent of the Bondholders' Meeting. If only some of the Bondholders request early redemption of the Bonds, redemption of only part of the Bonds may have a negative impact on the Bonds' liquidity, and consequently on their value.

The Bonds may be subject to early redemption due to reasons other than a Bondholder's request

In accordance with the Bonds Terms, the Company is entitled, at any time, to redeem the Bonds early. This right can be exercised at any time before the redemption date, both with regard to all the Bonds as well as a part of the Bonds which have been issued and have not been redeemed, however such redemption should cover no less than 10% of the total nominal value of the Bonds or of all unredeemed Bonds, if their total nominal value was lower than the above mentioned amount. Moreover, pursuant to Article 74 section 5 of the Bonds Act, in the event of the liquidation of the Company, the Bonds are subject to immediate redemption at the moment when the liquidation proceedings start, even if the redemption date has not occurred yet.

In the event of the liquidation of the Company or exercising by the Company of the right of early redemption of the Bonds, the Bondholder's investment horizon will shorten in relation to the Bonds covered by redemption, which may result in a rate of return on the investment in Bonds lower than expected.

Our debt may increase and we may take other actions which may not be in the Bondholders' best interest

The Company and its subsidiaries may increase their debt by, among other things, taking out loans and borrowings or issuing new debt securities. In addition we may implement changes in the Group's structure, dispose of our assets, or enter into specific transactions, especially intra-group transactions, as well as distribute profits to our shareholders. In some circumstances these actions may not be in the best interest of the Bondholders and may, on the one hand, adversely affect our ability to meet our obligations under the Bonds (and our overall financial situation), while on the other hand they may potentially restrict the Bondholders' ability to exercise their rights resulting from the Bonds.

The Bondholders' Meeting may fail to pass some resolutions, or may pass resolutions which are contradictory to the interest of the Bondholders voting against such resolutions or not present at the Bondholders' Meeting

In accordance with the Bonds Terms, some of the decisions related to the Bonds are passed by the Bondholders' Meeting. Convening a Bondholders' Meeting requires specific actions to be taken while the decisions are carried by a majority of votes. Moreover, Bondholders' Meeting is deemed valid if attended by Bondholders representing at least 50% of the Adjusted Total Nominal Value of the Bonds. The Bondholders' Meeting will thus be unable to pass any resolutions if attended by Bondholders representing less than the above indicated nominal value of the Bonds.

Therefore, there is a risk that actions taken as a result of resolutions passed by the Bondholders' Meetings may conflict with the interest of the Bondholders voting against these resolutions, or those who do not attend the Bondholders' Meeting. In addition there is a risk that Bondholders seeking adoption of a specific resolution, in particular a resolution changing the Bonds Terms or authorizing the Bondholder to exercise its right to demand early redemption of the Bonds in some situations, may not gain the required majority of votes or there may be no quorum as required for passing such a resolution.

Resolutions of the Bondholders' Meeting may be challenged

Pursuant to Article 70 Section 1 of the Bonds Act, a resolution of the Bondholders' Meeting that manifestly prejudices the Bondholders' interests or is contrary to good customs can be challenged through a lawsuit filed against the Company seeking to repeal the resolution. Pursuant to Article 71 Section 1 of the Bonds Act, a resolution of the Bondholders' Meeting that is unlawful can be challenged through a lawsuit filed against the Company seeking to invalidate the resolution.

It cannot be ruled out that some Bondholders may attempt to challenge the resolutions adopted by the Bondholders' Meeting. If they succeed in challenging the resolution of the Bondholders' Meeting authorizing the Bondholders to request early redemption of the Bonds, the Bondholders may be deprived of this possibility. If certain resolutions of the Bondholders' Meeting concerning amendments to the Bonds Terms are successfully challenged, it may adversely affect the Company's ability to timely discharge its obligations under the Bonds, in particular its capacity to make payments under the Bonds.

After the Record Date for redemption of the Bonds, the Bonds can be excluded from trading

Pursuant to Article 8 Section 6 of the Bonds Act, after a settlement of bondholders entitled to receive payment for redemption of a dematerialised bond, the rights attached to such bond cannot be transferred. The Bonds Terms provide that the Bonds will be registered in the securities depository maintained by the NDS. This means that as long as the Bonds remain registered therein or are otherwise dematerialised, after the lapse of the Record Date for redemption of the Bonds the rights attached to the Bonds will no longer be transferable. In particular, it will not be possible to sell the Bonds should the Company fail to redeem them as scheduled. In these situations, a Bondholder may be unable to exit the investment in the Bonds even if it finds a person interested in purchasing the Bonds.

The Bonds' prices and liquidity may be subject to fluctuations

There can be no assurance that a liquid market for the Bonds on the ATS will be sustained. It is impossible to predict the degree of investor interest in the Bonds. Hence, it is impossible to rule out substantial fluctuations in the Bonds' prices, or that the investors will not be able to buy or sell the Bonds at the expected prices or on the expected dates. The prices of the Bonds may in addition be affected by numerous other factors, including general economic trends, changes in the overall situation on the financial markets, changes in law and other regulations in Poland and in the EU, changes in forecasts issued by securities analysts as well as actual or forecasted changes in our operations, our situation and our financial results. Fluctuations in the securities market in the future can also negatively impact the price of Bonds, irrespective of our operations, our financial situation or results and our development prospects.

Interest rate risk

We cannot rule out that interest rates, including the base rate for the Bonds, will change substantially in the future. The interest rate for the Bonds for a given interest period consists of the base rate (equal to the 6-month WIBOR rate for PLN deposits), plus the margin. A reduction in interest rates, including the base rate for the Bonds, in particular when connected with a deteriorating economic situation, may lead to a reduced yield from the Bonds. On the other hand, significant growth in interest rates, including the base rate for the Bonds, may increase the cost of servicing the debt under the Bonds or other sources of debt capital, and it may adversely affect our financial situation and our operating results, consequently having a bearing on the value of the Bonds and our ability to make the payments under the Bonds.

The Bonds Terms do not contain a tax gross up clause

Investment in the Bonds may entail the necessity of Bondholders paying taxes.

The Bonds Terms do not contain a tax gross up clause related to payments to the Bondholders. If any payment on account of Bonds entails the obligation to collect and pay any tax, charge or other public imposts, the Company shall not be obliged to pay to the Bondholders any amounts compensating the collected taxes, charges or other public imposts, or to make any other payments.

The obligation to pay any taxes connected with acquiring, holding (in terms of any payments under the Bonds), or selling the Bonds may result in a lower than expected rate of return on the investment in the Bonds.

We are subject to the restrictions specified in the Bonds Terms

The Bonds Terms impose certain obligations on us which restrict our ability to finance future operations or investments or to take advantage of other business opportunities which may be of our interest. The Bonds Terms impose on us an obligation to maintain specified financial ratios at required levels while also restricting, inter alia, the following:

- acquisition or taking up of shares in other companies;
- extending guarantees or granting sureties, accession to debt or release from liability;
- granting loans;
- disposing of assets;
- payment of dividends or advance dividends, payment of the price for own shares, or returns of additional payment to shareholders;
- incurring of financial indebtedness and
- entering into composition agreements.

The full list of restrictions applicable can be found in the Bonds Terms.

If there were an event of default under any of our debt instruments that was not cured or waived, the holders of the defaulted debt could terminate their commitments thereunder and cause all amounts outstanding with respect to such indebtedness to be due and payable immediately, which in turn could result in cross-defaults under our other debt instruments, including the Bonds. Any such actions could force us into bankruptcy or liquidation, which could mean that the Bondholders will not recover the amounts they have invested in Bonds, or they will recover amounts lower than invested.

Trading in the Bonds may be suspended

Pursuant to Art. 78 section 3 of the Trading in Financial Instruments Act of July 29, 2005, when trading in specified financial instruments takes place in circumstances which indicate a possibility of the proper functioning of the alternative trading system or the security of trading in that alternative trading system being jeopardised, or of harm to the interests of investors, the investment company which organises the alternative trading system, at the request of the Polish Financial Supervision Authority, shall be obliged to suspend trading in these instruments for a period of no longer than a month.

The WSE, being the relevant organiser of the alternative trading system, may, by virtue of § 11 of the ATS Rules, suspend trading in financial instruments for a period of no longer than three months:

- at the request of the Company;
- if they conclude that it is required by the interests and security of participants in trading.

Moreover, the WSE may suspend trading in debt instruments for an unspecified period of time before taking a decision to exclude these instruments from trading, and in the case described in point – *The WSE may impose penalties on the Company based on its regulations* – below.

We may not rule out that grounds for suspending trading in the Bonds may arise in the future. During the period of suspension of trading in the Bonds, investors would have no possibility to buy or sell such securities on the ATS, which would have a negative impact on liquidity. Sale of the Bonds outside the ATS may be effected at substantially lower prices as compared to the most recent prices obtained in transactions carried out on the ATS.

The Bonds may be excluded from trading

Pursuant to Art. 78 section 4 of the Trading in Financial Instruments Act of July 29, 2005, at the request of the Polish Financial Supervision Authority, the organiser of an alternative trading system shall exclude the financial instruments indicated by the Polish Financial Supervision Authority from trading if trading in these instruments materially jeopardises the proper functioning of the alternative trading system or the security of trading in this alternative trading system, or if it causes harm to the interests of investors.

In accordance with the ATS Rules, the WSE as the relevant organiser of the alternative trading system may exclude financial instruments from trading:

- at the request of the Company; however, in this case the Company may be required to fulfil additional conditions;
- if any of the organizers recognise that it is required in the interests and security of the participants in trading;
- as a result of declaration of the Company's bankruptcy, or in the case of a court repealing a motion for the declaration of bankruptcy due to a lack of funds in the Company's estate sufficient to satisfy the costs of the bankruptcy proceedings;

- as a result of initiation of the Company's liquidation.

The WSE may also exclude financial instruments from trading as a result of a decision being taken to merge the Company with another entity or to divide or transform the Company, however, the exclusion of financial instruments from trading may occur not earlier than on the date of the merger, division (spinning off) or transformation, respectively.

Moreover, the WSE may exclude financial instruments from trading in the case described in point – *The WSE may impose penalties on the Company based on its regulations* – below.

In addition, the WSE shall exclude financial instruments from trading:

- in situations defined by law;
- when the transferability of those instruments is restricted;
- in case of a reversal of the dematerialisation of these instruments;
- after the lapse of 6 months from either the date on which a declaration of the Company's bankruptcy, including liquidation of its assets, or the date on which a court's decision to dismiss the application to declare bankruptcy due to a lack of funds in the Company's estate sufficient to satisfy the costs of the bankruptcy proceedings, becomes final.

We are unable to predict whether any circumstances giving grounds for the exclusion of the Bonds from trading will occur in the future. Once the Bonds are excluded from trading, the investors lose the possibility of trading in the Bonds on the ATS, which may adversely affect their liquidity. The sale of the Bonds outside the ATS may be effected at substantially lower prices compared to the most recent prices obtained in transactions carried out on the ATS.

The WSE may impose penalties on the Company based on its regulations

Pursuant to § 17c section 1 of the ATS Rules, if the Company does not observe the rules or the regulations applicable on the ATS or does not fulfil or improperly fulfils the obligations defined in the ATS Rules, including in particular the Company's information duties, the WSE may issue a warning or impose a financial penalty in the amount of up to PLN 50,000. When deciding on the warning or the financial penalty, the WSE may set a deadline for the Company to cease the violations or to take actions to prevent such violations in the future. In particular, the WSE may oblige the Company to publish relevant documents or information in the manner and on the terms applicable on the ATS.

Moreover, pursuant to the ATS Rules, if the Company:

- does not comply with the imposed penalty; or
- in spite of the penalty, continues to violate the rules or the regulations applicable on the ATS, or
- does not fulfil or improperly fulfils the obligations specified in Chapter V of the ATS Rules, or
- does not fulfil the obligations related to cessation, by the deadline set by the WSE, the existing violations or fails to take actions aimed at preventing such violations in the future (including by publishing specific documents or information in the in the manner and on the terms applicable in on the ATS)

—then the WSE may:

- impose a financial penalty on the Company, however such a penalty, together with the penalty imposed by virtue of the regulations mentioned in the above paragraph, may not exceed PLN 50,000;
- suspend trading in the Company's debt instruments on the ATS;
- exclude the Company's debt instruments from trading on the ATS.

Moreover, the WSE may publish information on its website indicating the infringement by the Company of the principles or regulations applicable on the ATS, on non-performance or improper performances of its obligations by the Company, or on imposing a penalty on the Company.

If any of the above circumstances occur, it may have an adverse impact on the value of the Bonds.

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, 2016:

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	100,000.00
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.00
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.00
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.04
D	8,082,499	Ordinary bearer shares	8,082,499	323,299.96
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.00
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.00
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.44
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.60
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.60
Total	**639,546,016**		**818,963,517**	**25,581,840.64**
including:	179,417,501	registered	358,835,002	7.176.700,0
	216,196,025	floating	460,128,515	18,405,140,6

The current share capital of the Company is PLN 25,581,840.64, divided into 639,546,016 shares. At present, 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*.

