CYFROWY POLSAT S.A.
CAPITAL GROUP

Annual Report
for the financial year ended
December 31, 2017

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LETTER OF THE PRESIDENT OF THE MANAGEMENT BOARD

Ladies and Gentlemen,

Just like every year, I would like to share with you the summary of last year's most important developments. And this time the occasion is all the more special, as in a couple of weeks we will celebrate the 10th anniversary of our presence on the Warsaw Stock Exchange, and such anniversaries are a good opportunity for reviewing and assessing our activities.

We have just ended another exceptional year which was full of developments and new projects. We continued along the development path and once again we demonstrated that we have a concept of what our Group should look like in the future, we have a very good and effective strategy as well as the competences, experience and resources required to achieve our goals.

In 2017, we consistently pursued the strategy that we adopted several years ago. Following its assumptions, we not only strove to strengthen our position on the pay TV, telecommunication and TV broadcasting and production markets, but above all we actively carried out activities which strengthen our presence in the segment of multiplay services.

The improvement of operating performance across individual categories is the best confirmation of how effective our efforts were, how well-targeted offers we proposed and how high was the trust that our customers put in us. Last year, we provided a total of 13.7 million diverse contract services to nearly 5.8 million customers. We observed with satisfaction the growing number of customers choosing multiplay offers and joining our loyalty scheme, the smartDOM savings program for homes – currently over 1.5 million of our customers have decided to combine the convenience of use of our services with tangible financial benefits. And now customers can enjoy even more possibilities of shaping their own service bundles, since the present smartDOM program offer includes numerous services and products that customers can choose from, including pay TV, Internet access, mobile telephony, gas and electricity supply, monitoring, banking and insurance services as well as telecommunication devices, Hi-Fi equipment and household appliances. Our programming proposals proved to be very attractive for our viewers who chose to watch Polsat TV channels, which in turn had positive influence on advertising air-time sales. All in all, in 2017 our TV channels had a 24.5% audience share and a 27.2% share in the TV advertising and sponsoring market.

Apart from the systematic achievement of our current business goals, we continuously focus on further development and on assuring a strong position for our Group in the future. This was the underlying reason of our decisions regarding the acquisition of a stake in Netia and the purchase of shares in ZPR Media Group's TV channels as well as the purchase of content that is of strategic importance for us.

Upon the finalization of the first transaction we would be able to offer new services to the customers of the two companies, enrich the smartDOM program and offer an even wider choice and variety of telecommunication services in both big and small cities, as well as outside them. In line with our long-term strategy for TV broadcasting and production segment, the acquisition of the new TV channels not only substantially enhances TV Polsat's offer of music programs, and generally increases the diversity of our rich thematic channels portfolio, but it also strengthens our group versus international and domestic competitors on the media market. Guided by our mission of providing top quality TV content which meets our viewers' expectations, we have acquired exclusive rights for broadcasting the UEFA Champions League and the UEFA Europa League matches in the years 2018-2021, and we have also extended our cooperation with FIVB International Volleyball Federation by acquiring further rights to volleyball events. By virtue of the contract with FIVB, over the next 7 years TV Polsat will broadcast major international volleyball events, including Volleyball Nations League, the matches of Polish men's and women's national teams in the FIVB Volleyball World Championship in 2022, as well as the qualifying tournaments for the 2020 and 2024 Olympics.

Last year we continued to develop the LTE technology, which can now be enjoyed by nearly 100% of Poland's population. More than half of the country's inhabitants already have access to the faster state-of-the-art LTE Advanced technology. We used bandwidth aggregation in three carrier frequencies, i.e. 1800 MHz, 2100 MHz and 2600 MHz, providing 50 MHz of bandwidth in total, which in combination with launching the 256 QAM has offered the possibility of increasing the maximum download rates in our LTE network to 500 Mbps. At the same time, during the past year we have worked on refarming the 900 MHz spectrum – a move that we informed of earlier – and today we can boast about having provided access to the LTE technology using this bandwidth to our customers.

The year 2017 also saw our debut on the movie market – two feature films, produced as part of the program *Cyfrowa Strefa Twórców* (Digital Filmmakers' Zone), namely Łukasz Palkowski's "*Najlepszy*" ("The Best") and "*Narzeczony na niby*" ("Make-Believe Fiancé") were shown in cinemas across Poland and quickly became box-office hits. Recently, we have also launched a new WWW service of our IPLA web TV – in a new graphical layout and containing new content and features.

Very good financial results, in spite of the occurrence of some unfavorable market events, confirm the successful completion of another year of our operations. The Group's revenue exceeded PLN 9.8 billion, EBITDA reached PLN 3.6 billion and our net profit was nearly PLN 1 billion. Not only were we able to regularly repay our debt, pay out dividends for 2016, continue the roll-out of our telecommunication network as planned and pursue further acquisitions on the market, but we also maintained high margins and increased free cash flow to nearly PLN 1.7 billion.

Our priorities for this year remain unchanged – we will strive to continuously increase the number of services that we offer, assure the best possible environment for further development of our smartDOM program, give the viewers of our channels top quality entertainment and thrills, as well as achieve superior financial results and consistently build the value of our Group.

I would like to thank all those who have contributed to the achievement of such fine results for last year as well as to the effective completion of the projects that we have embarked upon. My special thanks go to our customers and shareholders – for the appreciation of our day-to-day efforts, to the Supervisory Board – for the trust and support they demonstrated, and to the Group's employees – for their professionalism, involvement and efficiency, all of which undoubtedly contributed to the success we achieved last 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,

For Cyfrowy Polsat Group 2017 was a year of further consistent pursuit of our mission of the leader on entertainment and telecommunication markets in Poland. In accordance with this mission, we continue to create and deliver the most attractive TV content, telecommunication products as well as other services for homes, residential and business customers using the best available and the most advanced technologies. In 2017, we fully stood up to the challenge by responding to the changing needs of our customers and keeping their satisfaction at a top level.

Sustainable growth of Cyfrowy Polsat's value for its shareholders is the superior goal of our business strategy. We try to accomplish this goal through the consistent implementation of assumptions underlying our operating strategy. Its main elements include: growth of revenue from the services that we provide to residential and business customers, maximization of the revenue we obtain from the content we offer, as well as effective management of our cost base and the Group's finances.

Last year's investment in Netia's shares and the acquisition of ZPR Group TV channels were undoubtedly events of utmost importance from the point of view of our mission and our growth strategy.

By acquiring a stake in Netia, Cyfrowy Polsat Group, the biggest Polish private firm which has been developed on the basis of Polish capital, pursues yet another strategic investment project with a view to continue developing its multiplay offer and broaden its portfolio of services. This move will also enable the Group to compete with other market players who already own assets which are similar to the ones held by our Group and by Netia. Thanks to the agreement signed with ZPR Media Group our Group will in turn strengthen its position versus international and domestic competitors on the media market.

The above investments will be founded on the strength of the core business of the Group who consistently pursued its goals – it continued to develop its services and products, incessantly worked to enhance the quality of provided services, implemented new solutions as well as invested in technological development. While doing so, it observed rigorous and effective financial policy. Thanks to these efforts, the Group achieved the expected operating results and strengthened the foundations of its operations in all crucial areas, i.e. pay TV, telecommunication, TV broadcasting and production as well as on-line video (VOD).

I would also like to draw your attention to the video content offered on-line and to the actions that we have taken to accelerate our growth on the market of distribution of entertainment content in the Internet. The new solutions that we introduced for IPLA, which is currently the biggest web TV in Poland, the development of cooperation with other Polish VOD services, as well as the first and successful projects on the film production market have strengthened the Group's position as a producer of entertainment. The fine results that the feature films, produced or distributed by the Group, have achieved in cinemas allow us to believe that the Group has gained yet another strong mainstay for its operations.

What is also worth noting, is the fact that the Group has been actively involved in work related to regulations governing the markets on which it operates. The past year was a time of discussions regarding new solutions for the media and telecommunication markets. The 5G Strategy for Poland, developed by the Ministry of Digitization, was an important milestone. Our Group, being one of the signatories of this document, has demonstrated that it is ready to take active part in the technological development of the country. Joint efforts of the national administration and the industry seem to be the factor which conditions the country's ability to move to the next stage of digital and civilizational development.

On behalf of the Supervisory Board of Cyfrowy Polsat, I would like to thank all of you – our customers, our shareholders and our business partners – for the trust you have put in us. My special thanks go to the Management Boards and the employees of the Group, and also to the Supervisory Boards of the Group's companies whose effective, wise and fully-committed work contributed to the accomplishment of the goals that we have set for ourselves. I believe that further cooperation within our unique Group will translate into continued success, growing employee and customer satisfaction as well as consistent building of value for 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. Capital Group in the financial year ended December 31, 2017

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POLSAT GROUP AT A GLANCE

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

- pay digital TV services offered by Cyfrowy Polsat – the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. We offer our customers access to about 180 TV channels, including over 80 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, pay-per-view, Video On Demand) and Multiroom. We also provide online video services through IPLA, the leader on Poland's online video market, by offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue);

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

- mobile broadband Internet, offered under two alternative brands: Cyfrowy Polsat and Plus. We provide these services in the state-of-the-art LTE and LTE-Advanced technologies. 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;

- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 29 popular TV channels (19 in HD standard), including our main channel POLSAT, one of the leading FTA channels in Poland;

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

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

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

POLSAT GROUP IN FIGURES IN 2017

CUSTOMERS AND SERVICES

5.8 million contract customers

16.5 million services provided

- ✓ 83% of our services are provided in a contract model
- ✓ Systematic upselling of services to the combined customer base
- ✓ Growing loyalty of our customers

8.8% churn

SUCCESS OF OUR MULTI-PLAY STRATEGY

1.5 million multi-play customers

4.5 million services provided

- ✓ Flexible smartDOM program offering unique combinations of services for the home
- ✓ Attractive discounts and wide array of equipment
- ✓ Positive influence on ARPU

PLN 89.0 ARPU

STRONG, STABLE POSITION ON THE TV BROADCASTING AND PRODUCTION MARKET

24.5% audience share

27.2% TV advertising share

- ✓ Rich content offer, including numerous own productions which are matched to profile of the Polish viewer
- ✓ Consistently growing advertising revenue
- ✓ Acquisition of attractive and exclusive sports broadcasting rights for coming years

SOLID FINANCIAL PERFORMANCE

PLN 9.8 billion revenue

PLN 3.6 billion EBITDA

PLN 1.7 billion free cash flow

PLN 0.95 billion net profit

2.9x net debt /EBITDA ratio

- ✓ Stable and diversified revenue, mainly based on recurring, regular contract services
- ✓ Very high EBITDA margin, significantly above the market average
- ✓ Very high level of conversion of financial results to cash
- ✓ Fast debt reduction
- ✓ Defined, long-term dividend policy

Disclaimers

The following constitutes the Annual Report of Cyfrowy Polsat Capital Group prepared as required by Paragraph 82 section 2 and Paragraph 91 and 92 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. Capital Group (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 Group, unless from the context it is clear that they apply only to the Company. 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 and the Group, in particular the consolidated financial statements for the financial year ended December 31, 2017. The financial statements for the twelve month period ended December 31, 2017 attached to this Report have been prepared in accordance with International Financial Reporting Standards as approved for use in the European Union ("IFRS") and are presented in millions of zlotys.