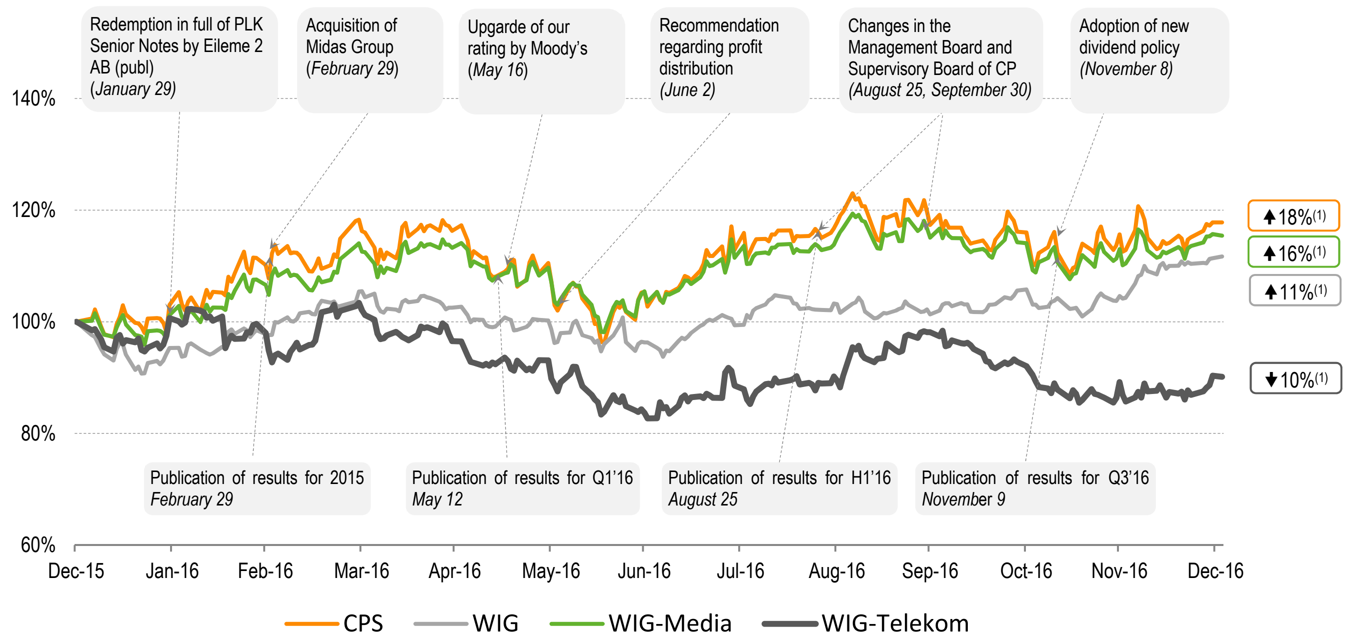
Basic data on the Cyfrowy Polsat shares in trading

Date of first quotation	May 6, 2008
Component of indices	WIG, WIG20, WIG30, WIG-telekomunikacja
Macrosector/sector	TECHNOLOGIE/telekomunikacja
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

Performance of Cyfrowy Polsat shares in 2016

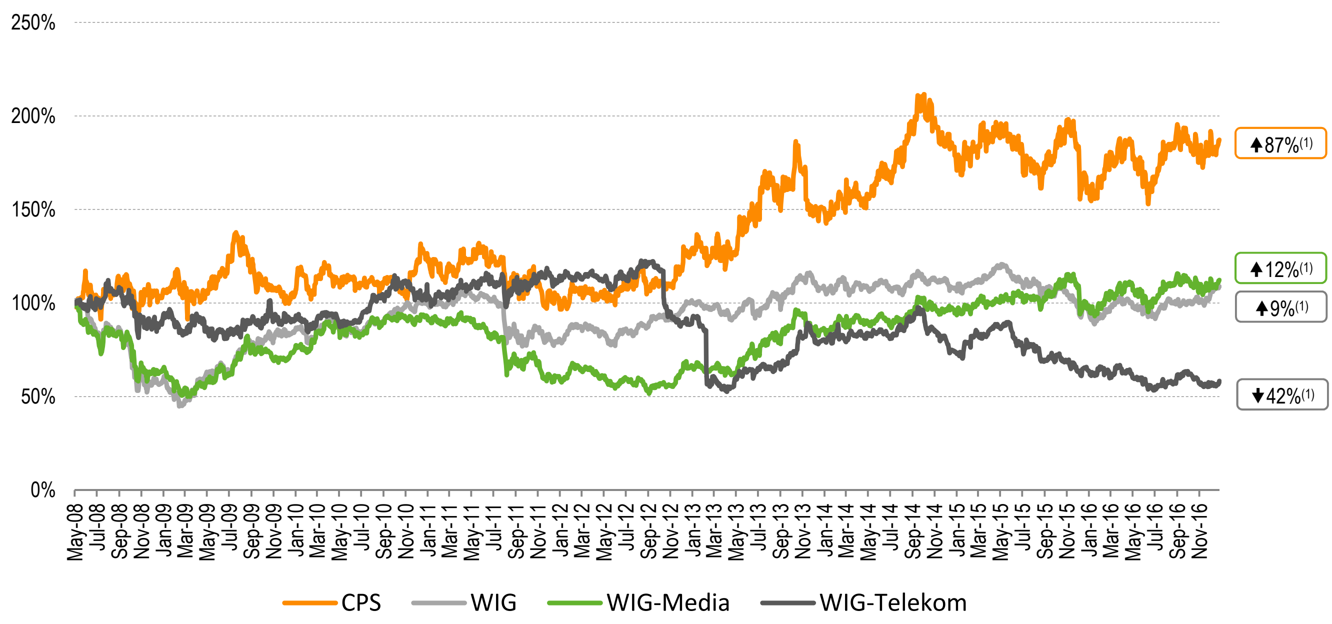
(indexed; 100 = closing price on December 30, 2016)



(1) change December 30, 2016 vs December 30, 2015

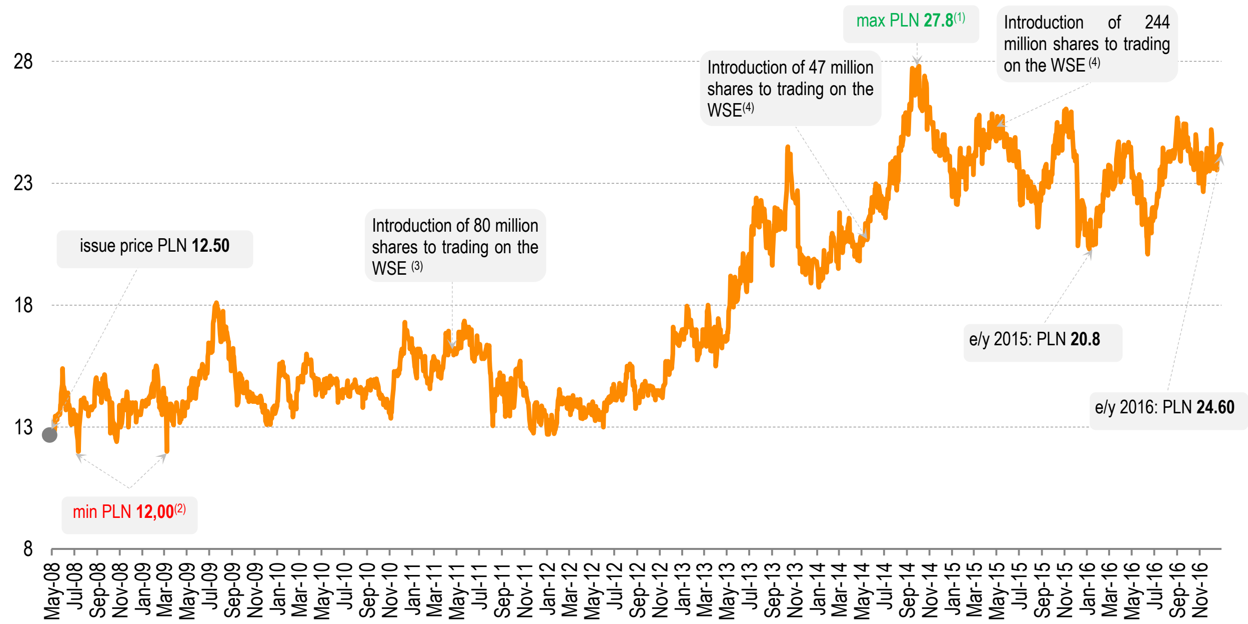
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2016 compared to WSE indexes

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



(1) change December 30, 2016 vs May 6, 2008

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



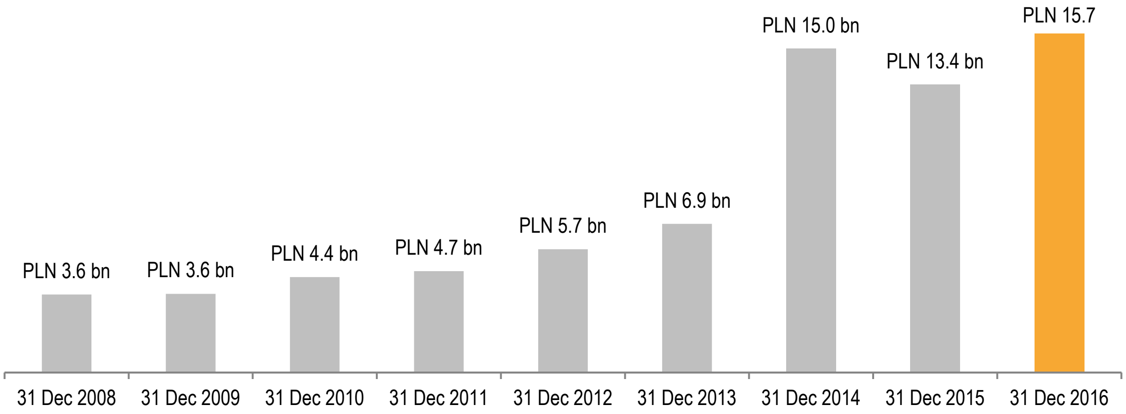
(1) Share price on October 6-7, 2014.
(2) Share price on July 15-16, 2008, March 12, 2009.
(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of PLN 0.04 each. These shares were registered on May 30, 2011 in the Central Securities Depository of Poland 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 2016

		2016	2015
Year-end price	PLN	24.60	20.88
High for the year	PLN	25.69	26.05
Low for the year	PLN	20.09	20.43
Average for the year	PLN	23.25	23.91
Average daily turnover	PLN '000	9,210	10,585
Average daily trading volume	shares	398,461	444,522
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	15,732,832	13,353,721

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 15.7 billion as of the end of 2016, media and telecommunications company quoted on the Warsaw Stock Exchange and one of the largest in Middle and Eastern Europe.



7.3. Recommendations

Brokers covering the Company:

Local

- Dom Maklerski BDM S.A.
- Dom Maklerski BOŚ S.A.
- Dom Maklerski BZ WBK 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

- Berenberg
- Citigroup Global Markets Inc.
- Deutsche Bank Securities S.A.
- ERSTE Group Research
- Goldman Sachs
- Haitong Bank S.A.
- Patria Finance a.s.
- Raiffeisen Centrobank AG
- UBS Investment Bank
- Wood&Company

Recommendations for the shares of Cyfrowy Polsat published in 2016

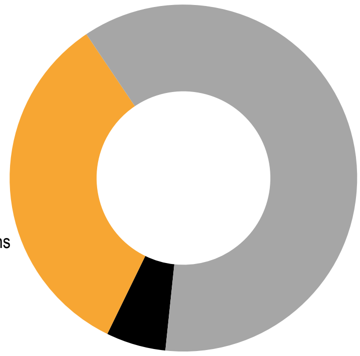
Date	Institution	Recommendation		Target price [PLN]
December 14	Goldman Sachs	-	Neutral	25.20
December 14	DM PKO BP S.A	↑	Buy	27.50
December	Trigon Dom Maklerski S.A.	↑	Buy	28.10
December 4	Dom Maklerski BOŚ S.A	-	Hold	25.10
December 2	Haitong Bank S.A.	↑	Buy	27.10
October 24	Trigon Dom Maklerski S.A.	↑	Buy	29.30
October 20	Raiffeisen CENTROBANK	-	Hold	27.00
October 5	ERSTE Group Research	-	Hold	26.00
October 4	Deutsche Bank Securities S.A.	-	Hold	26.00
September 23	DM PKO BP S.A	↑	Buy	29.00

Date	Institution	Recommendation		Target price [PLN]
September 15	Dom Maklerski BDM S.A.	-	Cumulate	26.36
September 13	DM mBanku S.A.	↓	Reduce	21.80
September 1	Goldman Sachs	-	Neutral	24.30
August 22	IPOPEMA Securities S.A.	↑	Buy	27.40
August 22	Haitong Bank S.A.	↑	Buy	27.00
August 10	Wood&Co	↑	Buy	27.80
July 21.	Dom Maklerski BOŚ S.A	-	Hold	24.40
July 13	Citigroup Global Markets Inc.	-	Neutral	24.80
June 17	Pekao Investment Banking S.A.	↑	Buy	24.00
June 8	DM PKO BP S.A	↑	Buy	26.10
May 11	Berenberg	-	Hold	25.70
May 10	Goldman Sachs	-	Hold	24.00
April.	Patria Finance a.s.	-	Hold	25.30
April 22	Dom Maklerski BZ WBK S.A.	↑	Buy	31.00
April 18	Dom Maklerski BOŚ S.A	-	Hold	25.10
April 8	Trigon Dom Maklerski S.A.	↑	Buy	28.60
March 31	ERSTE Group Research	-	Hold	26.00
March 29	Raiffeisen CENTROBANK	↑	Buy	27.70
March 21	ING Securities S.A.	↑	Buy	27.80
March 17	UBS Investment Bank	↑	Buy	28.00
February 24	Goldman Sachs	-	Neutral	23.40
February 11	Dom Maklerski BDM S.A.	↑	Cumulate	24.65
February 9	IPOPEMA Securities S.A.	↑	Buy	24.00
February 2	DM mBanku S.A.	-	Hold	22.10
January 20	Raiffeisen CENTROBANK	↑	Buy	26.50
January 13	Deutsche Bank Securities S.A.	↑	Buy	26.00

Recommendations released in 2017 after the reporting period

Date	Institution	Recommendation		Target price [PLN]
March 3	ERSTE	↑	Cumulate	26.00
February 17	BZ WBK	↑	Buy	28.50
January 30	Ipopema	-	Hold	25.00
January 27	DM mBanku	↓	Reduce	22.30

Recommendations structure as at March 14, 2017



Target price as at March 14, 2017 [PLN]

minimum	22.3
maximum	28.5
average	**26.1**

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 2016 we attended a total of approximately 300 meetings with representatives of the capital market during 17 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 Plus Biznesu daily. In 2016 we received an award in the category "Best IR Department in Listed Company" in Poland, with the award presented to us during the second edition of the CEE Capital Markets Awards.

7.5. Dividend policy

On November 8, 2016 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 our capital resources management policy. To assure attractive profitability levels for the capital employed by our shareholders, while 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 level 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 principles:

1. if the ratio of the Group's net debt to consolidated EBITDA, as calculated for the end of the quarter preceding the quarter of adoption of the dividend payout resolution and while accounting for the impact that the proposed dividend payout will have on net debt, is lower than 3.2x but higher than 2.5x, then the Management Board of Cyfrowy Polsat S.A. will recommend a dividend payout in the range between PLN 200 million and PLN 400 million;

2. if the ratio of the Group's net debt to consolidated EBITDA, as calculated for the end of the quarter preceding the quarter of adoption of the dividend payout resolution and while accounting for the impact that the proposed dividend payout will have on net debt, is equal or lower than 2.5x but higher than 1.75x, the Management Board of Cyfrowy Polsat S.A. will recommend a dividend payout in the range from 25% to 50% of the Group's consolidated net profit for the past financial year;

3. if the ratio of the Group's net debt to consolidated EBITDA, as calculated for the end of the quarter preceding the quarter of adoption of the dividend payout resolution and while accounting for the impact that the proposed dividend payout will have on net debt, is lower than 1.75x, the Management Board of Cyfrowy Polsat S.A. will recommend a dividend payout in the range from 50% to 100% of the Group's consolidated net profit for the past financial year.