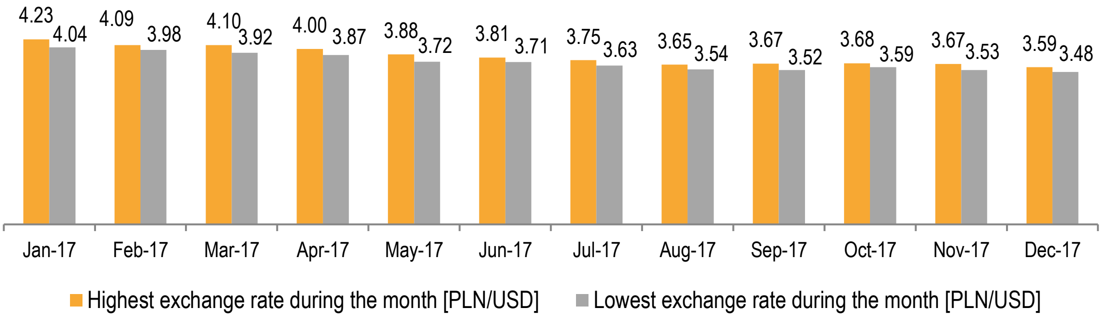
Certain arithmetical data contained in this Report, including financial and operating information, have been subject to rounding adjustments. Accordingly, in certain instances, the sum of the numbers in a column or a row in tables contained in this Report may not conform exactly to the total figure given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

Currency presentation and information on exchange rates

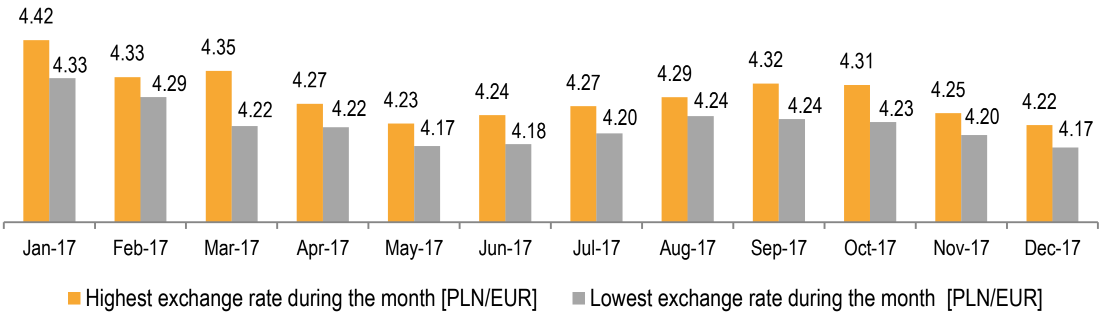
Unless otherwise indicated, all references to "PLN" or "zloty" in this Report refer to the legal tender of the Republic of Poland, all references to "USD" or "US dollars" refer to the legal tender currency of the United States and all references to "EUR" or the "euro" refer to the legal tender of the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

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

Year [PLN per USD 1.00]	2012	2013	2014	2015	2016	2017
Exchange rate at end of period	3.0996	3.0120	3.5072	3.9011	4.1793	3.4813
Period average exchange rate	3.2570	3.1608	3.1551	3.7701	3.9431	3.7777
Highest exchange rate during period	3.5777	3.3724	3.5458	4.0400	4.2493	4.2271
Lowest exchange rate during period	3.0690	3.0105	3.0042	3.5550	3.7193	3.4813



Year [PLN per EUR 1.00]	2012	2013	2014	2015	2016	2017
Exchange rate at end of period	4.0882	4.1472	4.2623	4.2615	4.4240	4.1709
Period average exchange rate	4.1850	4.1975	4.1852	4.1839	4.3625	4.2576
Highest exchange rate during period	4.5135	4.3432	4.3138	4.3580	4.5035	4.4157
Lowest exchange rate during period	4.0465	4.0671	4.0998	3.9822	4.2355	4.1709



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 Polsat Group* – and under item 6 - *Key risk and threat factors*, as well as elsewhere in this Report. These cautionary statements qualify to all forward looking statements attributable to us or persons acting on our behalf. When we indicate that an event, condition or circumstance could or would have an adverse effect on us, we mean to include effects upon our business, financial situation and operating results.

Industry and market data

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

- Eurostat, for data relating to the Polish economy and GDP growth;
- the Polish Chamber of Electronic Communication;
- the Office of Electronic Communications (UKE);
- the Central Statistical Office of Poland (GUS);
- the Body of European Regulators for Electronic Communications (BEREC);
- the European Commission (Digital Agenda Scoreboard);
- Nielsen Audience Measurement;
- Starcom (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2016-2020);
- Zenith media house;
- Gemius/PBI;
- PMR – *Pay TV market in Poland 2017. Market analysis and forecasts for the years 2017-2022*;
- PMR – *Telecommunication market in Poland 2017. Market analysis and forecasts for the years 2017-2022*;
- PMR – *Integrated telecommunications services market in Poland 2018; Market analysis and forecasts for the years 2018-2023*;
- GfK Polonia;
- Ericsson Mobility Report;
- Fiber to the Home Council Europe; and
- operators functioning on the Polish market.

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

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

SELECTED FINANCIAL DATA

The following tables set out selected consolidated financial data for the three and twelve month periods ended December 31, 2017 and December 31, 2016. 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 consolidated financial statements for the financial year ended December 31, 2017 (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 Polsat Group.*

Selected financial data:

- from the consolidated income statement for the three period ended December 31, 2017 and December 31, 2016 have been converted into euro at a rate of PLN 4.2326 per EUR 1.0, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from October 1 to December 31, 2017;
- from the consolidated income statement and the consolidated cash flow statement for the twelve month period ended December 31, 2017 and December 31, 2016 have been converted into euro at a rate of PLN 4.2576 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, 2017;
- from the consolidated balance sheet data as at December 31, 2017 and December 31, 2016 have been converted into euro at a rate of PLN 4.1709 per EUR 1.0 (average exchange rate published by NBP on December 29, 2017).

Such recalculations 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 data for the periods of three and twelve months ended December 31, 2017 are not fully comparable to data for the periods of three and twelve months ended December 31, 2016 due to the acquisition of 100% shares of Litenite Limited, the direct parent of Aero2 Group (formerly Midas Group) on February 29, 2016, the acquisition of 100% of shares of IT Polpager S.A. on September 30, 2016, the disposal of shares in LTE Holdings Limited on June 19, 2017, the acquisition of 51% of shares in Paszport Korzyści Sp. z o.o. (currently Plus Flota Sp. z o.o.) up to 100% on September 7, 2017, the acquisition of 100% of shares of Eska TV S.A. and Lemon Records Sp. z o.o. on December 4, 2017, the acquisition of 34.02% of shares in TV Spektrum Sp. z o.o. on December 4, 2017, the acquisition of 31.76% of shares of Netia S.A. on December 5, 2017 and the disposal of shares in New Media Ventures Sp. z o.o. on December 8, 2017.

Consolidated balance sheet

	December 31, 2017		December 31, 2016	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents(1)	1,172.0	281.0	1,336.7	320.5
Assets	27,756.0	6,654.7	27,729.3	6,648.3
Non-current liabilities	11,723.7	2,810.8	12,670.5	3,037.8
Non-current financial liabilities	10,285.7	2,466.1	11,159.3	2,675.5
Current liabilities	3,915.5	938.8	3,681.2	882.6
Current financial liabilities	1,394.1	334.2	1,317.4	315.9
Equity	12,116.8	2,905.1	11,377.6	2,727.9
Share capital	25.6	6.1	25.6	6.1

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

Consolidated income statement

	for the 3-month period ended December 31				for the 12-month period ended December 31			
	2017		2016		2017		2016	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
Revenue	**2,579.2**	**609.4**	**2,535.1**	**598.9**	**9,828.6**	**2,308.5**	**9,729.8**	**2,285.3**
Retail revenue	1,497.9	353.9	1,589.0	375.4	6,067.9	1,425.2	6,325.3	1,485.6
Wholesale revenue	735.8	173.8	658.4	155.6	2,538.6	596.3	2,466.1	579.2
Sale of equipment	298.8	70.6	265.6	62.8	1,055.2	247.8	850.8	199.8
Other sales revenue	46.7	11.0	22.1	5.2	166.9	39.2	87.6	20.6
Total operating cost	**(2,139.2)**	**(505.4)**	**(2,140.6)**	**(505.7)**	**(8,015.9)**	**(1,882.7)**	**(8,069.3)**	**(1,895.3)**
Technical costs and cost of settlements with mobile network operators	(533.8)	(126.1)	(472.6)	(111.7)	(2,014.0)	(473.0)	(1,938.7)	(455.4)
Depreciation, amortization, impairment and liquidation	(434.8)	(102.7)	(512.4)	(121.1)	(1,783.0)	(418.8)	(1,971.5)	(463.1)
Cost of equipment sold	(357.9)	(84.6)	(380.1)	(89.8)	(1,323.6)	(310.9)	(1,354.7)	(318.2)
Content costs	(321.2)	(75.9)	(297.3)	(70.2)	(1,153.6)	(271.0)	(1,114.2)	(261.7)
Distribution, marketing, customer relation management and retention costs	(243.3)	(57.5)	(222.5)	(52.6)	(894.3)	(210.0)	(827.8)	(194.4)
Salaries and employee-related costs	(164.2)	(38.8)	(163.9)	(38.7)	(553.1)	(129.9)	(570.5)	(134.0)
Cost of debt collection services and bad debt allowance and receivables written off	(10.5)	(2.5)	(15.3)	(3.6)	(67.4)	(15.8)	(46.9)	(11.0)
Other costs	(73.5)	(17.4)	(76.5)	(18.1)	(226.9)	(53.3)	(245.0)	(57.5)
Other operating income, net	**(2.1)**	**(0.5)**	**(4.6)**	**(1.1)**	**21.3**	**5.0**	**8.8**	**2.1**
Profit from operating activities	**437.9**	**103.5**	**389.9**	**92.1**	**1,834.0**	**430.8**	**1,669.3**	**392.1**
Gain/(loss) on investment activities, net	19.1	4.5	(26.3)	(6.2)	7.2	1.7	(69.8)	(16.4)
Financial costs	(105.4)	(24.9)	(122.9)	(29.0)	(509.0)	(119.6)	(566.1)	(133.0)
Share of profit of partnerships accounted for using the equity method	2.8	0.7	-	-	2.8	0.7	-	-
Gross profit for the period	**354.4**	**83.7**	**240.7**	**56.9**	**1,335.0**	**313.6**	**1,033.4**	**242.7**
Income tax	(197.2)	(46.6)	101.1	23.9	(389.8)	(91.6)	(12.4)	(2.9)
Net profit for the period	**157.2**	**37.1**	**341.8**	**80.8**	**945.2**	**222.0**	**1,021.0**	**239.8**
Net profit attributable to equity holders of the Parent	167.1	39.5	349.9	82.7	980.6	230.3	1,041.3	244.6
Net profit/(loss) attributable to non-controlling interest	(9.9)	(2.3)	(8.1)	(1.9)	(35.4)	(8.3)	(20.3)	(4.8)
Basic and diluted earnings per share in PLN (not in millions)	**0.25**	**0.06**	**0.54**	**0.13**	**1.48**	**0.35**	**1.60**	**0.37**
Weighted number of issued shares (not in millions)	639,546,016		639,546,016		639,546,016		639,546,016	

Consolidated cash flow statement

	for the 12-month period ended December 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	2,941.4	690.9	2,884.7	677.5
Net cash from/(used in) investment activities	(1,573.3)	(369.5)	(1,003.4)	(235.7)
Net cash used in financial activities	(1,527.7)	(358.8)	(2,070.8)	(486.4)
Net increase/(decrease) in cash and cash equivalents	(159.6)	(37.5)	(189.5)	(44.5)

Other consolidated financial data

	for the 3-month period ended December 31				for the 12-month period ended December 31			
	2017		2016		2017		2016	
	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR	mPLN	mEUR
EBITDA (1)	872.7	206.2	902.3	213.1	3,617.0	849.6	3,640.8	855.1
EBITDA margin	33.8%	33.8%	35.6%	35.6%	36.8%	36.8%	37.4%	37.4%
EBIT margin	17.0%	17.0%	15.4%	15.4%	18.7%	18.7%	17.2%	17.2%
Capital expenditures(2)	182.9	43.2	194.6	46.0	739.1	173.6	590.4	138.7

(1) We define EBITDA as net profit/(loss), as determined in accordance with IFRS, before depreciation and amortization (other than for programming rights), impairment charges and reversals on property, plant and equipment and intangible assets, net value of disposed property, plant and equipment and intangible assets, revenue obtained from interest, finance costs, positive/(negative) exchange rate differences, income taxes and share of net results of joint ventures. The reconciling item between EBITDA and reported operating profit/ (loss) is depreciation and amortization expense and impairment charges and reversals on property, plant and equipment and intangible assets and net value of disposed property, plant and equipment and intangible assets. The reconciliation between reported net profit and EBITDA is presented in Note 14 of the consolidated financial statements for the year ended December 31, 2017.

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

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

1. CHARACTERISTICS OF POLSAT GROUP

1.1. Structure of Polsat Group

The following table presents the organizational structure of Polsat Group as at December 31, 2017 and December 31, 2016, indicating the consolidation method.