Every time when presenting a proposal of distribution of the profit, along with the recommendation, the Company's Management Board 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. Moreover, given that a significant portion of the generated capital resources is obtained by the Group from dividends paid by its subsidiaries, the above mentioned policy and the Board's recommendation will, in each case, be dependent on the financial situation of the Company's subsidiaries and the Company itself.

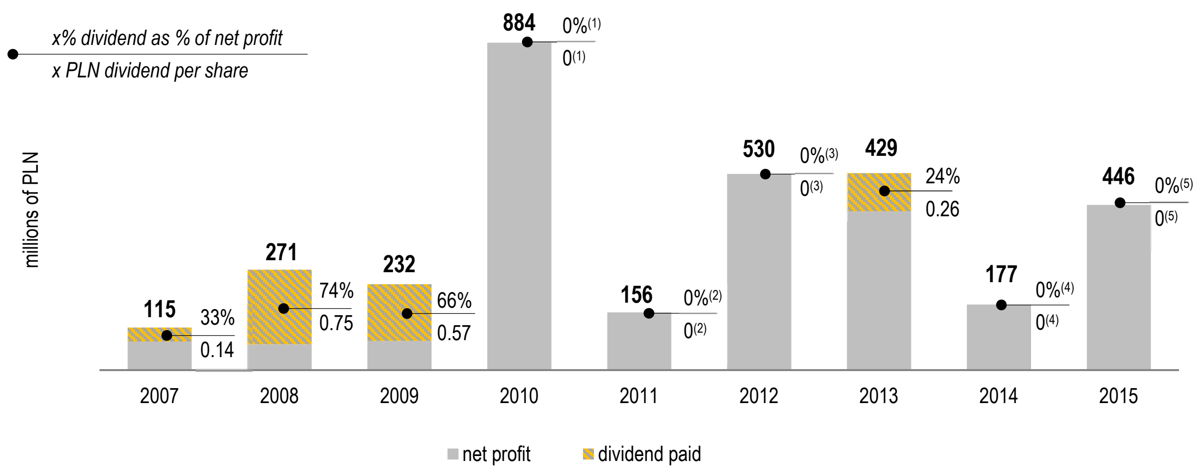
The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board provides for a modification of the dividend policy following the refinancing of Polsat Group's debt which is expected in 2020.

The new dividend policy will take effect from January 1, 2017, however the source for the dividend payout will be the Company's net profit for the financial year ended December 31, 2016."

Profit distribution

Acting in accordance with resolution no. 29 of the Ordinary General Meeting, held on June 29, 2016, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2015 in the amount of PLN 446,1 million was allocated to the reserve capital.

History of profit sharing



(1) Net profit allocated entirely to reserve capital according to the resolution of the General Meeting on 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 on June 11, 2013.
(4) Net profit distributed in total to reserve capital according to the resolution of the General Meeting on April 2, 2015.
(5) Net profit distributed in total to reserve capital according to the resolution of the General Meeting on June 29, 2016.

8. Corporate governance Statement

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

In 2016 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 II.R.2., 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., I.Z.1.16., I.Z.1.20., II.Z.1., II.Z.7., III.Z.1., 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 I.Z.1.10., 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. 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:

- **Recommendation I.R.2.,** stating that where a company pursues sponsorship, charity or other similar activities, it should publish information about the relevant policy in its annual activity report, is applied within a limited scope. The Company has not implemented a formal policy regarding sponsoring or charity activities. Nonetheless, the Company and its subsidiaries pursue activities of this nature, including support for sports, or cooperation with numerous foundations and public benefit organizations. The description of the pursued activities is included in this Report in item 2.8 – *Other aspects of our business – charity and sponsorship activities.*

- **Recommendation II.R.2.,** stating that decisions to elect members of the management board or the supervisory board of a company should ensure that the composition of these bodies is comprehensive and diverse among others in terms of gender, education, age and professional experience. The Company has not developed and does not pursue a diversity policy with regard to the Company's governing bodies and key managers. The members of the Supervisory Board and the Management Board as well as key managers are elected, respectively, by the General Shareholders Meeting, the Supervisory Board and the Management Board while taking into account the qualifications, the experience and the competence of the candidates. Factors such as gender are not taken into account while electing members of the Company's governing goodies and key managers. The Company's authorities are of the opinion that such an approach guarantees the election of the most appropriate persons for managerial and supervisory functions.

- **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. The Company has elected not to comply with this principle, among others due to the on-going process of operational integration inside Polsat Group. 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. 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 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 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.1., III.Z.2., III.Z.4. and III.Z.5.** within the scope related to the internal control and internal audit system existing in the Company's organizational structure.

  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, reporting directly to the Company's Management Board, managing 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. As a consequence, the Company also does not apply **the principles marked as I.Z.1.16. and I.Z.1.20.,** which recommend publishing on the Company's website of information regarding the planned transmission and the recordings of general meetings in either audio or video form. 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 and providing access to recordings of such 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 By-laws, 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 February 19, 2009 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 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.

An 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. The audit committee includes two members of the Supervisory Board, who meet the independence criteria set out in the Best Practices 2016 in section II.Z.4. and the requirements of the Act of May 7, 2009 on chartered auditors and their governing bodies, entities entitled to audit financial statements and on public supervision, in article 86 item 4.

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 October 18, 2016, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 Al. Armii Ludowej, for the performance of an audit of standalone Financial Statements for the financial year ended December 31, 2016 of Cyfrowy Polsat S.A.

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, 2016 and December 31, 2015.

[mPLN]	For the year ended	
	December 31, 2016	December 31, 2015
Remuneration for audit of the Financial Statements for the year and other certifying services, including the review of financial statements	0.6	0.4
Other services	0.1	0.4
Total	**0.7**	**0.8**

8.4. Share capital and shareholding structure of Cyfrowy Polsat

8.4.1. Shareholders holding, directly or indirectly, material bundles of shares

The following table presents shareholders of Cyfrowy Polsat S.A. possessing material bundles of shares at as the date of approval of this Report. Information included in the table is based on the information received from shareholders pursuant to Art. 69 of the Act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

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

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

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

Since the publication of the previous interim report, i.e. since November 9, 2016 (interim report for the third quarter of 2016) until the date of approval of this Report, i.e. March 15, 2017, no changes in the structure of ownership of significant packages of the Company's shares took place.

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 15, 2017, 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.

8.4.2. 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 15, 2017 as well as at the date of publication of the interim report, i.e. November 9, 2016 (interim report for the third quarter of 2016).

As at the date of approval of this Report, i.e. March 15, 2017, the Member of the Supervisory Board, Mr. Aleksander Myszka 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 15, 2017.

8.4.3. 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, 2016 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.

The holders of shares with special controlling rights are:

- Reddev Investments Ltd. (152,504,876 shares giving 305,009,752 voting rights on General Meeting),
- Sensor Overseas Ltd. (26,741,375 shares giving 53,482,750 voting rights on General Meeting) and
- TRIGON XVIII Fundusz Inwestycyjny Zamknięty (171,250 shares giving 342,500 voting rights on General Meeting).

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.

8.4.4. Limitations related to shares

There are no limitations to the exercise of voting rights.

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, taking into account the provisions of article 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, 2016 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 our 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 2016

At the date of approval of this Report, i.e. March 15, 2017, our Management Board had seven members. The table below presents personal changes in the composition of the Management Board which took place in 2016.

Date	Change
March 1, 2016	Agnieszka Odorowicz joined the Management Board, appointed by a resolution adopted by the Supervisory Board on December 8, 2015. She took up the position of Member of the Management Board.
September 30, 2016	Tomasz Szeląg resigned from the function of Management Board Member.
October 1, 2016	Katarzyna Ostap-Tomann joined the Management Board, appointed by a resolution adopted by the Supervisory Board on August 25, 2016. She took up the position of Member 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, 2016.

Name and surname	Function	Year of first appointment	Year of appointment for the current term	Year of expiry of term
Tobias Solorz	President of the Management Board	2014	2016	2019
Dariusz Działkowski	Member of the Management Board	2007	2016	2019
Tomasz Gillner-Gorywoda	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

Tobias Solorz has many years of professional experience in the telecommunications, financial and controlling sectors. 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 then continued as Marketing, Advertisement, Sales and Operations Director until March 2011.

He 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 the President of the Management Board of Plus TM Management Sp. z o.o., as well as Member of Supervisory Boards of Liberty Poland S.A. and Polkomtel Business Development Sp. z o.o.

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

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 Member of Management Boards of INFO-TV-FM Sp. z o.o. and Polski Operator Telewizyjny 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 and additionally holds an MBA degree from the University of Maryland.

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 and Proxy at Polkomtel 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. since 2008. 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.

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 Cyfrowy Polsat Trade Marks Sp. z o.o., INFO-TV-FM Sp. z o.o., Liberty Poland S.A. and Polkomtel Sp. z o.o.

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 a legal internship with the District Chamber of Legal Advisers in Warsaw, receiving the title of a solicitor. She also graduated from the 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 programmes 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 2005-2015 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.

From the beginning his professional career Mr. Stec was connected with television market. From 1998 he worked among others for OMD Poland media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. Since February 2003 he has been 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.

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 President of the Management Board of Telewizja Polsat Holdings Sp. z o.o., as well as Member of the Management Board of Telewizja Polsat Sp. z o.o. and Polsat License Ltd., with its registered seat in Switzerland.

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 2015 she was appointed to the ACCA Council in Poland for a second term.

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. 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 a person they authorized, 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 for the financial year ended December 31, 2016 is included in Note 42 of the Financial Statements for the financial year ended December 31, 2016.

8.7.5. Management 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

8.8.1. Composition of the Supervisory Board

As at January 1, 2016 the Supervisory Board comprised the following members:

- Zygmunt Solorz – 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 Reksa – Independent Member of the Supervisory Board,
- Heronim Ruta - Member of the Supervisory Board.

On September 30, 2016 Mr. Zygmunt Solorz resigned from the membership of the Company's Supervisory Board with immediate effect. Pursuant to the resolutions adopted on September 30, 2016, the Extraordinary General Meeting of the Company appointed Mr. Tomasz Szeląg and Mr. Marek Kapuściński to the Supervisory Board as of October 1, 2016.

On October 25, 2016, the Supervisory Board acting pursuant to article 20 item 3 of the Company's Articles of Association, elected Mr. Marek Kapuściński as Chairman of the Supervisory Board. Moreover, acting in accordance with § 7 section 1 of the Bylaws of the Supervisory Board of the Company, the Supervisory Board completed the composition of the Remuneration Committee by appointing Mr. Tomasz Szeląg as Member of the Remuneration Committee. Additionally, acting in accordance with § 7 section 1 of the Bylaws of the Supervisory Board of the Company, the Supervisory Board enlarged the Audit Committee by appointing Mr. Tomasz Szeląg as Member of the Audit Committee.

As at December 31, 2016 the Supervisory Board comprised 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 Independent[(1)] member of the Supervisory Board	2016	2016	2018
Józef Birka	Member of the Supervisory Board	2015	2015	2018
Robert Gwiazdowski	Independent[(1)] member of the Supervisory Board Chairman of the Audit Committee	2008	2015	2018
Aleksander Myszka	Member of the Supervisory Board	2015	2015	2018
Leszek Reksa	Independent[(1)] member of the Supervisory Board Member of the Audit Committee	2008	2015	2018
Heronim Ruta	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2001	2015	2018
Tomasz Szeląg	Member of the Supervisory Board Member of the Audit Committee Member of the Remuneration Committee	2016	2016	2018

(1) conforms with the independence criteria listed in a set of principles of the corporate governance of the Best Practices 2016 in principle II.Z.4.

Marek Kapuściński joined the Company's Supervisory Board on 1 October 2016, and has performed the function of Chairman since October 25, 2016. He 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 Wroclaw 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 Board Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o. and Elektrim S.A. Between 2004 and 2006 he was also in 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. He 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 Wroclaw University. 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. 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 9, 2011 - a member of the Supervisory Board of Polkomtel. He is also a 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 for a 3-year term of office to the Council of the Polish Film Institute. Since 2016 he has been a Member of the Management Board of Association of Private Media Employers, incorporated into Polish Confederation of Private Employers "Lewiatan."

Leszek Reksa was appointed a Member of the Company's Supervisory Board in July 2008. He 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 a Member of the Management Board of AGRAIMPEX Sp. z o.o. and a Member of Supervisory Boards of PLUS BANK S.A. and EBU Węgrzynowo.

Heronim Ruta graduated from the Electric Faculty of the Warsaw University of Technology. He has nearly 40-year business experience in such sectors as: media, telecommunication, trade or services. Since the very beginning he has been involved in building the strategy and consistent development of the main companies from the Polsat Group. From 1978 to 1979, he worked in the National Railway Technology Centre. In the years 1980-1987, he was a head of Wytwórczo-Usługowa Spółdzielni Pracy (a production and service cooperative) in Radom. In 1987, he founded Herom Sp. z o., where he was a President until 1992. In the years 1992-1994, he was a President of Ster Sp. z o.o., from 2002 to 2005 – a Member of the Management Board of Polaris Finance B.V., and from 2002 to 2004 – a Member of the Supervisory Board of a Lithuanian TV station - Baltijos Televizija, UAB. He has an extensive experience working in statutory bodies of commercial companies. He is currently a Member of Supervisory Boards of, among others, Cyfrowy Polsat S.A., Telewizja Polsat Sp. z o.o., Plus Bank S.A., PAI Media S.A. and Polkomtel Sp. z o.o.

Tomasz Szeląg has been a Member of the Company's Supervisory Board since October 2016, where he is a Member of the Audit Committee and Remuneration 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, ZE PAK and Plus Bank S.A.

In 2000-2003 Mr. Szeląg was an assistant at Foreign Trade Faculty of the Economic Academy of Wrocław. In May 2003 Mr. Szeląg 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. Szeląg also developed his professional career gaining experience in managerial positions in the area of finance and investment. From 2003, Mr. Szeląg was Chief Specialist in the Currency Risk Department of KGHM Polska Miedź 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 Société Générale Bank in Wrocław. In July 2008, Mr. Szeląg took the position of Vice-president for Finance in Telefonia Dialog S.A., which he held until March 2009. Mr. Szeląg 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 1009 until September 2016 Mr. Tomasz Szeląg was a 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. Szeląg was a Member of 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) 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).

8.8.2. Competences and by-laws 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 before 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 before 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.

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 three members meeting the criteria of an independent member of the Supervisory Board as set out in the corporate governance principles included in the Best Practices 2016 in the principle II.Z.4.

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 1/10 (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 concise evaluation of the situation of the Company, considering the evaluation of the internal control system and the management system of risks that are important for the Company,

b) once a year prepare and present before the Annual General Meeting an evaluation of its their own performance,

c) 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 the Audit Committee, or the Remuneration Committee, or 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.