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2017	December 31, 2016
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licenses	100%	100%
Polsat Ltd.	238A King Street, London W6 0RF, Great Britain	television broadcasting	100%	100%
Muzo.fm Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
Telewizja Polsat Holdings Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	holding activities, television broadcasting and production	-	100%
Polsat Brands AG	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Lemon Records Sp. z o.o.	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	-
ESKA TV S.A.	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	-
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	telecommunication activities	100%	100%
Metelem Holding Company Limited	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol, Cyprus	holding and financial activities	-	100%
Eileme 1 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2017	December 31, 2016
Eileme 2 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	-	100%
Eileme 3 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	-	100%
Eileme 4 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	-	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (in liquidation)	Norrlandsgatan 18, 111 43 Stockholm, Sweden	financial activities	-	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights management and rental	100%	100%
LTE Holdings Limited	Kostaki Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	-	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights rental	100%	100%
IT Polpager S.A.	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	maintenance of telco network	-	100%
Litenite Limited	Kostaki Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
Aero2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	51%
AltaLog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	66%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Grab Sarl	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	-	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	-	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	(1)	(1)
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2017	December 31, 2016
Teleaudio Dwa Sp. z o.o. Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	call center and premium-rate services	100%	100%
Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.)	Konstruktorska 4, 02-673 Warsaw	management and rental services	100%	49%(2)
Subsidiaries consolidated using the equity method				
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG, Great Britain	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	-	49.97%
Netia S.A.(3)	Poleczki 13, 02-822 Warsaw	telecommunication activities	31.76%	-
TV Spektrum Sp. z o.o.	Dęblińska 6, 04-187 Warsaw	television broadcasting and production	34.02%	-

(1) Cyfrowy Polsat owns indirectly 100% of certificates.
(2) Shares in Paszport Korzyści Sp. z o.o. were consolidated using the equity method as at December 31, 2016.
(3) On December 5, 2017 Cyfrowy Polsat announced a tender offer for the sale of another 33% of shares in Netia S.A. As at the date of publication of this Report the tender offer has not been finalized.

Additionally, the following entities were included in the consolidated financial statements for financial year 2017:

Company	Registered office	Activity	Share in voting rights (%) as at	
			December 31, 2017	December 31, 2016
Karpacka Telewizja Kablowa Sp. z o.o. (1)	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25e/216 10-686 Olsztyn	Infrastructure project advisory	1.5%(2)	1.5%(2)

(1) Investment accounted for at cost less any accumulated impairment losses.
(2) AltaLog Sp. z o.o. holds a 2.3% share in voting rights in InPlus Sp. z o.o.

Changes in the organizational structure of Polsat Group and their effects

From January 1, 2017 until the date of approval of this Report, i.e. March 21, 2018, the following changes were implemented in the structure of the Group. These changes are the effect of acquisitions and the systematically executed process of simplifying the capital structure of the Group. The changes in the Group's structure entail, among other things, improved efficiency of financial management on the consolidated level through the simplification and streamlining of intragroup financial flows and the elimination of redundant costs. What is more, they translate into greater credibility and transparency of Polsat Group, which in turn has a positive influence on the possibilities of obtaining and using external debt financing.

Date	Description
March 31, 2017	Registration of the merger of Polkomtel with IT Polpager S.A.
April 7, 2017	Registration of the cross-border merger of Cyfrowy Polsat with Metelem Holding Company Limited.
April 28, 2017	Registration of the merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o.
June 8, 2017	Registration of the liquidation of Grab Investment SCSp.
June 19, 2017	Disposal of shares of LTE Holdings Ltd.
June 29, 2017	Registration of the liquidation of Polkomtel Finance AB.

Date	Description
July 20, 2017	Registration of the liquidation of Grab Sarl.
September 7, 2017	Increase in the holding of shares in Paszport Korzyści Sp. z o.o. (currently Plus Flota Sp. z o.o.) up to 100%.
November 24, 2017	Registration of the merger of Eileme 1 AB (publ) with Eileme 2 AB (publ), Eileme 3 AB (publ) and Eileme 4 AB (publ).
December 4, 2017	Acquisition of 100% of shares in ESKA TV S.A. by Telewizja Polsat.
December 4, 2017	Acquisition of 100% of shares in Lemon Records Sp. z o.o.
December 4, 2017	Acquisition of 34.02% of shares in TV Spektrum Sp. z o.o.
December 5, 2017	Acquisition of 31.76% % of shares in Netia S.A.
December 8, 2017	Disposal of shares of New Media Ventures Sp. z o.o.
February 2, 2018	Acquisition of an additional 15.46% of shares in TV Spektrum Sp. z o.o.
March 1, 2018	Acquisition of 100% of shares in Coltex ST Sp. z o.o.

On 9 January 2018 the Extraordinary General Meeting of the Company adopted a resolution concerning the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Eileme 1 AB (Ceasing Company). The merger 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. As at the date of approval of this Report the cross-border merger had not been finalized.

1.2. Who we are

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

We operate in two business segments: segment of services to individual and business customers, and broadcasting and television production.

In the segment of services to individual and business customers we provide services including digital television transmission signal, Internet access services, mobile TV services, video online, mobile services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at December 31, 2017 we had 5.8 million contract customers and companies from our Group provided a total of over 16.5 million active services, including almost 13.7 million contract RGUs.

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

1.2.1. Segment of services to individual and business customers

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 about 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 5 million pay TV services as at December 31, 2017.

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family at attractive prices. At present we provide access to about 180 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 80 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 online television IPLA offered by our Group is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices, including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles, as well as in terms of the volume of available content. IPLA also enjoys one of the leading positions 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 monthly number of unique users of the IPLA website and application was approximately 4.3 million in the fourth quarter of 2017 and 3.6 million in 2017.

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators. As at December 31, 2017 we provided 9.5 million mobile telephony services under both the post-paid and pre-paid models.

We offer a comprehensive array of mobile telecommunications services under the established umbrella brand "Plus" and our additional brand "Plush," as well as under the brands of companies belonging to Aero2 Group. Our offer includes retail services, comprising contract and prepaid voice services, as well as data transmission services encompassing basic mobile broadband services, MMS, value added services such as entertainment or information and comprehensive convergent telecommunication services for large businesses. Additionally, our mobile telephony offer is complemented with a wide portfolio of handsets and smartphones, including devices which support the LTE technology. Our retail mobile telephony offer is addressed to individual and business customers, including major corporate accounts, small and medium-sized enterprises and institutions, and the SOHO (Small Office/Home Office) segment.

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allow to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a significant feature for a significant group of consumers. In 2017, our LTE Internet and HSPA/HSPA+ Internet covered nearly 100% of Poland's population. In 2016 we also launched the LTE-Advanced technology on a commercial scale, and developed it consistently throughout 2017, achieving a coverage footprint of 54% of the population of Poland at present. This technology is being successively developed, as demonstrated by our launch of the 256 QAM modulation, which allows for increased transmission speed by 33% while using the same radio band. As at December 31, 2017, we provided nearly 2 million broadband Internet access services, mostly in the contract model.

We provide a comprehensive array of mobile broadband access services to both residential and business customers under two alternative brands: Plus and Cyfrowy Polsat. We offer broadband Internet in the contract and prepaid model. Moreover, thanks to our LTE Internet access service combined with the set Home LTE Internet we can offer customers a product that constitutes a substitute for fixed-line Internet. Additionally, pursuant to the provisions of the concession related to the purchase of the 2.6 GHz band, our subsidiary Aero2 provides free of charge Internet access services, however with limited parameters (BDI offer).

Our offering is complemented by a portfolio of dedicated devices (modems, routers, tablets, laptops, ODU-IDU sets, etc.), that support the LTE technologies. Such a wide offering allows us to address the needs of customers, who are interested in using mobile broadband Internet for its mobility as well as those customers, who want to substitute fixed-line Internet access at home or in the office.

Bundled services

Currently, the bundling of services is one of the strongest trends on the Polish media and telecommunications market. In keeping with the rapidly changing market environment and consumer expectations, we consistently implement our 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, banking and insurance services or sale of electric energy and gas. These services can be combined freely on an as-needed basis. Our broad range of bundled services is offered through a diverse array of digital entertainment and communication platforms, such as television sets, mobile handsets, computers and tablets.

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

Wholesale business

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

Network interconnection

Our telecommunication infrastructure used in interconnection cooperation enables us to effectively manage telecommunication traffic routing to all operators domestically and abroad.

Shared access to network assets and lease of telecommunications infrastructure

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

International roaming

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

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

National roaming and virtual operators (MVNOs)

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

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

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

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

1.2.2. Broadcasting and television production segment

Production and broadcasting of television channels

Our portfolio comprises 29 channels (19 available in HD) including our flagship POLSAT, available in SD and HD formats and 28 thematic channels.

The main channel POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is one of the leading Polish TV channels in terms of share in the commercial audience group, totaling 12% in the fourth quarter of 2017 and almost 12.3% in 2017. POLSAT broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2) and on local multiplexes (MUX-L4 and MUX-TVS). Apart from terrestrial signal, POLSAT is also available in SD and HD formats on most cable networks and satellite platforms. The channel features a broad selection of films, entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

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

Sale of TV channel advertising airtime and sponsoring

Within our wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from Starcom we estimate that in the fourth quarter of 2017 Polsat Group channels captured 27.0% of the Polish TV advertising market worth approximately PLN 1.3 billion in that period. We estimate that in the entire year 2017 our share in the Polish TV advertising market was 27.2%, while the whole market was estimated at PLN 4.1billion in that period.

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

Wholesale of TV channel broadcasting rights

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

1.3. Strategy of the Group

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

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

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

Growth of revenue from services provided to residential and business customers through consistent building of the customer base value by maximizing the number of users of our services as well as the number of services offered to each customer, while simultaneously increasing average revenue per user (ARPU) and maintaining high levels of customer satisfaction

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

The factor that will have a positive impact on revenue is the possibility of cross-selling of our existing and future products and services to the combined customer base of Cyfrowy Polsat 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 through PCs and tablets to smartphones.

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

The channels we produce and broadcast enjoy strong, well-established positions on the Polish TV market as well as high ratings in their target groups. We currently broadcast 29 channels (including 19 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 the leading integrated media and telecommunications group in the region

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

We are the largest provider of pay TV services in Poland and a leading DTH provider in Europe. Since 2006, Cyfrowy Polsat has been the leader of the Polish pay TV market both in terms of customers and the number of active services and market share. Our subsidiary, Polkomtel, which focuses on provision of mobile telecommunication services under Plus brand, is one of the leading telecommunication operators in terms of the value of generated revenues and the size of the contract base of mobile telephony and the mobile broadband Internet access services. At the same time we are the leading TV group in Poland in terms of growth dynamics of advertising revenues and audience share.

Our pay TV, mobile telephony and Internet access services are sold through a nationwide distribution network consisting of over 1.1 thousand stationary points of sale. We simultaneously offer our services in alternative telemarketing, door-to-door channels as well as online in Cyfrowy Polsat's and Polkomtel's online stores. Furthermore, Polkomtel has its own separate B2B sales and service channels, as well as an extensive prepaid distribution network.

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

Our key brands - "Cyfrowy Polsat," "Plus," "Telewizja Polsat" and "IPLA" - are well recognized by Polish consumers and we believe they are associated with high quality and value-for-money services aimed at the entire family. According to a survey conducted by GfK Polonia agency on the Polish telecommunication market in November and December 2017, spontaneous and aided brand recognition of the "Plus" brand was 88% and 98%, respectively, in the voice segment and 72% and 86%, respectively, in the data transmission segment. The GfK survey also demonstrated that Cyfrowy Polsat is the best recognized pay TV provider in Poland with spontaneous and aided brand recognition on the level of 78% and 95%, respectively.

In 2017, Polsat Group's advertising sales office, Polsat Media, once again received the highest score among TV advertising sales offices in the ranking prepared by Millward Brown, at the request of *Media & Marketing Polska.* In the above mentioned ranking, Polsat Media earned the highest scores in three dimensions, which are the most crucial from the point of view of media houses, out of eight dimensions presented. These dimensions were: "I trust them – they offer me the feeling of security," "fast and exhaustive responsive to a brief," and "they act flexibly and efficiently when changes occur in an advertising campaign." What is significant is that Polsat Media was the only TV advertising sales office to receive scores exceeding the market average in all dimensions.