The Audit Committee, as at December 31, 2016 comprised the following members of the Supervisory Board:

- Heronim Ruta,
- Robert Gwiazdowski, an independent member of the Supervisory Board,
- Leszek Reksa, an independent member of the Supervisory Board,
- Tomasz Szeląg (since October 25, 2016).

On January 8, 2016, Mr. Robert Gwiazdowski was appointed to the position of Chairman of the Audit Committee, which constitutes the fulfillment of principle II.Z.8 of the Best Practices of WSE listed Companies 2016, according to which the Chairman of the Audit Committee meets the independence criteria referred to in Annex II to the European Commission Recommendation 2005/162/WE of February 15, 2005.

The composition of the Audit Committee meets the requirements of Article 86, Paragraph 4 of the Act of 7 May 2009 on auditors and their self-government, entities authorized to audit the financial statements and the public supervision, according to which, the Audit Committee should include at least three members, including at least one member of the Audit Committee who must satisfy the condition of independence and be qualified in the field of accounting or auditing.

In 2016, the Remuneration Committee was composed of:

- Zygmunt Solorz (from January 1, 2016 to September 30, 2016)
- Heronim Ruta,
- Tomasz Szeląg (since October 25, 2016).

The provisions of the Bylaws apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, 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.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of members of the Supervisory Board for the financial year ended December 31, 2016 is included in Note 43 of the Financial Statements for the financial year ended December 31, 2016.

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 15, 2017

GLOSSARY

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

Glossary of general terms

Term	Definition
Aero2	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Litenite.
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
ATS Rules	Alternative Trading System Rules governing the alternative trading system organized by the WSE, adopted by resolution no. 147/2007 of the management board of the WSE on March 1, 2007, as amended.
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.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks, CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Embud	Embud spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000165473.
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
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).

Term	Definition
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel.
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.
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 Play mobile network.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes	Unsubordinated senior notes with a total nominal amount of EUR 542.5 million and USD 500.0 million, maturing in 2020, issued by Eileme 2.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
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.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
TiVi Foundation	TiVi Foundation, a family foundation of Kirchstrasse 12, 9490 Vaduz, Liechtenstein.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
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.
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{\mathrm{W_{rk}}}{\mathrm{W_{rp}}}\right)^{\left(\frac{1}{\mathrm{rk-rp}}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue).
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer, contract customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
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).
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.
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).

Term	Definition
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 4x4 antennas).
Mbps	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology.
Multiroom	Our service providing access to the same range of TV channels on two television sets in one household for a single subscription fee.
MVNO	Mobile Virtual Network Operator.
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).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
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.
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.
VOD - Home Movie Rental	Our video on demand services.
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

Tobias Solorz, President of the Management Board,
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, 15 March 2017

Independent auditor's report in accordance with the International Standards on Auditing

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

Our opinion

In our opinion, the financial statements of Cyfrowy Polsat S.A. (hereinafter called "the Company"), present fairly, in all material respects, the financial position of the Company as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union ("IFRS").

What we have audited

The audited financial statements of Cyfrowy Polsat S.A. comprise:

- the balance sheet as of December 31, 2016;

and prepared for the year from January 1, 2016 to December 31, 2016:

- the income statements and the statement of comprehensive income;
- the statement of changes in equity;
- the cash flows statement, and
- notes to the financial statements.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISA") issued by the International Auditing and Assurance Standards Board ("IAASB"). 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We have fulfilled also the objectivity and independence requirements within the meaning of the Act dated 7 May 2009 on registered auditors and their self-government, registered audit companies and on public supervision (Journal of Laws of 2016, item 1000 as amended).

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Our audit approach

Overview

Materiality	• The overall materiality for the engagement was amounting to PLN 13,500 thousand, e.g. 2.5% of EBITDA.
Key audit matters	• Recognizing sales revenue; • Impairment of non-current assets; • Claims, disputes and contingent liabilities.

Scope of our audit

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered areas where the Company's management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. We also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the geographic and management structure of the Company, the accounting processes and controls, and the industry in which the Company operates.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Company materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, if any, both individually and in aggregate on the financial statements as a whole.

Overall Company materiality	PLN 13,500 thousand (PLN 14,700 thousand for 2015 audit)
How we determined it	2.5% of EBITDA. EBITDA is an alternative performance measure and was defined by the Company in note 13 of the financial statement. The Management Board is responsible for defining and setting the related measure - EBITDA calculation method may vary from other entities' calculation of such measure.

Rationale for the materiality benchmark applied	We adopted the EBITDA as a basis for determining the overall materiality, as we believe that this ratio is commonly used to assess the activity of the Company for users of financial statements and generally accepted indicator of reference, especially for the entities with a significant external borrowing as well as depreciation. The overall materiality was assumed at 2.5%, as it is in line with quantitative thresholds provided by standards as acceptable.

We agreed with the Audit Committee of the Company we would report to them misstatements of the financial statements identified during our audit above PLN 675 thousand as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were the most significant during our audit of the financial statements of the current period. 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 do not provide a separate opinion on these matters.

Key audit matters	How our audit referred to the matter
Recognizing sales revenue The Company disclosed information related to revenues on sales of services, finished goods, goods for resale and materials in Note 8 to the financial statements. In the financial year ended December 31, 2016, the Company earned revenue: • from retail sales to individual and business customers (mainly in respect of subscription fees on programme packages of paid digital TV, subscription fees for telecommunication services provided to contract customers as well as revenue from rental of reception equipment); • from wholesale (mainly in respect to advertising and sponsoring as well as signal transmission and broadcasting services); • from sales of equipment. This was the matter we focused on, due to the fact that applying appropriate financial reporting standards relating to recognizing and presenting revenue is a complex matter and requires Management Board estimates and	Our audit procedures covered in particular: • understanding and assessing the internal control environment relating to the recognition, measurement and presentation of particular types of sales revenues; • assessing compliance of the accounting policies relating to recognizing revenues with the respective financial reporting standards, in particular those related to material accounting estimates and judgments; • analyzing selected IT systems, including billing systems, used in the process of recognizing revenues by the Company; • assessing the Company's Management Board's assumptions and estimates related to recognizing revenues, mainly in respect of multi-component contracts and discounts granted; • analyzing material contracts concluded by Company; • testing internal controls in terms of the recognition and verification of billing revenue, to confirm the existence and correctness of measurement of revenues using IT systems; • substantive testing consisting, among other, of reconciling sales invoices issued, respective contracts

accounting judgements, and is based on the use of computer data processing (in particular billing data).

with customers, billing tariffs applied (quotations) and payments received.

As a result of the audit procedures performed, we have not detected material misstatements which would require adjusting in the financial statements.

Impairment of non-current assets

In Note 16 to the financial statements the Company presented disclosures relating to the impairment tests performed, including the results of the tests, their sensitivity analysis and a description of the assumptions made.

The balance of goodwill recognized as at December 31, 2016 in the Company financial statements amounted to PLN 197.0 million, and investment in subsidiaries amounted to PLN 11,469.3 million. In accordance with IFRS, the Management Board of the Company performs impairment tests at least as at the end of each financial year.

The impairment testing is related to the need to adopt several assumptions and making judgements by the Management Board of the Company, which – among other things – relate to the adopted Company strategy, financial plans and cash flow forecasts for the consecutive years, including after the period covered by detailed forecasts, and macroeconomic and market assumptions. Taking into consideration the materiality of the particular financial statement item and the sensitivity of the results of the said test with reference to the adopted assumptions, this matter was subject to our analyses.

Our audit procedures covered in particular:

- understanding and assessing the identification process of asset impairment and correctness of their grouping, which includes goodwill, into cash generating units, in compliance with appropriate financial reporting standards;
- checking the arithmetical correctness and methodological consistency of valuation models (using internal PwC valuation professionals) prepared by the Management Board of the Company based on discounted cash flows;
- a critical assessment of the assumptions and estimates adopted by the Management Board of the Company used to determine the recoverable value of fixed assets, including, among other things:
  - a five-year projection period in respect of future cash flows and the respective assumed revenue level, operating margin and future capital expenditures;
  - the discount rate used (based on weighted average cost of capital);
  - marginal rate of growth after the forecast period;
- assessment of the assumptions adopted in the sensitivity analysis performed by the Management Board on the valuation results;
- assessment of the correctness and completeness of disclosures in respect of impairment tests in the financial statements.

Based on the procedures performed we concluded that the assumptions adopted by the Management Board are rational and supported by the documentation obtained, and that the disclosures included in the financial statements meet the requirements of the standards.

Claims, disputes and contingent liabilities

The Company presented the disclosures related to disputes in Note 40 to the financial statements.

In its business operations the Company is party to court and administrative proceedings, including proceedings before regulatory and tax authorities. Provisions for probable claims are set up based on Management Board estimates as to their probable outcomes, which base on the available information on the legal status of the proceedings.

Our audit procedures focused on this area due to the fact that the assessment as to whether there is a need to set up a provision and in what amount as well as the scope of disclosures of contingent liabilities relating to particular matters is related to the intrinsic risk of uncertainty and the need for the Management Board to adopt professional judgements and assumptions.

Our audit procedures covered in particular:

- understanding and assessing the internal control environment relating to the identification, recognition and measurement of provisions for disputes, potential claims and litigation, and contingent liabilities;
- analysis of responses obtained from the Company's legal advisors who conduct the court cases, tax and administrative proceedings, in which their status and possible expected manner of proceeding were described;
- discussions with the Company's legal advisors of selected (material) disputes, and existing and potential disputes and claims;
- assessment of the Company's Management Board's assumptions and estimates related to the recognized provisions for disputes and disclosures of contingent liabilities in the financial statements;
- analysis of minutes of meetings of the decision making bodies (i.e. the Management Boards, Supervisory Boards and General Shareholders' Meetings) of material companies within the Company.

In the light of the evidence obtained, we concluded that the judgements and estimates made by the Management Board in respect of the disputes and related provisions are justified.

Opinion on other information, including the report on the Company's operations

Management is responsible for the other information. The other information comprises the Report on Cyfrowy Polsat S.A. Company's operations for the financial year ended December 31, 2016 ("the Report on the Company's operations").

Our opinion on the financial statements does not cover the Report on the Company's operations and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Report on the Company's operations and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in 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. We have nothing to report in this regard.

Responsibilities of management and supervisory board for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the IFRS, other applicable laws and the statute and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities 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, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. 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 the 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 management.
- Conclude on the appropriateness of 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 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 auditor's report. However, future events or conditions may cause the Company's to cease to continue as a going concern.

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- 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 ssupervisory board 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 also provide the ssupervisory board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with 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 with the ssupervisory board, 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.

Auditor conducting the audit on behalf of PricewaterhouseCoopers Sp. z o.o. Registered Audit Company No. 144:

Tomasz Kociołek
Registered Auditor
No. 11920

Adam Krasoń
Partner
PricewaterhouseCoopers Sp. z o.o.

Warsaw, March 15, 2017

CYFROWY POLSAT S.A.

Financial Statements
for the year ended 31 December 2016

Prepared in accordance
with International Financial Reporting Standards
as adopted by the European Union

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APPROVAL OF THE FINANCIAL STATEMENTS

On 15 March 2017, 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 2016 to 31 December 2016 showing a net profit for the period of: PLN 578.0

Statement of Comprehensive Income for the period
from 1 January 2016 to 31 December 2016 showing a total comprehensive income for the period of: PLN 585.9

Balance Sheet as at
31 December 2016 showing total assets and total equity and liabilities of: PLN 13,283.8

Cash Flow Statement for the period
from 1 January 2016 to 31 December 2016 showing a net increase in cash and cash equivalents amounting to: PLN 142.4

Statement of Changes in Equity for the period
from 1 January 2016 to 31 December 2016 showing an increase in equity of: PLN 568.0

Supplementary Information to the Financial Statements

The financial statements have been prepared in PLN million unless otherwise indicated.

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	Agnieszka Szatan Chief Accountant

Warsaw, 15 March 2017

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

Income Statement

		for the year ended	
	Note	**31 December 2016**	**31 December 2015**
Revenue	8	2,213.2	2,099.6
Operating costs	9	(1,904.1)	(1,750.4)
Other operating income, net		8.3	7.6
Profit from operating activities		**317.4**	**356.8**
Gain on investment activities, net	10	412.0	276.9
Finance costs	11	(102.4)	(141.1)
Gross profit for the period		**627.0**	**492.6**
Income tax	12	(49.0)	(46.5)
Net profit for the period		**578.0**	**446.1**
Basic and diluted earnings per share (in PLN)	14	**0.90**	**0.70**

Statement of Comprehensive Income

		for the year ended	
	Note	**31 December 2016**	**31 December 2015**
Net profit for the period		**578.0**	**446.1**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	27	9.8	6.6
Income tax relating to hedge valuation	27	(1.9)	(1.1)
Items that may be reclassified subsequently to profit or loss		**7.9**	**5.5**
Other comprehensive income, net of tax		**7.9**	**5.5**
Total comprehensive income for the period		**585.9**	**451.6**

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

Balance Sheet - Assets

	Note	31 December 2016	31 December 2015
Reception equipment	15	372.2	374.6
Other property, plant and equipment	15	131.4	143.3
Goodwill	16	197.0	197.0
Other intangible assets	17	73.7	81.4
Investment property	18	31.2	12.9
Shares in subsidiaries	19	11,469.3	11,424.8
Non-current deferred distribution fees	20	28.3	32.1
Other non-current assets	21	38.0	43.0
includes derivative instruments		*0.9*	-
Total non-current assets		**12,341.1**	**12,309.1**
Inventories	22	84.9	76.0
Trade and other receivables	23	279.3	323.4
Current deferred distribution fees	20	76.2	86.9
Other current assets	24	223.5	161.2
includes derivative instruments		*0.6*	-
Cash and cash equivalents	25	278.8	136.4
Total current assets		**942.7**	**783.9**
Total assets		**13,283.8**	**13,093.0**

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

Balance Sheet - Equity and Liabilities

	Note	31 December 2016	31 December 2015
Share capital	26	25.6	25.6
Share premium	26	7,174.0	7,174.0
Hedge valuation reserve	27	1.2	(6.7)
Retained earnings		3,311.4	2,751.3
Total equity		**10,512.2**	**9,944.2**
Loans and borrowings	28	782.0	982.0
Issued bonds	29	975.5	975.3
Deferred tax liabilities	12	91.0	97.3
Deferred income	34	4.2	4.7
Other non-current liabilities and provisions	31	10.0	10.6
Total non-current liabilities		**1,862.7**	**2,069.9**
Loans and borrowings	28	239.1	504.7
Issued bonds	29	42.4	42.4
Trade and other payables	32	385.2	299.8
includes derivative instruments		*-*	*8.3*
Income tax liability		8.0	6.2
Deposits for equipment	33	1.9	1.6
Deferred income	34	232.3	224.2
Total current liabilities		**908.9**	**1,078.9**
Total liabilities		**2,771.6**	**3,148.8**
Total equity and liabilities		**13,283.8**	**13,093.0**