By awarding the title of the "2017 TV Advertising Bureau of the Year," the editors of *Media i Marketing Polska* magazine appreciated the changes which occurred in Polsat Media in 2017. Ten new stations were added to the portfolio of thematic channels and a new product, called Polsat Media Display, supplemented the offer. Polsat Media Display is a product which combines coverage-expanding and thematic Internet services into a single package, thus enabling advertising space to be purchased in both programmatic and direct models. The start of cooperation with influencers, by creating the Polsat Media AdTube platform, was also an important development, as was the cooperation with Screen Network. Screen Network is a company which operates on the Digital Out-of-Home market and has created the Polsat Media AdScreen product which combines the screens owned by SN with the PRN network operating in Carrefour hypermarkets.

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

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

Polsat Group has a significant base of customers, consisting of the individual customers of Cyfrowy Polsat and Polkomtel, business and corporate customers, as well as prepaid users. This base includes 5.8 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 gas, household appliances, electronic equipment, banking, insurance or home security services at attractive prices. We are the only pay TV operator in Poland who provides comprehensive multi-play services, which is a significant competitive advantage on the pay TV market in Poland. At the same time we are the only telecommunication operator to offer bundled services comprising pay TV provided on the basis of own assets and infrastructure, which ensures greater price elasticity and more effective operating activities on the competitive market.

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

We are the leader of Internet access services in LTE 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 among others on a unique at the national level, continuous 20 MHz block in the 1800 MHz frequency band. Following the auction of frequencies in 2015, we have gained access to frequencies in the 2600 MHz bandwidth. Currently, the Group is aggregating frequencies from the 800, 1800, 2100 and 2600 MHz bandwidths, which allows us to offer our customers in selected areas commercial services based on the LTE-Advanced technology with the maximum transmission speed of up to as much as 500 Mbps. In the end of 2017 already 54% of Poles could use services in LTE-Advanced, while the coverage of our LTE network was almost 100% of the population of Poland.

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

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

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

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 2017, 8.1 million high technology devices left our production lines. We control the entire process of production of set-top boxes, from the hardware and software design phase to the production in our own factory as well as in our subcontractors' facilities. This enables us to produce high quality set-top boxes while incurring manufacturing costs which are noticeably lower than the price of purchasing such equipment from third-party providers. The functionalities of our set-top boxes are designed in line with the customers' expectations as analyzed by the surveys, so that we can be sure the equipment will meet their needs. The fact that software installed on our set-top boxes is developed by in-house engineers, enabling us to rapidly respond to emerging customer needs.

We own the biggest portfolio of TV channels in Poland

TV Polsat Group channels' portfolio consists of 29 channels, including 19 channels offered in HD. The portfolio of our thematic channels includes general entertainment, music, sports, news, business, lifestyle, movie and children's channels. This is the largest and most diversified portfolio of channels on the Polish market, giving us a leading position in terms of audience share among private television groups in Poland. In December 2017 we acquired new music channels: Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music and initiated cooperation with the broadcaster of channels Fokus TV and Nowa TV.

We believe that attractive content of our channels is a significant competitive advantage. We have contracts with major film studios, such as Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution, CBS Studios or Monolith Films Sp. z o.o., which guarantees access to a wide selection of the most attractive films and series. Our direct production is concentrated mainly on news, documentary and entertainment programs and series based on international formats, as well as created on the basis of our own concepts.

The element that distinguished us from our competitors is a wide and unique offer of sports transmissions, UEFA EURO 2020 Qualifiers and FIFA World Cup 2022, two seasons of the football Nations League 2018/19 and 2020/21, big volleyball tournaments – the men's and women's World Volleyball Championships 2018 and 2022, new, attractive games of the volleyball Nations League (2018-2024), the 2019 and 2023 World Cup, qualifying competitions for the Olympic Games in Tokyo (2020) and Paris (2024), Plus Liga and Orlen Liga, boxing and mixed martial arts galas (KSW, FEN and UFC), Wimbledon and ATP 1000 and 500 tournaments, and many others. Additionally, in 2017 we acquired rights to the most popular football club competitions – the UEFA Champions League and UEFA Europa League (for the years 2018-2021).

We believe that attractive content, including such content that is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

We have a high quality telecommunication infrastructure and broad portfolio of frequency bands

We provide telecommunication services including voice, data transmission and wholesale services, as well as a broad array of additional services based on our own network, comprising an integrated 2G/3G network based on GSM/GPRS/EDGE/UMTS/HSPA/HSPA+/HSPA Dual Carrier and a developed CDMA network dedicated to dispatching services. Concurrently, we are the leader in the LTE and LTE-Advanced technologies, having introduced services based on these standards as the first operator in Poland and offering the widest coverage of our LTE radio network. We have spectrum reservations in an extensive portfolio of telecommunication frequencies, including 420 MHz, 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bands. Our extensive frequency resources ensure not only flexibility in bandwidth management, but also offer many possibilities in terms of network reconfiguration in the future. In particular, we are actively refarming spectrum in the 900 MHz bandwidth, which consists in the allocation of part of the bandwidth currently used for 2G and 3G services to LTE and LTE-Advanced technologies. We additionally aggregate frequencies in the 800 MHz, 1800 MHz, 2100

MHz and 2600 MHz bands and offer our customers in certain areas of Poland LTE-Advanced technology with maximum data transmission speed of 498 Mbps.

Thanks to our mobile network we are able to reach with our telecommunication services customers who live in less populated suburban and rural areas of Poland, while incurring substantially lower costs than cable TV or fixed-line operators. This enables us to build a strong position in smaller cities and less urbanized areas of Poland and provide telecommunication services – in a cost-effective way – to the customers of Cyfrowy Polsat, who are located mainly in the aforementioned areas. Due to the high cost of network roll-out or starting of operations and regulatory barriers related to obtaining access to frequencies, we will continue to profit from our strong market position.

Currently, practically the entire population of Poland is within the coverage of our 2G/3G mobile services (including data transmission in HSPA+), while 99% of Poles have access to our LTE technology. Concurrently, we concentrate on aggregating frequency bands that we use, thanks to which the coverage of our LTE-Advanced network already reaches over 54% of Poles.

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, telecommunication and TV broadcasting markets. Unlike potential entrants to the Polish pay TV market, we benefit from economies of scale and a loyal customer base, and we can spread the relatively high cost of the necessary technology over our large customer base and leverage the stronger bargaining power that comes with a leading market position.

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

We have strong, stable and diversified cash flows

We generate revenue through two distinct revenue streams: the segment of the services provided to individual and business customers and the broadcasting and television production segment. In the segment of services to individual and business customers segment, 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-boxes manufacturing plant, proprietary IT solutions, or the centralization of selected back-office processes within the entire Capital Group.

We have experienced managing staff

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

1.5. Market opportunities

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

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

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

According to the European Commission's report "E-Communications and the Digital Single Market" of 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%. The leading European countries in this respect included the Netherlands, Belgium or Portugal, where the level of penetration with bundled services reached 87%, 69% and 68%, 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 access market in Poland

Based on data published by the European Commission in the Digital Scoreboard, in February 2017, the penetration rate of Internet access services among Polish households was 75.7%. Concurrently, European data demonstrates that fixed-line Internet access penetration was 61.2% in Poland, which was one of the lowest rates among European Union countries. For 28 member states average penetration was almost 75.5% of households, while in the case of selected countries (the Netherlands, Germany or Great Britain) it exceeded 85%. The low penetration with fixed-line broadband Internet access services in Poland combined with the progressing development of mobile technologies make the broadband access market the fastest growing telecommunication market segment at present.

According to PMR estimates in 2017, there were nearly 15.5 million users of broadband Internet, out of which 57% used mobile connections. According to PMR, by 2022 the total number of broadband users is expected to grow by ca. 23%, with the number of mobile broadband users growing by approximately 27% (data on mobile Internet include exclusively customers using modems and PCs) and fixed-line broadband market growth of 10%.

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

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

As the market for innovative technologies is growing at a fast pace, the number of mobile devices (notebooks, tablets, smartphones or Smart TV sets) owned by consumers is on the rise as well. This has spurred a sharp increase in access to video content, and hence in video viewership. According to Ericsson Mobile Report dated November 2017, video content remains the biggest and fastest growing segment of the mobile data transmission. It is expected that in the years 2017-2023 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 2023. 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. As a result, the share of smartphone users in Plus network increased from 26% at the end of 2012 to approximately 70% in 2017. 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 the users of our network, which in turn should have a positive impact on the level of ARPU generated by our customers.

Development of advertising market in Poland

Demand for advertising air-time is highly correlated with the macro-economic situation. In the past, given the increasing GDP of Poland, the TV advertising market was characterized a regular single-digit (in percentage terms) growth rate. Assuming further positive GDP growth dynamics in the next years, we believe that growth of the Polish advertising market can also be expected. Given that TV is a highly effective advertising medium and bearing in mind the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, there is still a substantial growth potential for TV advertising in Poland in the long term. It is worth noticing, that despite the growing importance of new media, it is forecasted that watching television will remain an attractive and popular activity, primarily thanks to new technical possibilities, including: increasing number of HD channels and VoD, as well as thanks to the growing number of TV sets with Internet access.

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 6% y-o-y and reached the value of over PLN 2.7 billion in the first three quarters of 2017. 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 2017 those expenditures increased by 30% and represented 12% of the total expenditures on online advertising. We believe that thanks to the leading position on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels

A key trend emerging on the TV market in Poland over the past several years has been the increasing importance of thematic TV channels. Thematic channels are TV channels distributed mainly through cable and satellite platforms (pay) and terrestrial multiplexes (free) that specialize in a particular genre of programming, such as children's programming, films, sports, lifestyle, music, news or weather. The thematic channels market segment in Poland gained an audience share[1] amounting to 51.1% in 2017 compared to 48.6% in 2016. Broadcasters with access to thematic channels and integrated media platforms (such as Cyfrowy Polsat Group) can potentially leverage the niche programming content with targeted and optimized advertising.

At the end of 2017 we strengthened the Group's market position in the segment of thematic channels by acquiring five music channels - Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV and by entering into cooperation combined with a capital investment in the company producing the channels Fokus TV and Nowa TV. Thanks to theirs solid market position and viewership results, the new channels complement perfectly our comprehensive programming offer.

1.6. Development prospects

Development prospects in the segment of services to individual and business customers

We are 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 services, such as modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD Home Movie Rental, TV online, Catch-Up TV), Multiroom. Through our online service IPLA also we provide online video services in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue). In line with our strategy, we focus on marketing and sales activities aimed at cross-selling stand-alone products and services to the customer base of Polsat Group and at selling our integrated services offer.

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

[1] NAM, all 16-49, full day, all channels except Polsat, TVP1, TVP2, TVN, TV4, TV Puls, TVN7.

LTE Internet has become the standard for mobile broadband Internet access in Poland, effectively replacing the older UMTS standard. We consistently develop our infrastructure in order to improve the parameters that characterize our LTE network, such as coverage, capacity and transfer speed. At the same time we began the aggregation of frequency bands used by us, as a result of which we were able to offer our customers in selected areas of Poland the LTE-Advanced technology, which offers transmission speed of up to nearly 500 Mbps.

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

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

Development prospects in the broadcasting and television production segment

We are one of the leading groups on the Polish TV broadcasting market in terms of both audience shares and advertising revenue and advertising market shares. Based on data from Starcom, we estimate that in 2017, we captured 27.2% (y-o-y increase by 0.5 p.p.) of the Polish TV advertising market worth approximately PLN 4.1 billion.

The audience shares of thematic channels are growing continuously as the process of fragmentation of the Polish television market continues to progress. We believe that we can profit from this fragmentation by strengthening our wide portfolio of channels targeted to the entire family, extending and strengthening our distribution network on cable and satellite platforms including also our segment of services to individual and business customers, within which we manage the largest pay TV platform in Poland. We believe that our presence on all significant satellite platforms and our distribution by cable TV operators will result in a further increase in the audience share of our thematic channels, and, consequently, give us the opportunity to grow at least in line with the TV advertising market, and increase subscription fee revenue. Currently, our thematic channels portfolio includes 28 channels (12 new channels in the Group in the last five years), and their total audience share is in an upward trend.

Following the global trends of changes in media consumption, dynamic development and increasing popularity of mobile devices, we implement our strategy aimed at the widest possible distribution of content using the latest devices and technologies. That is why we want to monetize our content also through distribution via our internet television IPLA, which is the leader on the online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. IPLA is also the leader in terms of the number of users and the time spent by one user on watching video content. We search for new development opportunities and partnerships, which will allow us to reach a wider audience with our content.

We also believe that thanks to possible synergies within the largest integrated media group in Poland in fields such as purchase of content, distribution, sales and marketing, we are able to strengthen our position on the broadcasting and television production market.

2. Business overview of Polsat Group

2.1. Activities on the pay TV market

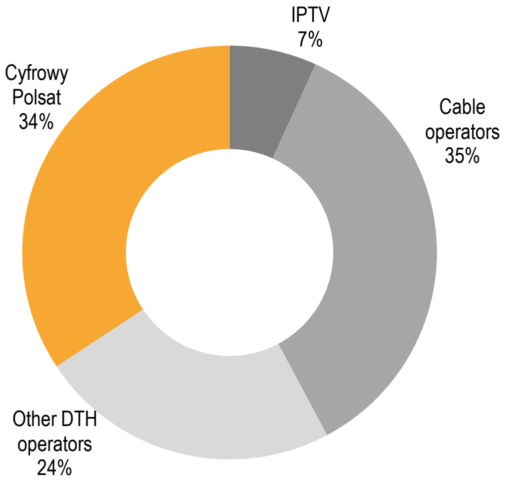
2.1.1. Pay TV market in Poland

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 2016 the market was worth almost PLN 6 billion and remained at a stable level year-on-year.

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

Both in terms of the number of subscribers and value, the situation on the Polish pay TV market is stable. On the one hand, a high level of market penetration with pay TV services (estimated by PMR at ca. 70% of households with at least one person aged 16-74) 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 2017 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 2017 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 58% in terms of subscriber base, followed by cable TV operators with slightly over 35%. Despite strong growth dynamics, the significance of IPTV remains marginal, with market share of almost 7%.

As a rule pay TV services provided by the operators mentioned above, satellite platforms and cable TV operators in particular, are substitutes. However, DTH providers compete with cable TV operators only to a limited extent given the geographical reach of the services they provide. DTH operators are able to provide their services to customers residing in urban, less densely populated and rural areas without incurring significant additional costs, whereas cable TV operators concentrate on inhabitants of densely populated areas where highly developed network infrastructure already exists or in locations where the establishment of such infrastructure involves a relatively low cost per customer. Polish towns with up to 20 thousand inhabitants, suburban and rural areas, inhabited by ca. 53% of the Poland's population, are therefore natural target markets for DTH because these areas have poorly developed cable TV infrastructure and are less attractive for cable TV companies to develop cable TV infrastructure there.

Poland has also seen successive development of the video-on-demand market – VOD (*video on demand) and* OTT (*Over the top*). Video content is supplied to customers directly as an independent service, offered via Internet connection, or as an element of pay TV packages. Improvement of the quality of broadband Internet connections, and consequently of data transfer rates offered to customers, as well as changing preferences of consumers who wish to have access to their favorite content at any time and place of their choice are the factors that have a positive influence on the growth of the OTT and VOD services market in Poland. Several dozen online services operate on the market, including those offered by TV broadcasters, DTH satellite platform operators, cable TV networks or telecommunication operators, as well as global players (like the US giant Netflix, Amazon Prime Video and Showmax which is owned by Naspers Group). In terms of the number of users, the most popular services of this type include vod.pl, player.pl, vod.tvp.pl and ipla.tv. A high level of Internet piracy in Poland as well as the low propensity of Poles to pay for video content remain the major barriers to the development of the OTT and VOD segment in Poland. Bearing the above in mind, video on demand is currently perceived by Polish consumers as a service which is complementary to linear TV services.

DTH operators

According to own estimates and PMR forecasts, the subscriber base of the DTH market in Poland is relatively stable and in 2017 it reached approximately 6 million. There are three DTH platforms operating in Poland: Cyfrowy Polsat, nc+ and Orange, while the market is practically divided between the first two. Orange does not offer pay TV as a stand-alone service, but as an add-on to its integrated offer. Orange's offer is based to a significant extent on cooperation with nc+.

Cyfrowy Polsat is the market leader in terms of the number of customers. At the end of 2017 we provided pay TV services to nearly 3.5 million subscribers. At the same time we actively expanded our offer, selling paid access to online television in our service Cyfrowy Polsat GO or the Multiroom HD service, as a result of which as at December 31, 2017 we provided over 5 million contract pay TV services (together with services of paid access to online television), including 1.1 million Multiroom services. Based on own and PMR forecasts we estimate that at the end of 2017 our share in the Polish pay TV market, in terms of the number of subscribers, was at the level of ca. 34%.

The second player in terms of subscriber base was nc+ platform, providing services to approximately 2.1 million subscribers at the end of 2017, as reported by Vivendi (shareholder of the platform), which translated into a market share in the pay TV market of ca. 20%. Orange cooperates with nc+ platform, offering pay DTH TV based on nc+ programming offer as an element of its integrated packages.

Cable TV operators

The Polish cable TV market is strongly fragmented as the number of companies operating on it is estimated at ca. 400.The market is dominated by three major players: UPC Polska Sp. z o.o., Vectra S.A. and Multimedia Polska S.A. At the end of the second quarter of 2017 the total combined estimated share in the Polish pay TV market of these three operators did not exceed 30%. In October 2016 UPC signed a preliminary agreement for the purchase of Multimedia shares, the third biggest cable TV operator on the Polish market. As at the date of approval of this Report the President of the Office of Protection of Competition and Consumers had not issued an approval required to finalize the transaction.

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 over 3.5 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.

Digital television through the IP protocol (IPTV)

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

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

Development forecasts for the pay TV market

According to PMR forecasts, in the years 2017-2022 the pay TV market in Poland will remain stable both in quantitative and qualitative terms, facing a 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.

According to PMR, in the years 2017-2022 satellite platforms will continue to be the biggest segment of pay TV market in Poland, reaching a market share of 53% (in terms of subscribers) at the end of the forecast period. Cable TV operators will remain the second major segment, with a market share of approximately 33% at the end of the forecast period. Thanks to the highest growth dynamics IPTV services will systematically gain importance, supported by the development of broadband Internet access networks, especially fiber-optics. According to PMR, by the end of 2022 IPTV operators will have a market share of almost 13% in terms of the number of subscribers, however growth measured in terms of market value will be slower.

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

2.1.2. Pay TV offer

We build customer loyalty by offering a wide array of channels at competitive prices. That is why we make sure that our pay TV packages offer very good value for money. Currently, our Customers have access to over 180 TV channels (including over 80 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. Exclusive content is a significant element that helps build the value of our pay TV offer, that is why in 2017 Polsat Group acquired exclusive rights to the football competitions UEFA Champions League and UEFA Europa League.

In order to meet the changing trends in television content consumption, in 2016 we launched a new online service - Cyfrowy Polsat GO. This service ensures access to thousands of programs on demand and over 100 linear channels, available according to the satellite television channel chosen by the customer. Access to Cyfrowy Polsat GO via a set-top box is free of charge, but thanks the option On The Go, available for a fee of PLN 5, the service is simultaneously accessible on three chosen devices: a personal computer, a tablet or a smartphone.

Programming packages

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

- Rodzinny HD which provides access to 84 encoded channels (including 27 HD channels);
- Familijny HD which provides access to 112 encoded channels (including 38 HD channels);
- Familijny Max HD which provides access to 145 encoded channels (including 57 HD channels).

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

In order to help our customers make their choice, we have prepared attractive package sets, such as the Familijny Max HD combined with the Sport HD, Film HD and Cinemax HD channels (171 channels, including 76 HD) or the Premium Max offer (177 channels, including 82 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 100 channels on mobile devices in the Cyfrowy Polsat GO service. The described above sets come with a benefit – the monthly subscription fee is lower than the sum of standard fees for each packages separately.

Flexibility

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

Set-top boxes

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

The majority of the set-top boxes that we lease is produced in-house at our manufacturing plant in Mielec. In 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 integrated WiFi module, this device offers an intuitive interface, allowing quick access to interesting content

We systematically develop the software of our set-top boxes and improve their functionality, so as to better address the changing consumer preferences and video consumption trends. In 2017 a new, more transparent and user-friendly interface was installed in Cyfrowy Polsat's set-top boxes: PVR HD 7000, HD 6000, HD 5500s, HD 5000, HD 3000, MINI HD 2000.

Multiroom HD

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

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

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

Under the Mobile TV service, we offer access to the Extra Package which includes 12 encrypted TV channels grouped in 4 thematic categories (sports, movies, news and children's channels) and 11 radio channels. The service is available either in a subscription or a prepayment model. Additionally, set-top boxes offered by Cyfrowy Polsat and dedicated to the Mobile TV service enable the reception of not only encrypted channels included in the Extra Package, but also of all free channels available via digital terrestrial television.

2.1.4. IPLA online TV offer

IPLA online television offers the largest database of legal video content and live broadcasts and over 90 online TV channels, an average of 200 hours of live coverage of major national and international sports events every month, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international licensors. 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 84% of IPLA VOD content is available free of charge, whereas advertisements constitute the source of revenue.

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

IPLA offers access to selected 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, IPLA TV) and the package IPLA EXTRA PREMIERY offering pre-premier episodes of the most popular series and shows aired on Polsat channels, which are activated for a period of 30 days. A novelty, introduced in February 2018, is the IPLA HBO Package which includes a total of 9 HBO, Cinemax and AXN channels as well as a library of several thousand films and series from the HBO offer. Moreover, we offer dedicated packages in the IPLA service (IPLA MIX, IPLA PLUS and FILMBOX LIVE) to our pay TV, mobile telephony and Internet access customers. Some of these packages are included in the subscription fee for a promotional period, dependent on the purchased basic package. In selected offers, our customers gain access to three IPLA packages as part of the pre-activated service IPLA Elastic, while a different version of this service enables the customers to change the active package, choosing one from the three packages available.

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

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

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

2.1.6. Technology and infrastructure pay TV services

Conditional access system

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

Moreover, we cooperate with the company Irdeto B.V. 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 copyrights of entities in our Group.

Satellite

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

Broadcasting center

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

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

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

Compression and TV signal multiplexing systems

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

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

Services for television and radio broadcasters

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

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

Services provided in DVB-T technology

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

Set-top boxes

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

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

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

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

In 2017, set-top boxes manufactured in-house represented 93.6% of the overall number of set-top boxes leased. As of the end of 2017, we produced a total of 8.1 million set-top boxes. We cooperate with external providers of set-top boxes, mainly Samsung, Echostar and Thomson, but back in 2010 we limited purchases from external providers. We also cooperate with TV producers, such as Sony, Vestel, Panasonic and LG, in order to develop a solution enabling the reception of Cyfrowy Polsat's satellite signal. We also provide services to other operators interested in modern, functional devices at attractive prices.

Internet content distribution

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

2.2. Operations on the telecommunications market

2.2.1. Mobile telephony market in Poland

The Polish mobile telephony market is a mature market characterized by a high rate of services saturation and competitiveness. Based on data published by the Central Statistical Office of Poland (GUS), the number of mobile telephony SIM cards as at December 31, 2017 reached 52.9 million, which translates into a penetration rate of the population of Poland of 137.6%.

Over the past three years, the reported rate of penetration with SIM cards in Poland has decreased considerably (from the level of 153% according to the data of the Central Statistical Office of Poland (GUS) as of September 30, 2015), which results from the gradual realigning the number of reported SIM cards corresponding to the actual use of such cards by Polish customers, which in turn is the effect of changes in reporting policies applied by some of the big mobile operators as well as new regulatory restrictions introduced in 2016 related to the sale of new SIM cards in the prepaid model. During 2017 the number of SIM cards reported by the Polish telecommunication operators further decreased as a result of regulations imposing an obligation on operators to discontinue service provision to the users of prepaid SIM cards who fail to register them by February 1, 2017. At the same time, the share of postpaid SIM cards in the structure of the Polish mobile market is clearly growing, which in our opinion reflects the actual shape of the Polish mobile telephony market in a better way.

PMR expects that, after the corrections introduced in the years 2015–2017 making the volume of SIM cards on the market more realistic, the number of reported SIM cards used in Poland will return to the growth at the pace of ca 1 million per annum. In the opinion of PMR, the growth will continue to be generated primarily by the mobile Internet segment, machine-to-machine cards and the business segment. The share of the prepaid segment will continue to decrease in the volumes of SIM cards reported by operators.