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

Cash Flow Statement

	Note	for the year ended 31 December 2016	31 December 2015
Net profit		**578.0**	**446.1**
Adjustments for:		**(174.1)**	**(146.6)**
Depreciation, amortization, impairment and liquidation	9	224.8	230.2
Interest expense		91.9	127.6
Change in inventories		(8.9)	47.9
Change in receivables and other assets		(48.2)	(171.8)
Change in liabilities, provisions and deferred income		96.2	(18.1)
Valuation of hedging instruments	27	9.8	6.6
Foreign exchange losses, net		1.5	-
Income tax	12	49.0	46.5
Net increase in reception equipment provided under operating lease		(173.1)	(138.4)
Dividends income and share in the profits of partnerships	10	(416.1)	(277.7)
Other adjustments		(1.0)	0.6
Cash from operating activities		**403.9**	**299.5**
Income tax paid		(55.2)	(15.4)
Interest received from operating activities		0.9	1.4
Net cash from operating activities		**349.6**	**285.5**
Received dividends, advance payments on dividend and share in the profits of partnerships	10, 32	474.1	272.8
Merger with related entities	38	17.5	47.2
Proceeds from sale of property, plant and equipment		3.9	1.2
Loans granted		(13.3)	(7.8)
Loans repaid		7.5	-
Acquisition of property, plant and equipment		(37.8)	(18.0)
Acquisition of intangible assets		(15.7)	(23.8)
Acquisition of shares	19	(85.0)	(34.9)
Other		0.2	-
Net cash from investing activities		**351.4**	**236.7**
Loans and borrowings inflows	28	-	1,320.0
Bonds issued	29	-	1,000.0
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(89.1)	(84.1)
Net cash from the Cash Management System Agreement with interest paid	28	(299.0)	(84.7)
Other		-	(0.3)
Repayment of loans and borrowings	28	(170.5)	(2,550.0)
Net cash used in financing activities		**(558.6)**	**(399.1)**
Net increase in cash and cash equivalents		**142.4**	**123.1**
Cash and cash equivalents at the beginning of the year		**136.4**	**13.3**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the end of the year		**278.8**	**136.4**

* includes impact of hedging instruments and amount paid for costs related to new financing

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

Statement of Changes in Equity
for the year ended 31 December 2016

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2016		**639,546,016**	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**
Merger with Netshare Sp. z o.o.	38	-	-	-	-	(17.9)	**(17.9)**
Total comprehensive income		-	-	-	7.9	578.0	**585.9**
Hedge valuation reserve	*27*	-	-	-	*7.9*	-	***7.9***
Net profit for the period		-	-	-	-	*578.0*	***578.0***
Balance as at 31 December 2016		**639,546,016**	**25.6**	**7,174.0**	**1.2**	**3,311.4**	**10,512.2**

Statement of Changes in Equity
for the year ended 31 December 2015

	Note	Number of shares	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2015		**639,546,016**	**25.6**	**7,237.4**	**(12.2)**	**2,195.5**	**9,446.3**
Restatement resulting from purchase price allocation of Metelem**		-	-	(63.4)	-	-	**(63.4)**
Balance as at 1 January 2015 restated **		**639,546,016**	**25.6**	**7,174.0**	**(12.2)**	**2,195.5**	**9,382.9**
Merger with Redefine Sp. z o.o.		-	-	-	-	109.7	**109.7**
Total comprehensive income		-	-	-	5.5	446.1	**451.6**
Hedge valuation reserve	*27*	-	-	-	*5.5*	-	***5.5***
Net profit for the period		-	-	-	-	*446.1*	***446.1***
Balance as at 31 December 2015		**639,546,016**	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**

* 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

** restatement resulting from final purchase price allocation of Metelem (see note 5e in financial statements for the year ended 31 December 2015)

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

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'). The Group encompasses the Company, Metelem Holding Company Limited ('Metelem') and its subsidiaries and joint ventures, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Interphone Service Sp. z o.o., Teleaudio Dwa Sp. z o.o.Sp.k. and Orsen Holding Limited and its subsidiaries.

On 30 November 2016 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 Netshare Sp. z o.o. ('Netshare') seated in Warsaw. The impact of the merger is presented in detail in note 38.

The Company as the Parent Company prepared the consolidated financial statements (approved on 15 March 2017). These financial statements should be read in conjunction with the consolidated financial statements.

2. Composition of the Management Board of the Company

- 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 (from 1 March 2016),
- Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016),
- Maciej Stec	Member of the Management Board,
- Tomasz Szeląg	Member of the Management Board (to 30 September 2016).

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

3. Composition of the Supervisory Board of the Company

- Zygmunt Solorz	President of the Supervisory Board (to 30 September 2016),
- Marek Kapuściński	President of the Supervisory Board (from 25 October 2016),
	Member of the Supervisory Board (from 1 October 2016 to 24 October 2016),
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board,
- Tomasz Szeląg	Member of the Supervisory Board (from 1 October 2016).

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 2016 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 2016 and the financial statements for 2015, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2016.

During the year ended 31 December 2016 the following became effective:

(i) amendments to IAS 10, IAS 12 and IAS 28 *Investment entities: Applying the Consolidation Exception*
(ii) amendments to IAS 11 *Accounting for acquisitions of interests in joint operations*
(iii) amendments to IAS 1 *Disclosure Initiative*
(iv) amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*
(v) amendments to IAS 27 *Equity Method in Separate Financial Statements*
(vi) amendments to IAS 19 *Employee Benefits*
(vii) annual improvements – 2010-2012 reporting cycle
(viii) annual improvements – 2012-2014 reporting cycle

The amendments did not have a significant impact on these financial statements except for introducing certain new disclosures.

Standards published but not yet effective:

(i) amendments to IAS 10 and IAS 28 *Sale or contribution of assets between an investor and its associate or joint venture*
(ii) amendments to IAS 7 *Disclosure Initiative*
(iii) amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
(iv) amendments to IFRS 2 *Share-based Payment*

(v) amendments to IFRS 4: Application of IFRS 9 *Financial Instruments* and IFRS 4 *Insurance Contracts*
(vi) IFRS 9 *Financial instruments: Classification and measurement and Hedge accounting*
(vii) IFRS 15 *Revenue from Contracts with Customers*
(viii) IFRS 16 *Leasing*
(ix) annual improvements – 2014-2016 reporting cycle
(x) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
(xi) amendments to IAS 40 *Investment property*

The Company is currently analyzing the impact of the published standards that are not yet effective and assesses that they should not have a material impact on the financial statements (except for IFRS 15, IFRS 16 and IFRS 9), other than additional disclosures.

The Company assesses that IFRS 15 will have a significant impact on the financial statements due to the change in the recognition model of revenue from customer contracts. IFRS 15 will change the distribution of revenue in time and the allocation of revenue amongst the products and services. The Company assesses that the allocation of the contract price in proportion to the standalone sales price will decrease subscription revenues, increase revenues from sales of equipment and thereby result in an earlier recognition of part of the income.

The Company assesses that IFRS 16 will have a significant impact on the financial statements due to the fact that the new standard requires that the lessees recognize assets and liabilities from most of the lease agreements as well as increase the number of disclosures required in the financial statements. Presentation and recognition of costs in the income statement will be similar to the current requirements for the financial lease agreements (separate presentation of depreciation and interests costs). Implementation of IFRS 16 will 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. The Company assesses that agreements for satellite transponders capacity and space rental which are currently presented as operational lease may be classified as financial lease.

The Company assesses that IFRS 9 may have an impact on the financial statements due to the fact that the standard provides for a change in an approach to the classification of financial assets and introduces impairment model based on the expected losses. Implementation of the new impairment model might result in overall increase of provisions and potentially increase its volatility in financial statements due to the requirement to take into account both current and future events (forward-looking information), including macroeconomic forecasts.

As at the date of publication of these financial statements the Company has not completed the analysis of the impact of the new standards, IFRS 15, IFRS 16 and IFRS 9.

Other published but not yet effective standards not included above are not relevant to the Company's operations.

5. 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 2016.

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 2016 is not comparable to the year ended 31 December 2015 due to the merger of the Company with Netshare Sp. z o.o. as at 30 November 2016 and the merger of the Company with Redefine Sp. z o.o. as at 30 June 2015.

This results from the Company adopted policy in respect to the Business combinations among entities under common control as described in detail in note 5aa.

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 5u.

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 derivates 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 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	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 5n.

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

Shares in subsidiaries are measured at cost less impairment losses. Accounting principles relating to impairment testing are presented in 5n.

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) Prepayments

Prepayments for 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. Prepayments, 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 remited 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 contractual penalties related to terminated agreements in the amount expected to recover 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.

When the Company sells goods and services in one bundled transaction, the total consideration from the arrangement is allocated to each element of such multiple-element arrangements based on residual method in such a way that the amount recognised for items already received cannot be higher than cash already received.

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 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, the online TV services and production of set-top boxes.

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.

6. 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 złoty 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.

7. Approval of the Financial Statements

These financial statements were approved for publication by the Management Board on 15 March 2017.

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

Explanatory notes

8. Revenue

	for the year ended	
	31 December 2016	**31 December 2015**
Retail revenue	2,061.6	1,967.8
Wholesale revenue	71.7	45.7
Sale of equipment	54.3	59.3
Other revenue	25.6	26.8
Total	**2,213.2**	**2,099.6**

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

9. Operating costs

		for the year ended	
	Note	**31 December 2016**	**31 December 2015**
Content costs		590.7	527.3
Technical costs and costs of settlements with network operators		470.9	340.7
Distribution, marketing, customer relation management and retention costs		322.4	317.1
Depreciation, amortization, impairment and liquidation		224.8	230.2
Salaries and employee-related costs	a	100.1	120.0
Cost of equipment sold		53.9	69.3
Cost of debt collection services and bad debt allowance and receivables written off		12.1	23.4
Other costs		129.2	122.4
Total		**1,904.1**	**1,750.4**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2016	**31 December 2015**
Salaries	86.6	102.1
Social security contributions	11.6	14.7
Other employee-related costs	1.9	3.2
Total	**100.1**	**120.0**

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

Average headcount of non-production employees*

	for the year ended	
	31 December 2016	31 December 2015
Employment contracts (full-time equivalents)	681	891

* excluding workers who did not perform work in the reporting period due to long-term absences

The decrease of the average headcount is primarily the effect of the reorganization of the employment structure within the Group.

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

	for the year ended	
	31 December 2016	31 December 2015
Dividends received	377.8	260.7
Share in the profits of partnerships	38.4	17.0
Guarantee fees from related parties	5.7	-
Other	(9.9)	(0.8)
Total	**412.0**	**276.9**

11. Finance costs

	for the year ended	
	31 December 2016	31 December 2015
Interest expense on loans and borrowings	43.0	102.4
Interest expense on issued bonds	43.1	19.2
Valuation and realization of hedging instruments	7.2	7.7
Guarantee fees	5.7	4.2
Bank and other charges	3.4	7.6
Total	**102.4**	**141.1**

12. Income tax

(i) Income tax in the income statement

	for the year ended	
	31 December 2016	31 December 2015
Corporate income tax	56.6	44.9
Change in deferred income tax in the income statement	(7.6)	1.6
Income tax expense in the income statement	**49.0**	**46.5**

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

	for the year ended	
Change in deferred income tax	**31 December 2016**	**31 December 2015**
Receivables and other assets	(2.9)	3.2
Liabilities	(5.2)	(0.2)
Deferred distribution fees	(2.7)	1.8
Tangible and intangible non-current assets	0.2	(3.0)
Other	3.0	(0.2)
Change in deferred income tax – total	**(7.6)**	**1.6**

(ii) Income tax recognized in other comprehensive income

	for the year ended	
	31 December 2016	**31 December 2015**
Change in deferred income tax on hedge valuation	1.9	1.1
Income tax expense recognized in other comprehensive income - total	**1.9**	**1.1**

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2016	**31 December 2015**
Profit before income tax	627.0	492.6
Profit before tax multiplied by the statutory tax rate in Poland of 19%	119.1	93.6
Dividend received from subsidiaries	(71.8)	(49.5)
Other non-taxable costs, net at 19% tax rate	1.7	2.4
Tax charge for the year	**49.0**	**46.5**
Effective tax rate	**7.8%**	**9.4%**

(iv) Deferred tax assets

	31 December 2016	**31 December 2015**
Liabilities	42.9	37.7
Tangible non-current assets	1.3	2.0
Receivables and other assets	20.2	18.4
Other	-	4.9
Total deferred tax assets	**64.4**	**63.0**
Offsetting of deferred tax liabilities and deferred tax assets	(64.4)	(63.0)
Deferred tax assets in the balance sheet	**-**	**-**

(v) Tax losses recognized and carried forward

	31 December 2016	**31 December 2015**
2014 tax loss carried forward	-	17.7
Tax losses carried forward – total	**-**	**17.7**

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

According to Art. 7 of the Polish Corporate Income Tax Act dated 15 February 1992, tax losses incurred in a given financial year can be utilized in the subsequent five fiscal years. However, no more than 50% of a tax loss for any given year can be utilized in a single subsequent fiscal year.

(vi) Deferred tax liabilities

	31 December 2016	31 December 2015
Receivables and other assets	49.1	50.8
Deferred distribution fees	19.9	22.6
Tangible non-current assets	86.4	86.9
Total deferred tax liabilities	**155.4**	**160.3**
Offsetting of deferred tax liabilities and deferred tax assets	(64.4)	(63.0)
Deferred tax liabilities in the balance sheet	**91.0**	**97.3**

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. The Company's management is not aware of any circumstances, which may give rise to a potential material liability in this respect.

13. 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 2016	31 December 2015
Net profit for the period	578.0	446.1
Income tax (see note 12)	49.0	46.5
Gain/loss on investment activities, net (see note 10)	(412.0)	(276.9)
Finance costs (see note 11)	102.4	141.1
Depreciation, amortization, impairment and liquidation* (see note 9)	224.8	230.2
EBITDA (unaudited)	**542.2**	**587.0**

* 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

14. 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 2016	**31 December 2015**
Net profit for the period	578.0	446.1
Weighted average number of ordinary and preference shares in the year	639,546,016	639,546,016
Earnings per share in PLN (not in millions)	**0.90**	**0.70**

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

15. 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 2016	**1,015.0**	**6.9**	**104.3**	**171.6**	**7.6**	**23.7**	**1.7**	**315.8**
Additions	174.5	-	2.4	7.0	-	6.7	0.2	16.3
Transfer from assets under construction	-	-	-	0.2	-	-	(0.2)	-
Transfer to investment property	-	-	-	(0.4)	-	-	-	(0.4)
Disposals	(66.4)	-	(1.1)	(3.1)	(3.0)	(2.1)	(0.1)	(9.4)
Cost as at 31 December 2016	**1,123.1**	**6.9**	**105.6**	**175.3**	**4.6**	**28.3**	**1.6**	**322.3**
Accumulated impairment losses as at 1 January 2016	**9.6**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Recognition	-	-	-	-	-	-	-	-
Reversal	-	-	-	-	-	-	-	-
Utilisation	(3.0)	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2016	**6.6**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2016	**630.8**	**-**	**33.7**	**113.4**	**6.2**	**19.1**	**-**	**172.4**
Additions	174.1	-	4.4	19.3	0.5	2.4	-	26.6
Disposals	(60.6)	-	(0.7)	(2.8)	(2.6)	(2.0)	-	(8.1)
Transfer to investment property	-	-	-	(0.1)	-	-	-	(0.1)
Accumulated depreciation as at 31 December 2016	**744.3**	**-**	**37.4**	**129.8**	**4.1**	**19.5**	**-**	**190.8**
Carrying amount								
As at 1 January 2016	**374.6**	**6.9**	**70.6**	**58.1**	**1.4**	**4.6**	**1.7**	**143.3**
As at 31 December 2016	**372.2**	**6.9**	**68.2**	**45.4**	**0.5**	**8.8**	**1.6**	**131.4**

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'.

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

	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 2015	**960.5**	**6.9**	**103.6**	**166.6**	**11.6**	**23.6**	**5.2**	**317.5**
Merger with subsidiary	-	-	0.1	1.8	-	0.8	-	2.7
Additions	140.8	-	0.9	7.5	-	0.6	-	9.0
Transfer from assets under construction	-	-	-	0.2	-	0.1	(0.3)	-
Transfer to investment property	-	-	-	-	-	-	(3.2)	(3.2)
Disposals	(86.3)	-	(0.3)	(4.5)	(4.0)	(1.4)	-	(10.2)
Cost as at 31 December 2015	**1,015.0**	**6.9**	**104.3**	**171.6**	**7.6**	**23.7**	**1.7**	**315.8**
Accumulated impairment losses as at 1 January 2015	**16.5**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Recognition	-	-	-	-	-	-	-	-
Reversal	(4.0)	-	-	-	-	-	-	-
Utilisation	(2.9)	-	-	-	-	-	-	-
Accumulated impairment losses as at 31 December 2015	**9.6**	**-**	**-**	**0.1**	**-**	**-**	**-**	**0.1**
Accumulated depreciation								
Accumulated depreciation as at 1 January 2015	**522.9**	**-**	**29.5**	**97.9**	**8.5**	**16.7**	**-**	**152.6**
Merger with subsidiary	-	-	0.1	1.8	-	0.8	-	2.7
Additions	183.5	-	4.3	15.9	1.0	2.8	-	24.0
Additions (depreciation in the value of produced equipment)	-	-	-	0.2	-	-	-	0.2
Disposals	(75.6)	-	(0.2)	(2.4)	(3.3)	(1.2)	-	(7.1)
Accumulated depreciation as at 31 December 2015	**630.8**	**-**	**33.7**	**113.4**	**6.2**	**19.1**	**-**	**172.4**
Carrying amount								
As at 1 January 2015	**421.1**	**6.9**	**74.1**	**68.6**	**3.1**	**6.9**	**5.2**	**164.8**
As at 31 December 2015	**374.6**	**6.9**	**70.6**	**58.1**	**1.4**	**4.6**	**1.7**	**143.3**

The Company recognized reversal and utilisation of an impairment loss on items of property, plant and equipment. The impairment allowance is recognized in ‘depreciation, amortization, impairment and liquidation’.

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16. 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 5aa).

Goodwill was tested for impairment as at 31 December 2016. 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 2016 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 2021. 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 fee cash flows beyond the period of financial plans

	Services to individual and business customers	
	2016	2015
Terminal growth	2%	3%
Discount rate before tax	10.4%	8.5%

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 excepted 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.

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

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 2016 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.

17. Other intangible assets

	Software and licenses	Other	Under development	Total
Cost				
Cost as at 1 January 2016	**196.1**	**7.0**	**8.6**	**211.7**
Merger with subsidiary	7.6	5.6	-	13.2
Additions	5.9	0.3	10.3	16.5
Transfer from intangible assets under development	4.0	0.5	(4.5)	-
Disposals	(2.8)	-	(1.9)	(4.7)
Cost as at 31 December 2016	**210.8**	**13.4**	**12.5**	**236.7**
Accumulated impairment losses as at 1 January 2016	**0.5**	**-**	**-**	**0.5**
Recognition	-	-	-	-
Reversal	(0.5)	-	-	(0.5)
Accumulated impairment losses as at 31 December 2016	**-**	**-**	**-**	**-**
Accumulated amortization				
Accumulated amortization as at 1 January 2016	**123.2**	**6.6**	**-**	**129.8**
Merger with subsidiary	7.4	5.6	-	13.0
Additions	22.3	0.3	-	22.6
Disposals	(2.4)	-	-	(2.4)
Accumulated amortization as at 31 December 2016	**150.5**	**12.5**	**-**	**163.0**
Carrying amounts				
As at 1 January 2016	**72.4**	**0.4**	**8.6**	**81.4**
As at 31 December 2016	**60.3**	**0.9**	**12.5**	**73.7**

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

	Software and licences	Other	Under development	Total
Cost				
Cost as at 1 January 2015	**147.8**	**6.1**	**26.5**	**180.4**
Merger with subsidiary	10.0	0.9	1.6	12.5
Additions	17.4	0.1	4.5	22.0
Transfer from intangible assets under development	22.3	0.1	(22.4)	-
Disposals	(1.4)	(0.2)	(1.6)	(3.2)
Cost as at 31 December 2015	**196.1**	**7.0**	**8.6**	**211.7**
Accumulated impairment losses as at 1 January 2015	**-**	**-**	**-**	**-**
Recognition	0.5			0.5
Reversal	-	-	-	-
Accumulated impairment losses as at 31 December 2015	**0.5**	**-**	**-**	**0.5**
Accumulated amortization				
Accumulated amortization as at 1 January 2015	**99.7**	**5.1**	**-**	**104.8**
Merger with subsidiary	5.1	0.9	-	6.0
Additions	19.1	0.7	-	19.8
Disposals	(0.7)	(0.1)	-	(0.8)
Accumulated amortization as at 31 December 2015	**123.2**	**6.6**	**-**	**129.8**
Carrying amounts				
As at 1 January 2015	**48.1**	**1.0**	**26.5**	**75.6**
As at 31 December 2015	**72.4**	**0.4**	**8.6**	**81.4**

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

18. Investment property

Cost	
Cost as at 1 January 2016	**13.3**
Additions	18.6
Transfer to investment property	0.4
Cost as at 31 December 2016	**32.3**
Accumulated amortization	
Accumulated amortization as at 1 January 2016	**0.4**
Additions	0.6
Transfer to investment property	0.1
Accumulated amortization as at 31 December 2016	**1.1**
Carrying amounts	
As at 1 January 2016	**12.9**
As at 31 December 2016	**31.2**

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

19. Shares in subsidiaries

Shares in subsidiaries as at 31 December 2016

	Company's registered office	Activity	Voting rights percentage	Cost and carrying amount
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol Cyprus	holding and financial activities	100%	6,778.0
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	broadcasting and television production	100%	3,899.0
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	615.4
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	99%	64.0
Orsen Holding Limited	Elia Zammit Street, St. Julian's STJ 3155, Malta	holding and financial activities	99.9%	34.9
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	73.5%	29.3
Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	37.75%	25.2
Teleaudio Dwa Sp. z o.o. Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	premium rate services	99%	21.0
Karpacka Telewizja Kablowa Sp. z o.o.	Warszawska 220, 26-600 Radom	dormant	99%	2.4
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	0.1
			Total	**11,469.3**

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

	31 December 2015	Additions	Decreases	31 December 2016
Metelem Holding Company Limited	6,778.0	-	-	6,778.0
Telewizja Polsat Sp. z o.o.	3,899.0	-	-	3,899.0
Cyfrowy Polsat Trade Marks Sp. z o.o.	615.4	-	-	615.4
Interphone Service Sp. z o.o.	-	64.0 (a)	-	64.0
Orsen Holding Limited	34.9	-	-	34.9
INFO-TV-FM Sp. z o.o.	29.3	-	-	29.3
Netshare Sp. z o.o. (see note 38)	29.8	15.4 (b)	(45.2) (c)	-
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. (see note 38)	20.3	4.9 (c)	-	25.2
Gery.pl Sp. z o.o.	15.4	-	(15.4) (b)	-
Teleaudio Dwa Sp. z o.o. Sp.k.	-	21.0 (d)	-	21.0
Karpacka Telewizja Kablowa Sp. z o.o.	2.4	-	-	2.4
Rioni 1 AB (formerly Cyfrowy Polsat Finance AB)	0.2	-	(0.2) (e)	-
Polskie Badania Internetu Sp. z o.o.	0.1	-	-	0.1
Total	**11,424.8**	**105.3**	**(60.8)**	**11,469.3**

(a) On 23 December 2016 the Company acquired shares of Interphone Service Sp. z o.o.

(b) On 30 June 2016 the merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o. was registered.

(c) On 30 November 2016 the Company completed a merger with Netshare Sp. z o.o. (Company's subsidiary) as presented in note 38. Following the merger Company's shares in Netshare Sp. z o.o. were eliminated whereas shares held by Netshare Sp. z o.o. as at the date of the merger in Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. were included in the Company's balance sheet.

(d) On 22 December 2016 the Company acquired shares of Teleaudio Dwa Sp. z o.o. Sp.k. The Company is a limited partner of Teleaudio Dwa Sp. z o.o. Sp.k.

(e) On 4 January 2016 shares in Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) were disposed of by the Company for PLN 0.2.

No impairment on shares in related entities was recognized as at 31 December 2016.

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

20. Deferred distribution fees

	31 December 2016	31 December 2015
Deferred distribution fees	104.5	119.0
Of which: Current	*76.2*	*86.9*
Non-current	*28.3*	*32.1*

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 2016, 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 104.4 (as at 31 December 2015: 118.7 PLN).

21. Other non-current assets

	31 December 2016	31 December 2015
Non-current trade receivables	35.9	41.6
Non-current loans granted	0.2	-
Other deferred costs	1.0	1.4
Derivative instruments (IRS) assets (see note 35)	0.9	-
Total	**38.0**	**43.0**

22. Inventories

Types of inventories	31 December 2016	31 December 2015
Set-top boxes and disc drives	27.7	17.0
Mobile phones, modems, tablets and laptops	19.0	21.3
Other inventories	41.7	42.2
Total gross value	**88.4**	**80.5**
Write-down of inventories	(3.5)	(4.5)
Total net value	**84.9**	**76.0**

Write-downs of inventories	2016	2015
Opening balance	**4.5**	**3.7**
Increase	0.9	1.7
Utilisation	(1.6)	-
Decrease	(0.3)	(0.9)
Closing balance	**3.5**	**4.5**

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

23. Trade and other receivables

	31 December 2016	31 December 2015
Trade receivables from related entities	29.2	30.2
Trade receivables from non-related entities	208.9	231.4
Tax and social security receivables	12.7	30.6
Other receivables	28.5	31.2
Total	**279.3**	**323.4**

Trade receivables from non-related entities include receivables from individual clients, distributors and others.

Trade receivables by currency

Currency	31 December 2016	31 December 2015
PLN	218.7	219.1
EUR	18.7	18.6
USD	0.7	23.9
Total	**238.1**	**261.6**

Movements in bad debt allowance – short-term and log-term

	2016	2015
Opening balance as at 1 January	**36.3**	**35.6**
Increase	22.9	14.0
Reversal	(6.2)	(2.4)
Utilisation	(16.1)	(10.9)
Closing balance as at 31 December	**36.9**	**36.3**
Of which:		
Short-term	*35.8*	*35.1*
Long-term	*1.1*	*1.2*

24. Other current assets

	31 December 2016	31 December 2015
Other deferred costs	215.1	152.5
Other deferred income	7.8	8.7
Derivative instruments (IRS) assets (see note 35)	0.6	-
Total	**223.5**	**161.2**

Other deferred costs as at 31 December 2016 and 31 December 2015 comprise mainly deferred costs related to the agreement with Polkomtel Sp. z o.o. for the data transfer services. Agreements dated 3 March 2015 are described in detail in the financial statement for the period ended 31 December 2015.

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

25. Cash and cash equivalents

	31 December 2016	31 December 2015
Current accounts	34.4	5.4
Deposits	244.4	131.0
Total	**278.8**	**136.4**

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 2016, the largest concentration of funds in one bank (rated A2 by Moody's Investors Service Ltd.) was approximately 79%.

Currency	31 December 2016	31 December 2015
PLN	276.8	132.4
EUR	1.5	0.9
USD	0.5	3.1
Total	**278.8**	**136.4**

As the Company cooperates with well-established Polish and international banks, the risks relating to deposited cash are considerably limited.

26. Equity

(i) Share capital

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

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**	

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

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

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

[1] Entity is controlled by Mr. Zygmunt Solorz

[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 29 June 2016 the Annual General Meeting of the Company adopted a resolution on distribution of profit of the Company for the financial year of 2015. Pursuant to the provisions of the resolution the net profit earned by the Company in the financial year of 2015 in the amount of PLN 446.1 is appropriated to the supplementary capital.

27. Hedge valuation reserve

On 13 May 2016 the Company concluded interest rate swap transaction with BNP Paribas SA ("Transaction"). The Transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 1.5150%.

The Transaction was concluded for the period from 30 December 2016 to 28 September 2018. The Transaction protects the nominal amount of a bank loan in the amount of PLN 250.0.

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

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2016

	IRS
Assets	
Long-term	0.9
Short-term	0.6
Total	**1.5**

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2015

	IRS
Liabilities	
Short-term	(8.3)
Total	**(8.3)**

Impact of hedging instruments valuation on hedge valuation reserve

	2016	**2015**
Balance as at 1 January	**(6.7)**	**(12.2)**
Valuation of cash flow hedges	9.8	6.6
Deferred tax	(1.9)	(1.1)
Change for the period	**7.9**	**5.5**
Balance as at 31 December	**1.2**	**(6.7)**

28. Loans and borrowings

Loans and borrowings	**31 December 2016**	**31 December 2015**
Short-term liabilities	239.1	504.7
Long-term liabilities	782.0	982.0
Total	**1,021.1**	**1,486.7**

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

Change in loans and borrowings liabilities

	2016	2015
Loans and borrowings as at 1 January	**1,486.7**	**2,773.3**
Repayment of capital	(170.5)	(2,550.0)
Repayment of interest and commissions	(39.1)	(78.0)*
Facilities agreement	-	1,200.0
Revolving facility loan	-	120.0
Net cash from the Cash Management System Agreement with paid interest	(299.0)	(81.0)
Interest accrued	43.0	102.4
Loans and borrowings as at 31 December	**1,021.1**	**1,486.7**

* includes amount paid for costs related to the new financing

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 will establish additional collaterals for the facilities granted on this basis.