The mobile telephony remains the largest segment of the Polish telecommunications market, with a share in total market revenue of 58% in 2016 (including revenue from mobile Internet access). According to PMR data, the estimated value of mobile telephony market in Poland in 2016, expressed as the sum of operators' retail and wholesale revenues (including revenue from sales of equipment and other revenue) was PLN 25.8 billion and recorded growth of 2.8% YoY.

One of the trends visible in the market is growing revenue from subscribed services. According to PMR over 80% of retail mobile telephony revenue in 2016 was generated by customers of postpaid services. At the same time, however, as many as 35.1% of the SIM cards reported by Polish mobile operators to the Central Statistical Office (GUS) at the end of December

2017 constituted prepaid cards, which in our opinion proves that the size of prepaid bases reported by the operators was still being distorted by including in the reported statistics the cards which generate neither real traffic nor revenues.

In recent years average revenue per SIM cards of mobile voice services (ARPU per SIM) decreased systematically as a result of competitive pressure stimulated by regulatory reductions of wholesale voice and SMS termination rates (MTR) and regulations relating to international roaming (RLAH). According to PMR data, in 2016 APRU amounted to PLN 38.7, which is still one of the lowest levels recorded among EU member states.

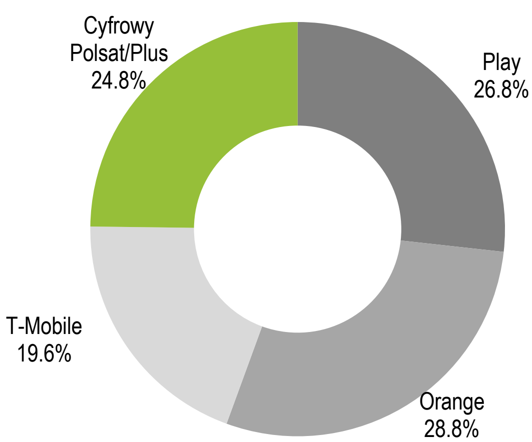
Assuming no further MTR reductions, PMR estimates that the mobile telephony market, including revenue from mobile Internet access, will grow at an average rate of 1.8% (CAGR 2017-2022) until 2022 when its value will reach PLN 28.6 billion. The growth driver in coming years will be the data transmission segment, wholesale services and growing revenue from sales of equipment, while revenue from voice connections will continue to record negative dynamics.

Another important factor which shaped the Polish market in 2017, and will still have a visible influence in at least the first half of 2018, was the implementation of the *Roam like at home* (RLAH) regulation. In line with EU legislation, as of June 15, 2017 uniform whole roaming rates are in place on the territory of the EEA, accompanied by a levelling of retail roaming rates for voice connections, SMS and MMS with prices offered domestically, which are significantly lower in Poland compared to other EEA countries. Only in the second half of 2017, the implementation of the RLAH regulation caused a decline in EBITDA of the four largest mobile operators by o total of ca. PLN 420 million (for details see item 4.1.3. – *Operating and financial review of Polsat Group - Key factors impacting our operating activities and financial results – Factors related to the regulatory environment – International roaming in mobile networks*).

The Polish mobile telephony market is highly competitive and relatively polarized. Four leading infrastructural operators operate on the Polish market: Polkomtel (Plus network), Orange Polska (Orange network), T-Mobile Polska (T-Mobile network) and P4 (Play network).There are also over 20 mobile virtual network operators (MVNO), but their market share in terms of revenue and customer base is relatively low (excluding MVNO belonging to Polsat Group, the share of the remaining virtual operators amounted to ca. 1% in terms of subscriber base in 2016, according to PMR).

The graph below presents market shares of the major MNOs in terms of number of contract SIM cards at the end of 2017.

Market shares in 2017 in terms of the number of reported contract SIM cards



Source: Based on own estimates and data published by operators

Infrastructural operators (MNOs)

Five MNOs operate commercially in Poland based on their own allocated frequency bands and infrastructure necessary to provide mobile telephony services on their own, that is Polkomtel, Orange, T-Mobile, P4, and Aero2 Group. Both Polkomtel and Aero2 Group are currently part of Polsat Group.

According to PMR, Polkomtel, Orange, T-Mobile and P4 together accounted for approximately 99% of total revenue generated on the Polish mobile telephony market in 2016.

Polkomtel operates under the umbrella Plus brand, it also owns an alternative brand Plush. On May 7, 2014 Polkomtel was incorporated in Polsat Group. Activities of Polsat Group on the telecommunications market are described in following chapters;

Orange Polska, operates under the umbrella Orange brand and also has an alternative brand nju.mobile. As at December 31, 2017 Orange reported ca. 14.9 million SIM cards. Apart from the operations on the mobile market, Orange Polska is also a leading Polish fixed-line telephony operator, currently focusing its strategy on the development of broadband access services based on the fiber optic infrastructure, also delivered to residential customers.

P4 operates under the umbrella Play brand, and also has additional brands Red Bull Mobile and Fakt Mobile. As at December 31, 2017, P4 reported 15.2 million SIM cards. P4 operates solely on the mobile services market, supporting itself with a wholesale purchase of access to mobile networks of its competitors. On July 27, 2017 Play Communications, the owner of P4, debuted on the Warsaw Stock Exchange.

T-Mobile operates under the umbrella T-Mobile brand and also uses additional brands such as Heyah and Tu Biedronka. As at December 31, 2017, T-Mobile reported 10.5 million SIM cards. T-Mobile is currently providing fixed-line telephony services addressed to business customers based on the infrastructure of the company GTS Poland, acquired in 2014.

Aero2 operates on the residential market, where, in line with its concession obligations, it offers free-of-charge broadband Internet access and provides residential services in the prepaid model based on “wRodzinie” and “a2mobile” brands, while Sferia provides telecommunication services to residential users based on its brand “Sferia.” As of February 29, 2016, both Aero2 and Sferia are part of Polsat Group.

Frequency allocations

The following table presents key information on the frequencies allocated to MNOs at the date of preparation of this Report.

MNO	Frequency band	Size of allocated band	Date of issue of first allocation decision	Allocation decision expiry date
Polkomtel	900 MHz	2x9 MHz	February 23, 1996	February 24, 2026
	1800 MHz	2x9.6 MHz	September 13, 1999	September 14, 2029
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	410 MHz (1)	2x2.5 MHz	May 25, 2006	December 31, 2020
Aero2	900 MHz	2x5 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x19.8 MHz	November 30, 2007	December 31, 2022
	2600 MHz	1x50 MHz	November 10, 2009	December 31, 2024
Sferia	800 MHz	2x5 MHz	December 31, 2003	December 31, 2018
Orange	800 MHz	2x10 MHz	January 25, 2016	January 25, 2031
	900 MHz	2x6.8 MHz	July 5, 1999	July 6, 2029
	1800 MHz(1)	2x9.6 MHz	August 21, 1997	August 22, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
T-Mobile	800 MHz	2x10 MHz	January 25, 2016	June 23, 2031
	900 MHz	2x9 MHz	February 23, 1996	February 28, 2026
	1800 MHz	2x9.6 MHz	August 11, 1999	August 12, 2029
	1800 MHz	2x10 MHz	June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	December 20, 2000	January 1, 2023
	2600 MHz	2x15 MHz	January 25, 2016	January 25, 2031
	3400-3800 MHz	2x15 MHz	December 28, 2004	December 29, 2029
P4	800 MHz	2x5 MHz	January 25, 2016	June 23, 2031
	900 MHz	2x5 MHz	December 9, 2008	December 31, 2023
	1800 MHz	2x15 MHz	June 14, 2013	December 31, 2027
	2100 MHz	2x14.8 MHz + 1x5 MHz	August 23, 2005	December 31, 2022
	2600 MHz	2x20 MHz	January 25, 2016	January 25, 2031
	3400-3800 MHz	2x15 MHz	December 28, 2004	December 29, 2029

Source: Own analysis based on UKE’s summary dated August 29, 2017

(1) By Nordisk Polska Sp. z o.o.

For the purpose of planning, building and maintaining a new mobile telecommunications network, and participating in related tenders, Orange Poland and T-Mobile formed a joint venture in 2011 under the name NetWorks! The agreement related to sharing of RAN resources was signed for a period of 15 years with an option for further extension. Next year these operators extended their cooperation by declaring that Orange will be able to provide LTE services while also using the 1800 MHz spectrum owned by T-Mobile. In 2016, both operators signed an agreement under which they will develop their own LTE networks based on 800 MHz band, jointly using the network of NetWorks! transmitters, however without sharing the owned RAN resources.

Virtual operators (MVNOs)

MVNOs are those operators who provide mobile telephony and/or mobile data transmission services, but do not hold any frequency allocations on their own and do not need to have their own infrastructure to provide such services. Under the MVNO business model, existing infrastructural operators provide frequency resources and the necessary infrastructure to MVNOs. According to the UKE report, 24 operators provided mobile services under the MVNO model in 2016.

Although the number of MVNOs is on the increase, none of them has significant market power. According to the UKE report, in 2016 the joint share of all MVNOs (including MVNOs belonging to Polsat Group) in the mobile market was 4.1% in terms of the number of users. According to the UKE report, total revenue of all MVNOs accounted for a mere 2.7% of the total value of the Polish mobile telephony market in 2016.

2.2.2. Broadband Internet access market in Poland

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

Based on the data from the UKE report, there were 14.5 million subscribers of broadband Internet access services in Poland in 2016, 7.4 million of which used mobile access and 7.1 million used fixed-line access. This translated to a household penetration ratio of 106%. Data published by the European Commission indicate, however, that the level of this ratio is lower, placing it at the level of 75.7% in February 2017. At the same time, however, EU data show that fixed-line Internet access saturation was only 61.2% of households in Poland, which consistently remains the lowest level among all European Union countries, where average penetration reached the level of 75.5% of households and in the case of selected countries (e.g. the Netherlands, Germany and Great Britain) exceeded 85%.

Concurrently, mobile Internet penetration in Poland is significantly better compared to the European Union. According to data published by the European Commission on June 2017 there were 144 mobile subscriptions per 100 inhabitants in Poland, which ranked Poland second among EU member states.

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

According to UKE report, the number of mobile broadband users is systematically growing in Poland (10% YoY in 2016), whereas the number of fixed broadband users remained stable for several years. 2G/3G/4G modems are gaining popularity (growth of market share from 39.4% in 2013 to 51.1% in 2016), while the popularity of the xDSL technology is declining (from 25.7% in 2013 to 17.2% in 2016). According to UKE data, fiber optic technologies constituted only 3.6% of the broadband access market in 2016 but their share is consistently growing from the level of 1.3% in 2014.

A dynamic increase in the number of fast links is observed on the market, while the share of lines with lower throughputs is declining. According to the UKE report, in 2016 the number of links with throughput exceeding 100 Mbps increased by 63%. At the same time the share of Internet users using links with throughputs lower than 10 Mbps is shrinking (32% in 2016 compared to 39% a year earlier), while the share of Internet users connecting with the use of links offering over 30 Mbps increased to 46.4% in 2016 from 36.8% a year earlier. An important driver behind these changes is the EU funded Operating Programme Digital Poland.

According to the UKE report, the value of the Polish broadband market, measured in terms of revenue from sales of services, was PLN 4.9 billion in 2016, having recorded negative dynamics of 3.9% compare to the year 2015, which was to a significant extent due to the erosion of revenues obtained from a majority of fixed-line access technologies, excluding optical fiber links. Concurrently, mobile technologies once again increased their share in terms of value in the revenue structure to 34% (from 33.1% in 2015). According to the UKE report, the average monthly revenue per user of Internet services (ARPU) decreased by PLN 2.4 in 2016 as compared to 2015, down to PLN 28.2. The fall in ARPU was, among others, caused by the increasingly popular bundling of services, as part of which operators often reduce prices on Internet access.

Fixed broadband Internet access

In Poland, availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting primarily from the high cost of build-out of local loops and strategies adopted by leading fixed-line operators. According to the UKE report, cable modems, offered by cable TV operators, have become the most popular fixed-line access technology (18.6% market share in 2016, market defined as comprising both fixed and mobile technologies). In 2016 UPC Polska (40.8% share in terms of user base), Vectra (20.5%) and Multimedia Polska (13.8%) were the major operators on this market.