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

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. 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 21 September 2020.

The CP Revolving Facility as at 31 December 2016 and 31 December 2015 was not 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.

Claims 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.

Agreement with Bank Pekao S.A.

On 7 May 2009 the Company signed an agreement with Bank Pekao S.A. defining rights and obligations of the parties should the Company order the bank to issue a guarantee or a letter of credit. Bank’s total commitment regarding the issued guarantees and letters of credit may not exceed PLN 20.0. As at 31 December 2016 the bank issued guarantees in the total amount of PLN 2.6 and EUR 1.2.

29. Issued bonds

	31 December 2016	31 December 2015
Short-term liabilities	42.4	42.4
Long-term liabilities	975.5	975.3
Total	**1,017.9**	**1,017.7**

Change in issued bonds payable

	2016	2015
Issued bonds payable as at 1 January	**1,017.7**	**-**
Issuance of bonds	-	1,000.0
Repayment of interest and commissions	(42.9)	(1.5)*
Interest accrued	43.1	19.2
Issued bonds payable as at 31 December	**1,017.9**	**1,017.7**

* includes amount paid for costs related to the new financing

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 millions) and a total nominal value of PLN 1.000.000.000 (not in millions) (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).

30. 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 or definite terms, unless terminated by subscribers.

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

Future minimum lease payments under operating lease are as follows:

	31 December 2016	31 December 2015
within 1 year	33.1	5.3
between 1 and 5 years	14.2	3.8
in more than 5 years	-	-
Total	**47.3**	**9.1**

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, lease of satellite transponders capacity, and other equipment.

Future minimum lease payments under operating leases are as follows:

	31 December 2016	31 December 2015
within 1 year	109.8	110.4
between 1 and 5 years	83.4	187.3
in more than 5 years	5.9	9.7
Total	**199.1**	**307.4**

In 2016 the Company incurred costs related to operating lease agreements amounting to PLN 123.1 and in 2015 the costs of the Company amounted to PLN 113.9.

Finance leases

There were no agreements classified as finance lease at 31 December 2016 and 31 December 2015.

31. Other non-current liabilities and provisions

	31 December 2016	31 December 2015
Deposits	9.5	10.2
Other provisions	0.5	0.4
Total	**10.0**	**10.6**

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

32. Trade and other payables

	31 December 2016	31 December 2015
Trade payables to related parties	85.7	56.9
Trade payables to non-related parties	32.2	57.2
Taxation and social security payables	10.4	10.8
Payables relating to purchases of non-current assets	1.5	4.5
Accruals	161.6	127.1
Short term provisions	23.1	22.9
Derivative instruments (IRS) liabilities (see note 35)	-	8.3
Other	70.7	12.1
Total	**385.2**	**299.8**

As at 31 December 2016 the line Other comprised the advance payment on dividend received from Telewizja Polsat in the amount of PLN 60.

Accruals

	31 December 2016	31 December 2015
Salaries	23.1	17.0
Licence fees and royalties for copyright management organizations	86.2	65.1
Distribution costs	7.4	8.3
Other	44.9	36.7
Total	**161.6**	**127.1**

Short-term and long-term provisions

	2016	2015
Opening balance as at 1 January	**23.3**	**25.4**
Increases	5.2	-
Reversal	(4.9)	(2.1)
Closing balance as at 31 December	**23.6**	**23.3**
Of which:		
Short-term	*23.1*	*22.9*
Long-term	*0.5*	*0.4*

Provisions comprise mainly of provisions for license fees, litigation and disputes, warranty provision.

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

Trade payables and payables relating to purchases of non-current assets by currency

Currency	31 December 2016	31 December 2015
PLN	111.4	104.4
EUR	0.9	6.6
USD	7.1	7.6
Total	**119.4**	**118.6**

Accruals by currency

Currency	31 December 2016	31 December 2015
PLN	143.3	111.2
EUR	16.7	15.5
USD	1.6	0.4
Total	**161.6**	**127.1**

33. Deposits for equipment

	31 December 2016	31 December 2015
Subscribers	1.9	1.6
Total	**1.9**	**1.6**

Deposits received comprise amounts paid by subscribers under agreements for rental of reception equipment. Deposits are returned to customers or offset against receivables from subscribers upon contract termination.

34. Deferred income

	31 December 2016	31 December 2015
Deferred income	**236.5**	**228.9**
Of which: Short-term	*232.3*	*224.2*
Long-term	*4.2*	*4.7*

Deferred income comprises mainly subscription fees paid in advance and rental fees for reception equipment.

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

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 2016	**31 December 2015**
Loans and receivables, including:	**581.5**	**470.8**
Loans granted	12.8	18.6
Trade and other receivables from related parties	29.2	31.7
Trade and other receivables from non-related parties	245.2	273.5
Share in the profits of partnerships receivables	15.5	10.6
Cash and cash equivalents	278.8	136.4
Hedging derivative instruments:	**1.5**	**-**
Interest rate swaps	1.5	-

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

Financial liabilities	Carrying amount	
	31 December 2016	**31 December 2015**
Other financial liabilities valued at amortised cost, including:	**2,402.1**	**2,773.9**
Borrowings and loans	1,021.1	1,486.7
Issued bonds	1,017.9	1,017.7
Trade payables and other payables to third parties and deposits	54.6	85.5
Trade and other payables to related parties	146.9	56.9
Accruals	161.6	127.1
Hedging derivative instruments:	**-**	**8.3**
Interest rate swaps	-	8.3

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. In the financial year ended 31 December 2016, 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.

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

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 2016	**31 December 2015**
Loans granted	12.8	18.6
Trade and other receivables from related parties	29.2	31.7
Trade and other receivables from non-related parties	245.2	273.5
Share in the profits of partnerships receivables	15.5	10.6
Cash and cash equivalents	278.8	136.4
Total	**581.5**	**470.8**

The maximum exposure to credit risk for trade and other receivables, by type of customer, was:

	Carrying amount	
	31 December 2016	**31 December 2015**
Receivables from subscribers	216.5	222.6
Receivables from distributors	3.5	3.2
Receivables from media companies	15.9	17.6
Receivables and loans granted to related parties, including share in the profits of partnerships receivables	57.3	56.4
Other receivables and loans granted to non-related parties	9.5	34.6
Total	**302.7**	**334.4**

The ageing of trade and other receivables at the reporting date was:

	31 December 2016			31 December 2015		
	Gross	**Impairment**	**Net**	**Gross**	**Impairment**	**Net**
Not past due	250.1	6.5	243.6	266.8	6.3	260.5
Past due 0-30 days	21.0	0.9	20.1	20.8	0.9	19.9
Past due 31-60 days	6.5	0.6	5.9	9.0	0.8	8.2
Past due more than 60 days	38.2	17.9	20.3	55.5	28.3	27.2
Total	**315.8**	**25.9**	**289.9**	**352.1**	**36.3**	**315.8**

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

Credit quality of such not overdue receivables that are not impaired is very good.

Trade and other receivables with recognized impairment include not past due and past due trade and other receivables where partial recoverability is estimated. Usually impairment is recognized for trade and other receivables past due for more than 60 days or for trade and other receivables for which impairment indicator exists.

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 2016						
	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	1,021.1	1,102.8	117.3	127.3	282.6	575.6	-
Issued bonds	1,017.9	1,215.5	21.6	21.4	43.1	1,129.4	-
Trade and other payables to non-related parties and deposits	54.6	54.6	54.6	-	-	-	-
Trade and other payables to related parties	146.9	146.9	146.9	-	-	-	-
Accruals	161.6	161.6	161.6	-	-	-	-
	2,402.1	**2,681.4**	**502.0**	**148.7**	**325.7**	**1,705.0**	**-**

* pursuant to the agreements settlements shall be on a net basis

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

	31 December 2015						
	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	1,486.7	1,616.7	400.1	109.6	246.4	860.6	-
Issued bonds	1,017.7	1,256.5	21.6	21.3	85.4	1,128.2	-
Trade and other payables to non-related parties and deposits	85.5	85.5	85.5	-	-	-	-
Trade and other payables to related parties	56.9	56.9	56.9	-	-	-	-
Accruals	127.1	127.1	127.1	-	-	-	-
IRS*	8.3	6.6	4.4	2.2	-	-	-
	2,782.2	**3,149.3**	**695.6**	**133.1**	**331.8**	**1,988.8**	-

* 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 with a final maturity date on 21 September 2020. As at 31 December 2016 the revolving facility was not utilized. As at December 2015 the Company had revolving facility line of credit up to the amount of 300.0 PLN with a final maturity date on 21 September 2020. As at 31 December 2015 the revolving facility was not 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.

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

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 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 2016		31 December 2015	
	EUR	**USD**	**EUR**	**USD**
Trade receivables	4.2	0.2	4.4	6.1
Cash and cash equivalents	0.3	0.1	0.2	0.8
Trade payables	(0.2)	(1.7)	(1.5)	(1.9)
Gross balance sheet exposure	**4.3**	**(1.4)**	**3.1**	**5.0**
Net exposure	**4.3**	**(1.4)**	**3.1**	**5.0**

Following foreign exchange rates were applied in the presented periods:

	Average rate		Rates at the balance sheet date	
(in PLN)	**2016**	**2015**	**31 December 2016**	**31 December 2015**
1 EUR	4.3625	4.1839	4.4240	4.2615
1 USD	3.9431	3.7701	4.1793	3.9011

For the purposes of exchange rate volatility sensitivity analysis as at 31 December 2016 and 31 December 2015 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.

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

	2016					**2015**				
	As at 31 December 2016		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**	**As at 31 December 2015**		**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	4.2	18.7	5%	0.9	-	4.4	18.6	5%	0.9	-
USD	0.2	0.7	5%	-	-	6.1	23.9	5%	1.2	-
Cash and cash equivalents										
EUR	0.3	1.5	5%	0.1	-	0.2	0.9	5%	-	-
USD	0.1	0.5	5%	-	-	0.8	3.1	5%	0.2	-
Trade payables										
EUR	(0.2)	(0.9)	5%	-	-	(1.5)	(6.6)	5%	(0.3)	-
USD	(1.7)	(7.1)	5%	(0.4)	-	(1.9)	(7.6)	5%	(0.4)	-
Change in operating profit				0.6	-				1.6	-
Income tax				(0.1)	-				(0.3)	-
Change in net profit				0.5	-				1.3	-

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

	2016					2015				
	As at 31 December 2016		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	As at 31 December 2015		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	4.2	18.7	-5%	(0.9)	-	4.4	18.6	-5%	(0.9)	-
USD	0.2	0.7	-5%	-	-	6.1	23.9	-5%	(1.2)	-
Cash and cash equivalents										
EUR	0.3	1.5	-5%	(0.1)	-	0.2	0.9	-5%	-	-
USD	0.1	0.5	-5%	-	-	0.8	3.1	-5%	(0.2)	-
Trade payables										
EUR	(0.2)	(0.9)	-5%	-	-	(1.5)	(6.6)	-5%	0.3	-
USD	(1.7)	(7.1)	-5%	0.4	-	(1.9)	(7.6)	-5%	0.4	-
Change in operating profit				(0.6)	-				(1.6)	-
Income tax				0.1	-				0.3	-
Change in net profit				(0.5)	-				(1.3)	-

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

	2016		2015	
	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	0.8	-	0.5	-
USD	(0.3)	-	0.8	-
Estimated change in exchange rate by -5 %				
EUR	(0.8)	-	(0.5)	-
USD	0.3	-	(0.8)	-

Had the Polish zloty strengthened 5% against the basket of currencies as at 31 December 2016 and 31 December 2015, the Company's net profit would have increased by PLN 0.5 and increased by PLN 1.3, respectively and other comprehensive income would have been unchanged in 2016 and would have been unchanged in 2015. Had the Polish zloty weakened 5%, the Company's net profit would have correspondingly decreased by PLN 0.5 in 2016 and decreased by PLN 1.3 in 2015 and other comprehensive income would have been unchanged in 2016 and would have been unchanged in 2015, 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.

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

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

	Carrying amount	
	31 December 2016	**31 December 2015**
Fixed rate instruments		
Financial assets*	10.0	100.0
Variable rate instruments		
Financial assets*	281.6	54.0
Financial liabilities*	(2,029.5)	(2,499.0)
Net interest exposure	**(1,737.9)**	**(2,445.0)**

* 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 2016						
Variable rate instruments*	(17.5)	17.5	3.7	(3.7)	(13.8)	13.8
Cash flow sensitivity (net)	**(17.5)**	**17.5**	**3.7**	**(3.7)**	**(13.8)**	**13.8**
31 December 2015						
Variable rate instruments*	(24.4)	24.4	6.6	(6.6)	(17.8)	17.8
Cash flow sensitivity (net)	**(24.4)**	**24.4**	**6.6**	**(6.6)**	**(17.8)**	**17.8**

* 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

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

Presented below are fair values and carrying amounts of financial assets and liabilities not measured in fair value.

			31 December 2016		31 December 2015	
	Category according to IAS 39	Level of the fair value hierarchy	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	12.3	12.8	18.3	18.6
Trade and other receivables	A	*	289.9	289.9	315.8	315.8
Cash and cash equivalents	A	*	278.8	278.8	136.4	136.4
Loans and borrowings	C	2	(1,024.2)	(1,021.1)	(1,502.6)	(1,486.7)
Issued bonds	C	1	(1,045.2)	(1,017.9)	(1,031.6)	(1,017.7)
Accruals	C	*	(161.6)	(161.6)	(127.1)	(127.1)
Trade and other payables and deposits	C	*	(201.5)	(201.5)	(142.4)	(142.4)
Total			**(1,851.5)**	**(1,820.6)**	**(2,333.2)**	**(2,303.1)**
Unrecognized gain/(loss)				**(30.9)**		**(30.1)**

A – loans and receivables

B – hedges

C – other liabilities

* 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 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 2016 loans and borrowings comprised term facility loan. As at 31 December 2015 loans and borrowings comprised senior facility and the Cash Management System Agreement. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Company's credit risk. When determining the fair value of senior facility as at 31 December 2016 and 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan) were analyzed. The fair value of the Cash Management System Agreement is set as the nominal value, which is equal to carrying amount.

The fair value of bonds as at 31 December 2016 and 31 December 2015 is calculated based on the last bid price as at the balance sheet date as quoted on the Catalyst market.

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

As at 31 December 2016, the Company held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value	**31 December 2016**	**Level 1**	**Level 2**	**Level 3**
IRS			1.5	
Total		**-**	**1.5**	**-**

The fair value of interest rate swaps is determined using financial instruments valuation models, based on generally published currency exchange rates, interest rates, forward rate curves and volatility curves for foreign currencies taken from active markets. Fair value of derivatives is determined based on the discounted future cash flows from transactions, calculated based on the difference between the forward price and the transaction price.

As at 31 December 2015, the Company held the following financial instruments carried at fair value on the statement of financial position:

Liabilities measured at fair value	**31 December 2015**	**Level 1**	**Level 2**	**Level 3**
IRS			(8.3)	
Total		**-**	**(8.3)**	**-**

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 2016 to 31 December 2016	Loans and borrowings	Issued bonds	Hedging instruments	**Total**
Interest expense on loans and borrowings	(43.0)	-	(7.2)	**(50.2)**
Interest expense on issued bonds	-	(43.1)	-	**(43.1)**
Total finance costs	(43.0)	(43.1)	(7.2)	**(93.3)**
Total gross profit/(loss)	**(43.0)**	**(43.1)**	**(7.2)**	**(93.3)**
Hedge valuation reserve	**-**	**-**	**(9.8)**	**(9.8)**

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

For the period from 1 January 2015 to 31 December 2015	Loans and borrowings	Issued bonds	Hedging instruments	Total
Interest expense on loans and borrowings	(98.8)	-	(7.7)	**(106.5)**
Interest expense on issued bonds	-	(19.2)	-	**(19.2)**
Total finance costs	(98.8)	(19.2)	(7.7)	**(125.7)**
Total gross profit/(loss)	**(98.8)**	**(19.2)**	**(7.7)**	**(125.7)**
Hedge valuation reserve	**-**	**-**	**(6.6)**	**(6.6)**

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2016, 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 2016	**31 December 2015**
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	975.0
Fair value of hedging instruments	1.5	(8.3)
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 30 September 2018	Until 31 December 2016

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

Change in fair value of cash flow hedges recognized in equity is presented below (pre-tax):

	2016	2015
Opening Balance	**(8.3)**	**(15.4)**
Effective part of gains or losses on the hedging instrument	1.5	(0.6)
Reclassification to instruments for which hedge accounting is not adopted	-	0.1
Amounts recognized in equity transferred to the profit and loss statement, of which:	8.3	7.6
- adjustment of interest costs	8.3	7.6
Closing Balance	**1.5**	**(8.3)**

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 2016	**31 December 2015**
Loans	1,021.1	1,486.7
Issued bonds	1,017.9	1,017.7
Cash and cash equivalents	(278.8)	(136.4)
Net debt	**1,760.2**	**2,368.0**
Equity	10,512.2	9,944.2
Equity and net debt	**12,272.4**	**12,312.2**
Leverage ratio	**0.14**	**0.19**

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

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 2016	**31 December 2015**
Revenues from barter transactions	4.5	6.4
Cost of barter transactions	4.9	5.9

	31 December 2016	**31 December 2015**
Barter receivables	0.6	1.0
Barter payables	-	0.1

38. The impact of merger with Netshare Sp. z o.o. on assets, equity and liabilities

On 30 November 2016 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 Netshare Sp. z o.o. ('Netshare') seated in Warsaw.

The merger was effected by:

i. transferring to Company, as the sole shareholder of Netshare, all the assets of Netshare by the way of universal succession, and

ii. dissolving of Netshare without liquidation.

As a result of the merger, Cyfrowy Polsat assumed all rights and obligations of Netshare, effective on the date of the merger. Given that the Company held all the shares of Netshare 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 31 August 2016 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.

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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 2016
Shares in Netshare	(45.2)
Shares in subsidiaries	4.9*
Other intangible assets	0.2
Receivables and other current assets	4.3
Cash and cash equivalents	17.5
Deferred tax asset	0.6
Current liabilities	(0.2)
Total	**(17.9)**

* includes shares in Polsat Media Biuro Reklamy Sp. z o.o. Sp. k. (see note 19)

As a result of the merger, net assets of Cyfrowy Polsat decreased by PLN 17.9, which was reflected in a decrease in retained earnings.

39. Transactions with related parties

Receivables

	31 December 2016	**31 December 2015**
Subsidiaries	42.6	41.1
Joint ventures	1.0	0.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	1.1	0.9
Total	**44.7**	**42.3**

A significant portion of receivables is represented by receivables related to sale to Polkomtel Sp. z o.o. ('Polkomtel'), and receivables from share of the profits of partnerships.

Other assets

	31 December 2016	**31 December 2015**
Subsidiaries	219.9	160.0
Total	**219.9**	**160.0**

Other current assets comprise mainly deferred costs related to the data transfer agreement with Polkomtel.

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

Liabilites

	31 December 2016	31 December 2015
Subsidiaries	158.0	65.3
Joint ventures	0.5	1.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	2.5	3.1
Total	**161.0**	**69.6**

A significant portion of liabilities is represented by advance payment on dividend received from Telewizja Polsat Sp. z o.o. and liabilitites related to Polkomtel services, programming licence fees and fees for using "Cyfrowy Polsat" trade mark.

Loans granted

	31 December 2016	31 December 2015
Subsidiaries	1.4	3.3
Joint ventures	11.2	10.7
Total	**12.6**	**14.0**

Revenues

	for the year ended	
	31 December 2016	31 December 2015
Subsidiaries	97.5	101.0
Joint ventures	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 reporting entity	1.3	2.1
Total	**99.2**	**103.1**

The most significant transactions include revenues from advertising services, programming fees, signal broadcast services, accounting services rendered to subsidiaries, sale of materials used in set-top boxes' production and property rental.

Expenses

	for the year ended	
	31 December 2016	31 December 2015
Subsidiaries	691.2	487.3
Joint ventures	0.8	2.8
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over reporting entity	19.4	18.3
Total	**711.4**	**508.4**

The most significant transactions include data transfer services.

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

The Company also pays license fees for broadcasting programs: Polsat Film HD, Polsat Romans, Polsat Sport, Polsat Sport Extra, Polsat Sport Extra HD, Polsat Film, Polsat News, Polsat Play, Polsat Cafe, Polsat Sport HD, Polsat Sport Fight HD and Polsat Jim Jam and incurs expenses for using 'Cyfrowy Polsat' trade mark, purchasing advertising time, telecommunication services with respect to the Company's customer call center and advertising production.

Gains on investment activities, net

	for the year ended	
	31 December 2016	**31 December 2015**
Subsidiaries	422.0	277.8
Joint ventures	0.5	0.5
Total	**422.5**	**278.3**

Gains and losses on investment activities comprises mostly of dividends, share of the profits of partnerships and guarantees granted by the Company in respect to settlement of Polkomtel's term facilities.

Finance costs

	for the year ended	
	31 December 2016	**31 December 2015**
Subsidiaries	5.7	4.2
Total	**5.7**	**4.2**

Finance costs comprise mostly of guarantee fees in respect to settlement of term facilities (including loan which was repaid as well as loan currently taken).

40. Litigations

Management believes that the provisions for litigations as at 31 December 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the 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.

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 to its subsidiary a guarantee in the amount of EUR 2.8 in respect to a programming purchase contract.

Contractual liabilities related to purchases of non-current assets

The amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 December 2016 was PLN 0.3 (PLN 0.3 as at 31 December 2015).

Contractual liabilities related to purchase of data transfer services

Total amount of capital commitments resulting from agreements on data transfer services as at 31 December 2016 was PLN 696.0.

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

42. Remuneration of the Management Board

The table below presents the remuneration of the Management Board members of the Company in 2016 and 2015.

Name	Function	2016	2015
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015)	0.2	0.2
Dariusz Działkowski	Member of the Management Board	0.6	0.6
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)	0.7	0.7
Aneta Jaskólska	Member of the Management Board	0.6	0.6
Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016)	0.5	-
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	0.1	-
Maciej Stec	Member of the Management Board	0.1	0.1
Tomasz Szeląg	Member of the Management Board (until 30 September 2016)	0.5	0.6
Total		**3.3**	**2.8**

The bonuses payable to each member of the Management Board of the Company for years 2016 and 2015 from the Company and subsidiaries are presented below:

Name	Function	2016	2015
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015)	5.0	3.5
Dariusz Działkowski	Member of the Management Board	1.0	1.0
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)	1.5	2.1
Aneta Jaskólska	Member of the Management Board	1.8	1.5
Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016)	0.5	-
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	1.2	-
Maciej Stec	Member of the Management Board	1.6	1.1
Tomasz Szeląg	Member of the Management Board (until 30 September 2016)	4.1	3.2
Total		**16.7**	**12.4**

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

The table below presents the remuneration of the Management Board of Cyfrowy Polsat S.A. in 2016 and 2015 from other related companies:

Name	Function	2016	2015
Tobias Solorz	President of the Management Board (from 8 December 2015), Vice-President of the Management Board (from 10 December 2014 to 7 December 2015)	1.3	1.3
Dariusz Działkowski	Member of the Management Board	0.0	0.0
Tomasz Gillner-Gorywoda	Member of the Management Board (from 8 December 2015), President of the Management Board (from 28 October 2014 to 7 December 2015)	0.5	0.6
Aneta Jaskólska	Member of the Management Board	0.3	0.2
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	0.1	-
Maciej Stec	Member of the Management Board	0.8	0.8
Tomasz Szeląg	Member of the Management Board (until 30 September 2016)	0.3	0.3
Total		**3.2**	**3.2**

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 2016 and 2015:

Name	Function	2016	2015
Zygmunt Solorz	President of the Supervisory Board (until 30 September 2016)	0.15	0.18
Marek Kapuściński	President of the Supervisory Board (from 25 October 2016), Member of the Supervisory Board (from 1 October 2016 to 24 October 2016)	0.06	-
Józef Birka	Member of the Supervisory Board (from 3 April 2015)	0.15	0.09
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.15	0.12
Aleksander Myszka	Member of the Supervisory Board (from 3 April 2015)	0.15	0.09
Andrzej Papis	Member of the Supervisory Board (until 2 April 2015)	-	0.03
Leszek Reksa	Independent Member of the Supervisory Board	0.15	0.12
Heronim Ruta	Member of the Supervisory Board	0.15	0.12
Tomasz Szeląg	Member of the Supervisory Board (from 1 October 2016)	0.05	-
Total		**1.01**	**0.75**

44. Important agreements and events

Sale of shares

On 4 January 2016 shares in Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) were disposed of by the Company.

Merger

On 30 June 2016 a merger of Netshare Sp. z o.o. with Gery.pl Sp. z o.o. was registered. The surviving entity is Netshare Sp. z o.o.

On 30 November 2016 a merger of the Company with Netshare Sp. z o.o. was registered. The surviving entity is Cyfrowy Polsat S.A.

45. Events subsequent to the reporting date

Cross-border merger

On 23 January 2017 the Extraordinary General Meeting of the Company adopted a resolution concerning the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Metelem Holding Company Limited (Ceasing Company). The merger will be effected by transferring all of the assets and liabilities of the Ceasing Company to the Acquiring Company and dissolving the Ceasing Company without liquidation.

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.

As a part of its business activities the Company has concluded agreements with Eutelsat for the rental of transponder capacity as well as an agreement with Nagravision for the lease of conditional access system (including SMART cards). These agreements were classified as operating leases as Eutelsat and Nagravision hold substantially all the risks and rewards incidental to the ownership of the transponders and the conditional access system. For more information see note 30.

- *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 5i and 5j. 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 15 and 17.

- *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 16.

- *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 15 and 17.

- *Impairment of receivables*

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 5n, 23 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 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation.

- *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 5w and 12.

- *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 5g.

- *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. The Company treats movements in both factors in accordance with IFRS 39 AG7 and the periodic re-estimation of cash flows alters the effective interest rate.

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

Financial results for the 3 months ended 31 December 2016 and 31 December 2015

47. Income Statement

	for the 3 months ended	
	31 December 2016 unaudited	**31 December 2015 unaudited**
Revenue	573.1	554.6
Operating costs	(507.5)	(462.0)
Other operating costs, net	(1.4)	(7.6)
Profit from operating activities	**64.2**	**85.0**
Gain on investment activities, net	146.1	14.0
Finance costs	(24.6)	(29.8)
Gross profit for the period	**185.7**	**69.2**
Income tax	(8.4)	(15.1)
Net profit for the period	**177.3**	**54.1**
Basic and diluted earnings per share (in PLN)	**0.27**	**0.09**

48. Statement of Comprehensive Income

	for the 3 months ended	
	31 December 2016 unaudited	**31 December 2015 unaudited**
Net profit for the period	**177.3**	**54.1**
Items that may be reclassified subsequently to profit or loss:		
Valuation of hedging instruments	2.5	1.8
Income tax relating to hedge valuation	(0.5)	(0.3)
Items that may be reclassified subsequently to profit or loss	**2.0**	**1.5**
Other comprehensive income, net of tax	**2.0**	**1.5**
Total comprehensive income for the period	**179.3**	**55.6**

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

49. Revenue

	for the 3 months ended	
	31 December 2016 unaudited	**31 December 2015 unaudited**
Retail revenue	530.3	507.9
Wholesale revenue	19.6	14.8
Sale of equipment	16.5	25.1
Other revenue	6.7	6.8
Total	**573.1**	**554.6**

50. Operating costs

		for the 3 months ended	
	Note	**31 December 2016 unaudited**	**31 December 2015 unaudited**
Content costs		145.3	131.0
Technical costs and costs of settlements with network operators		131.8	95.9
Distribution, marketing, customer relation management and retention costs		89.6	85.6
Depreciation, amortization, impairment and liquidation		55.4	56.3
Salaries and employee-related costs	a	30.9	31.6
Cost of equipment sold		14.3	25.3
Cost of debt collection services and bad debt allowance and receivables written off		2.4	3.4
Other costs		37.8	32.9
Total		**507.5**	**462.0**

a) Salaries and employee-related costs

	for the 3 months ended	
	31 December 2016 unaudited	**31 December 2015 unaudited**
Salaries	27.9	27.7
Social security contributions	2.6	3.0
Other employee-related costs	0.4	0.9
Total	**30.9**	**31.6**

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

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

	for the 3 months ended	
	31 December 2016 unaudited	**31 December 2015 unaudited**
Dividends received	144.2	-
Share in the profits of partnerships	13.3	10.9
Guarantee fees from related parties	1.5	-
Other	(12.9)	3.1
Total	**146.1**	**14.0**

52. Finance costs

	for the 3 months ended	
	31 December 2016 unaudited	**31 December 2015 unaudited**
Interest expense on loans and borrowings	9.6	15.2
Interest expense on issued bonds	10.9	10.8
Valuation and realization of hedging instruments	1.6	2.0
Guarantee fees	1.5	0.4
Bank and other charges	1.0	1.4
Total	**24.6**	**29.8**