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. As at the date of publication of this Report the proceedings at the Office of Competition and Consumer Protection (UOKiK), aimed at issuing a decision regarding the above transaction, were still ongoing.

The second most popular fixed-line access technology in 2016 was xDSL with a market share of 17.2% (down by 2.4 p.p. YoY). Orange is the dominant player operating in xDSL technology, whose share in the total number of xDSL customers amounted to 76.1% in 2016. The second largest xDSL operator is Netia with a market share of 18.1%.

Fiber-optic access (FTTx) is a relatively new though dynamically growing Internet access technology. According to the UKE report, the share of fiber-optic technology in the Internet access market nearly doubled in 2016, and reached 3.6% (up from 2.2% in 2015). The reason for this could be the highest available data throughputs provided by the fiber-optic technologies which currently offer data transfer rates of up to 600 Mbps (Orange Polska), or 900 Mbps (Netia), as well as operators' sales strategies which focus on promoting fiber-optic Internet access also in multiplay offers. Currently fiber-optic technology is also the investment priority for a vast part of telecommunication operators, including Orange Polska. In September 2017, Orange announced that its goal was to feeding fiber-optic technology to 5 million Polish households, i.e. to around 40% of all households in Poland. Netia, in turn, is pursuing an investment plan based on a comprehensive modernization of its access network, which currently covers over 2.5 million households. According to this plan, fiber-optic technology is ultimately expected to dominate by 2020.

As indicated by the report published by UKE, the market of Internet access relying on fiber-optic technology is currently significantly fragmented, which is demonstrated by the fact that the three largest providers who operate on this market (Orange, Inea and Multimedia) controlled only 31.6% of the market in 2016. Hence, telecommunication operators are seeking possibilities of acquisition of smaller local companies, which is manifested by deals recently announced by such players as Orange Polska, Vectra, or Inea. At the same time, models of commercial cooperation between operators in the field of use of existing fiber-optic network resources are sought, e.g. negotiations between Orange Polska and T-Mobile Polska, started in December 2017, regarding the purchase of wholesale access to Orange's fiber-optic network.

According to the ranking published by the FTTH Council Europe, with fiber-optic network penetration of 3.9% Poland ranked very far behind the rest of Europe in February 2017 (26th position) in terms of popularity of Internet access relying on fiber-optic access. In the same period fiber-optic technology was used by 13.9% households in the 28 EU nations, with penetration levels reaching 40-50% in the most advanced countries (Latvia, Sweden, Lithuania).

Mobile broadband Internet access

The market of broadband Internet access based on mobile technologies (defined as access via modems or dedicated SIM cards integrated with laptop computers or tablets) is dominated by four mobile operators. According to the UKE report the four leading providers of those services (Polkomtel, T-Mobile, Orange and P4) jointly held ca. 81% of the market in 2016. The remaining 19% is divided between MVNO operators, including Cyfrowy Polsat, who actively promotes and sells under its own brand name mobile broadband access in LTE/HSPA+ since 2011.

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

According to the UKE report, in 2016 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 51.1%, up from 48.3% in 2015). The success of mobile broadband can be attributed to broad availability and the ease of installation of this form of broadband access, affordability, the growing HSPA+ and LTE network coverage, and increasing data transmission speeds, also thanks to the implementation of the new data transmission technologies, e.g. LTE-Advanced. The mobility feature constitutes an advantage of this form of broadband access to a group of customers.

Development forecasts for the broadband Internet access market

According to PMR forecasts, the Data Transmission, Line Rental and Internet Services Provision (DLISP) market will remain the fastest growing segment of the telecommunication market, despite lower growth dynamics. Further investments the roll-out of broadband networks based on NGA parameters, fiber-optic networks in particular, as well as further development of the LTE technology will be the most significant factors. According to PMR forecasts, in 2017-2022 the value of the broadband Internet access market will demonstrate continuous positive average annual dynamics of ca. 1%, reaching the level of PLN 5.7 billion in 2022.

In accordance with PMR forecasts, in 2022 the number of broadband Internet access subscribers in Poland will increase to about 19 million, out of which 58% will use mobile technologies. The rate of growth of the number of mobile broadband Internet subscribers will be several times higher than that of fixed-line access users in the years 2017-2022. The advancing popularity of mobile technologies in Poland will be the result of competitive pricing as well as growth of mobile network coverage, which will directly translate to improved quality and continuity of coverage of the purchased service. The fast development of LTE and LTE-Advanced network coverage, as well as 5G in the future is an additional factor stimulating the development of mobile Internet services. These standards will enable the provision of mobile services characterized by transmission rates and network throughput levels which have so far been unachievable for radio access technologies.

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

2.2.3. Mobile telephony offer

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. We offer mobile voice telephony services to business and residential customers. Mobile voice telephony services are available in 2G and 3G technologies, while in the case of LTE technology we currently apply the Circuit Switched FallBack solution.

Residential mobile voice services

Our residential contract offer is standardized and includes a variety of contract plans. Currently, it is available in the postpaid and prepaid model as well as in the mix offer.

Our postpaid residential offer, marketed under our main brand Plus and sub-mark Plush, is based on a monthly subscription fee which includes minutes for voice calls and other services such as text and multimedia messaging, data packages, packages of minutes and data in roaming, online video services available on the handset, such as IPLA or HBO GO, or finally Internet protection and screen repair services. Similarly to other offers available on the Polish market, our offer is currently based on unlimited tariffs which allow the customer to make unlimited calls in both mobile and fixed networks and send unlimited text messages and multimedia messages (MMS). We also offer our customers data packages within a subscription fee, the size of which depend on the value of the commitment. As a rule, the higher the fee, the larger the data package available without additional costs. Customers, who choose to pay a lower subscription fee, can purchase additional services not included in the subscription such as data packages or roaming packages. Our offer also includes a family tariff plan - our customers can purchase up to 3 SIM cards, which share the packages under a single subscription fee gaining a 50% discount on each added card.

The contracts are concluded for a fixed term - typically 24 months, while in our sub-mark Plush contracts for an indefinite period of time can be concluded. Contract plans give customers the possibility to choose from a broad selection of handsets offered in the installment plan model. Customers can also select a tariff without a handset. The monthly subscription fees range from ca. PLN 25 to PLN 129, and in the case of SIM-only tariffs – from PLN 25 to PLN 50.

Mix offers combine the characteristics of a prepaid and contract offer. Customers commit to make a specified number of top-ups of specified values, which can be used for telecommunication services, including minute packages, text messages or data packages. Under the contract the customer also receives a chosen handset. Unlike traditional contract plans, the period for providing services is not fixed and customers are only required to make one top-up of a specified value at least once every 30 days. Similarly to prepaid offers, customers of our mix-type tariffs can compose (change, active or deactivate) packages of services at will at any time. Values of the periodical top-ups range from PLN 30 to PLN 60.

Prepaid offerings allow customers to gain access to our mobile network upon the purchase and registration of a starter pack (SIM card with a fixed amount of credits to be used for mobile services).Prepaid offers do not entail monthly subscription fees and customers are obligated to make a top-up only when they wish to use our services. All prepaid plans provide that the top-up can be made at any time with the use of a prepaid top-up available from agents, dealers, the operator's website and other sales channels available on the open market. Prepaid voice services are offered both under our key brand Plus and our sub-mark Plush. Additionally, in 2016 our subsidiary Aero2 introduced a new brand on the market – a2mobile, under which it provided prepaid voice services. The customer can adjust the offer to meet his or her specific needs by choosing among available packages and additional options, such as data packages or unlimited voice calls or SMS, prolongation of the account validity and adequately managing the value of top-ups.

Convergent services for business customers

Business customers are mainly offered contract solutions, often on the basis of solicited tenders for their mobile requirements on a competitive basis. We also offer fixed telephony services, LAN (local area network)/WAN (wide area network) solutions, mobile broadband Internet access, SMS Center services and other dedicated solutions. Business contracts specify the tariff, contract duration and the value of the monthly subscription fee. The contract may provide for a subsidized handset that can be chosen from a broad selection of available models.

Business mobile voice services for Small Office/Home Office customers are more standardized. The offering comprises several monthly subscription fee options, taking into account the specific preferences of this segment. Small Office/Home Office contracts have a fixed term, which is usually 24 months.

International roaming

We provide international roaming services to our individual customers, who can use telecommunications services while being abroad and logged into foreign networks.

The majority of roaming calls made by our customers are directed through European networks.

The maximum retail prices for the voice calls, text messages and data transmission in international roaming in the European Union and the EEA countries are subject to regulations and – effective June 15, 2017 – they were equalized with domestic prices (*Roam Like at Home* regulation). Our customers may use roaming services such as voice calls, SMSs and MMSs as well as data transmission in the European Economic Area (EEA) countries at the level of domestic prices without incurring any additional costs. Furthermore, we offer our customers the possibility of purchasing promotional roaming data packs, covering both European countries and other, popular travel destinations, which enables our customers to flexibly adjust the roaming offer to their particular needs.

Thanks to the acquisition of new roaming partners, in 2017 we opened 265 new roaming services which allow our customers to enjoy even wider coverage of telecommunication services during their stays abroad, in particular the rapidly growing coverage footprint of the ultrahigh speed LTE data transmission offered in roaming. In 2017, we launched data transmission services in international roaming in 65 new networks offering LTE data transmission services and another 41 networks offering access to 3G technology.

While developing the scope of international roaming services, above all we focused on the activation of access to ultrahigh speed LTE Internet in European Union countries most willingly visited by our customers. As regards the remaining roaming services (voice calls and text messages), our priority is to expand the reach of roaming services so that our customers can use our services in any place in the world.

2.2.4. Internet access offer

We provide a comprehensive array of data services to both residential and business customers under two main brands: Plus and Cyfrowy Polsat. Internet LTE Plus Advanced from Plus and Cyfrowy Polsat based on the aggregation of three frequency bands in a 50 MHz bandwidth was the winner on the category "2017 Mobile Internet of the year" in the Mobility Trends 2017 competition.

We offer our mobile broadband Internet services in the LTE technology since 2011 and in the latest LTE-Advanced technology since 2016. Our broadband Internet offering is universal, and provides broadband Internet access via all supported technology platforms, for a single monthly fee. Thanks to this solution today almost 100% of Poles live in areas covered by our LTE Internet network and 54% live within the coverage footprint of our LTE Plus Advanced Internet service. We apply state-of-the art- network solutions which render the Internet connection offered by Cyfrowy Polsat and Plus more stable and faster. Currently, the maximum technological speed of LTE Advanced is 498 Mbps.

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

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

Our offer includes basic data packages ranging from 30 to 100 GB. After having used up the basic data package in the 30 Gb or more package, the customer can continue to use the LTE Plus Internet thanks to the service *LTE without end*. Monthly subscription fees range from PLN 30 for a 30 GB package in the SIM-only model, to PLN 70 for a 100 GB package. Contracts are usually concluded for a fixed term of 24 months. 12-month contracts with data packs from 15 GB to 50 GB for monthly fees from PLN 30 to PLN 70 are also available. Moreover, as of October 2017 we offer the possibility of testing out stable LTE Internet for two months for a fee of PLN 9.

Customers who prefer prepaid services can choose a prepaid tariff plan dedicated to data transmission that allows customers to receive a data package, whose size and period of validity are determined by the value of the top-up. PLN 10 is the minimum available top-up, together with which bonuses, in the form of extra GB, are awarded. The highest top-up entitles to 50 GB. We increase the top-ups for customers who use our services for periods longer than 3 months by 50%. As an additional service customers can use a data pack of 200 GB during the night.

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

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

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

2.2.5. Consumer devices offer

Handsets

We offer our customers a wide array of state-of-the-art smartphones and traditional handsets. The share of traditional handsets remains at a low level of several percent of total sales. In 2017, smartphones constituted over 90% of handsets sold by us. As a result, by the end of 2017, the penetration of our voice customer base with smartphones approached 70% and is growing successively. The majority of smartphones sold in 2017 supported LTE technology for data transmission. Terminals that support data transmission speed of up to 1 Gbps are a novelty in our offer.

Handsets are sold primarily in the installment plan model. An installment for the purchased equipment is added to the monthly subscription fee for the telecommunication service. Bundled data packages, also for use in LTE technology, are now offered at all subscription levels. In the B2B segment we also sell equipment in the subsidized model.

Next to devices produced by leading manufacturers such as Samsung, Huawei, Apple, Sony or LG our offer also includes low and mid-end handsets pf smaller manufacturers. Following the rapid development of the mobile device market, increasingly cheaper handsets support the LTE technology, thanks to which it became available to a wide range of customers.

Internet equipment

We offer our customers a wide selection of devices used to access broadband Internet. Our equipment portfolio comprises several categories: modems, mobile and fixed-line routers, tablets and laptops. All of the terminals offered by us for Internet access support LTE (data transmission speed of up to 150 Mbps) or LTE-Advanced technology (up to 500 Mbps).

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

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

Other device categories

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

Our equipment offer also comprises household appliances available at attractive prices in the smartDOM loyalty scheme.

2.2.6. Technology and infrastructure of telecommunication services

Network

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

As mobile telecommunications networks enable automatic switches between technologies, uninterrupted service functionality for end users is ensured, while parameters such as data transmission rate improve when the user comes within the coverage of a more technologically advanced network.

As at December 31, 2017, Polsat Group's 2G access network consisted of 7,569 base stations, while the 3G network consisted of 10,143 NodeB (UMTS/HSPA+) stations. The CDMA network included 575 base transceiver stations. Moreover, the LTE network consisted of 9,934 LTE base.

	Number of BTS on-air as at December 31, 2017	Change YoY
2G technology, incl.:	**7 569**	**-**
GSM900	*6 828*	-
GSM1800	*741*	-
3G technology, incl.:	**10 143**	**542**
WCDMA 2100	*3 981*	*251*
WCDMA900	*6 162*	*291*
CDMA	**575**	-
4G technology, incl.:	**9 934**	**1 087**
LTE 1800	*6 007*	*730*
LTE 2600	*374*	*286*
LTE 800	*3 493*	*11*
LTE 2100/2500	*60*	*60*
LTE 900	*0*	-

As regards LTE transceivers, on whose roll-out we currently concentrate, our mobile network relies mainly on the LTE1800 technology. We emphasize that over 20% of locations have not yet been equipped with LTE transceivers, which means that thus we still have potential for further development of this network layer without having to incur the cost of lease of new base station sites.

Development in the area of LTE800 technology, in turn, has been substantially restricted by us due to uncertainties related to the extension of frequency reservations for this bandwidth beyond 2018. On the other hand in 2017, we increased the number of LTE2600 transceivers several-fold and we started investments in the 2100 MHz band which was used by 3G systems in the past. The potential offered by upgrading the LTE2600 and LTE2100 transceivers without the necessity of incurring any additional site lease costs remains very high in our case.

Refarming of the 900MHz spectrum is a crucial phase in the development of our network and will result in the allocation of part of the bandwidth currently used for 2G and 3G services to LTE and LTE-Advanced technologies. We have been making intensive preparations in this field over the past several quarters and as a result at the beginning of 2018 we were able to begin the process of putting on-air base stations functioning in this spectrum. As at the date of approval of this Report we have already put on-air about 1000 LTE900 transceivers for our customers to use.

Our access network is supported by a transmission network using mainly packet data transmission technologies. The network is divided into the access layer (180 Mb/s, 360 Mb/s and 1 Gbps microwave links, and fiber optic links), an aggregation network (mainly fiber optic, using Carrier Ethernet Transport MPLS-TP technology, mainly 10 Gb/s of throughput), and a backbone network (solely fiber optic, using the IP/MPLS technology, with bit rates being multiples of 100 Gb/s).

The backhaul microwave network is composed of 7,957 PHD links. The aggregation layer of the backhaul network is composed of 572 nodes with high-capacity CET switches, and the backbone layer has 11 nodes with redundant IP/MPLS routers. 88 DWDM nodes operate in the physical layer, all equipped with facilities enabling traffic transmission at a multiple of the 100 Gb/s bit rate (the multiple is adjusted to current needs of a given node). The transport network is used to provide dedicated services to the business segment, such as virtual private network (with broadband Internet access), PBX (private branch exchange) switchboards and leased lines.

Polsat Group's fiber optic network comprises 4,418 km of our own fiber optic cables and 4,950 km of leased fiber optic cables.

The core network ensures central handling of customer services, integrating them for the 2G/3G/4G technologies (Single Core). In this way, we are able to provide customers with access to our services irrespective of the radio technology applied, enabling an evolutionary transition of voice services from 2G (GSM), through 3G (including higher quality voice services), to 4G (with voice services based on CSFB or, in the future, VoLTE). The same strategy was used for data transmission services, enabling customers to use the broadband Internet access both in the 3G (HSPA+, HSPA+ Dual Carrier) and the 4G (LTE/LTE Advanced) networks. The core network architecture facilitates effective and easy capacity expansion to match the growth of the customer base and increased service demand.

Network upgrade and maintenance

We are the owner of both passive infrastructure (such as towers, masts, containers, power systems, and air-conditioning systems) and active infrastructure (including base transceiver stations, base station controllers and transmission systems). Active infrastructure is provided by leading international suppliers, such as Nokia Solutions and Networks and Ericsson (2G/3G/LTE hardware), as well as Huawei, Ericsson and NEC (transmission layer). Typically, we usually enter into framework agreements, without defining in detail the obligations regarding network expansion, combined with support services, such as software upgrades and updates as well as repairs and troubleshooting with respect to the development of our network.

We regularly upgrade and expand our network in order to provide its customers with technologically advanced services and optimize the network's technical performance and efficiency. Network modifications include increasing the capacity of the network's existing elements, hardware replacement and installation of additional hardware, as well as continuous optimization achieved by reconfiguring the network parameters.

Our network is monitored and maintained through the main network management center (NMC) and four regional operation and maintenance centers (OMC). The maintenance centers are responsible for continuous monitoring and supervision of the access network, handling of failures and defects, integration and configuration work, and coordination of repair work carried out by field maintenance teams. The network management center provides support of the core network and the platforms for value added services (to the same extent as the maintenance centers) and also serves as Polkomtel's central contact point for state administration bodies, as well as for other domestic and foreign operators in crisis situations and in the event of failures.

As part of the optimization process covering all components of the network, including the access network, transport network, core network and all network contact points, traffic distribution and certain network and service parameters are constantly monitored and analyzed.

Development of the LTE/LTE-Advanced technology

Compared to HSPA+ or UMTS, LTE is characterized by much lower latency and has the capacity to support a significantly greater number of users. The potential of the LTE technology is based on greater capacity and transmission speed with lower latency, which enables LTE Internet service customers to use interactive and multimedia applications requiring greater bandwidth and transmission in real time, such as online games, video communication and HD TV through Internet. We use a frequency bandwidth dedicated to LTE that enables us to offer services with transmission speed of up to 200 Mbps for download and 50 Mbps for upload. On the other hand, after aggregating selected bandwidths using Carrier Aggregation, we can significantly increase data transmission speed available to end-users (currently up to 500 Mbps), while the maximum speed depends on the quantity of aggregated radio bandwidths.

In 2011, as the first commercial provider in Poland we started offering broadband Internet access in LTE technology, which currently is able to provide a maximum speed of up to 200 Mbps (with MIMO2x2) based on a continuous 20 MHz block in the 1800 MHz band. Since 2015 we additionally use the network based on a 5 MHz block in the 800 MHz band, which combined with the clearly intensified roll-out of the LTE 1800 in the second half of 2016, allowed us to increase the coverage of mobile LTE Internet from Cyfrowy Polsat and Plus to the level of 99% of the population in January 2017. Concurrently, we began the aggregation of our 800, 1800 and 2100 and 2600 MHz bandwidths. As a result, we offer our customers the LTE-Advanced technology which enables data transmission with maximum speed of even 500 Mbps in selected regions of the country. In December 2017 the service LTE Plus Advanced was available to over 54% of Poles.

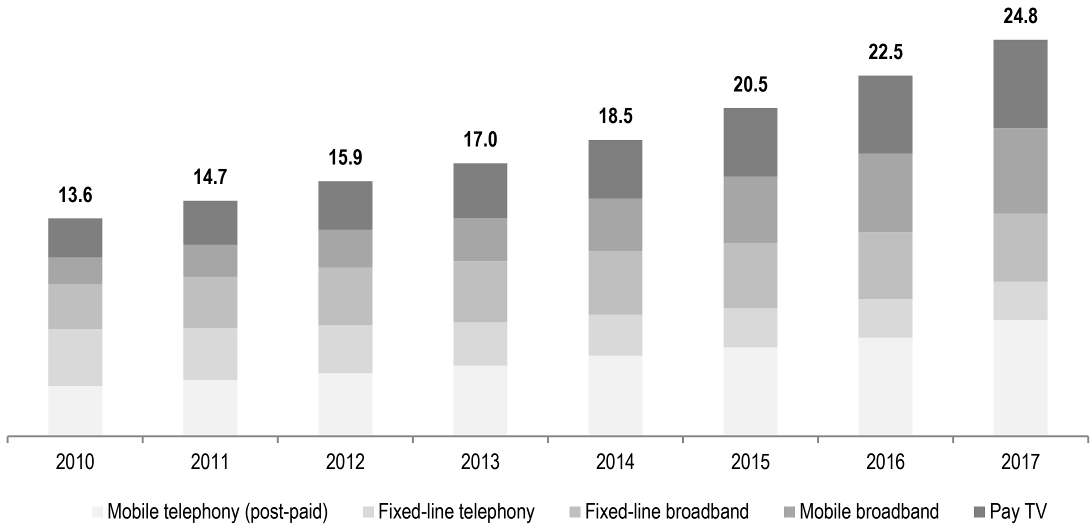
2.3. Activities on the bundled services market

2.3.1. Bundled services market in Poland

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

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

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



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

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

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

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

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

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

Development forecasts for the bundled services market

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

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

2.3.2. Bundled services offer

Our bundled services offer as an important tool, which helps us to retain existing customers and expand our customer base, while simultaneously increasing customer satisfaction and loyalty. In the long-term, the multi-play offer will enable us to increase ARPU and to further reduce our churn rate.

smartDOM and smartFIRMA are unique savings programs offering a wide array of products and services, which enable our customers to create a comfortable, safe and modern home or effectively run a business. They are based on a simple and flexible mechanism – a customer subscribed to one service receives an attractive discount for the entire term of the contract for every additional product or service purchased from the Group's portfolio. This way every customer has the possibility to create a set of services for the family or the company consisting of satellite TV, terrestrial television with 12 additional TV and 11 radio channels, access to LTE Internet and telephony services (mobile and wireless home telephony).

Currently, the programs smartDOM and smartFIRMA comprise nine products and services. Apart from our basic, core products and services: mobile telephony (including wireless home telephony), Plus and Plus Advanced LTE Internet and satellite TV from Cyfrowy Polsat, smartDOM and smartFIRMA customers can also buy gas or electric energy, banking services offered by PlusBank, comprehensive insurance services 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 and in the company. Thanks to the unique formula of the smartDOM and smartFIRMA programs the customer can purchase all products and services necessary in the household 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 three main brands: "Cyfrowy Polsat," "Plus" and "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.

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

According to a survey conducted in November and December 2017 by the agency GfK on the Polish telecommunication market, the spontaneous and aided awareness ratio of the "Plus" brand reached 88% and 98%, respectively, in the voice segment, while in the data transmission segment the results were 72% and 86%, respectively. This survey also demonstrated that Cyfrowy Polsat is the most recognizable provider of pay TV in Poland, with the spontaneous awareness ratio of 78% 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 Cyfrowy Polsat's and Polkomtel's services are additionally supported in social media.

Cyfrowy Polsat's and Polkomtel's commercial websites are an important channel of communication with new and existing customers. In addition, we maintain communication with our existing customers using telemarketing tools, email bulletins, a dedicated customer channel (through which Cyfrowy Polsat 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, 2017, the combined sales network of Cyfrowy Polsat and Polkomtel covered 1,165 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 insurance and banking services or the sale of electric energy and gas.

The sale of Polsat Group's services also takes place through remote channels. As at December 31, 2017 Cyfrowy Polsat had 6 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.

Sales of prepaid telecommunication services are take place through different channels of distribution. At December 31, 2017, Polkomtel had 30 active agreements with non-exclusive independent dealers of its prepaid services, with a total of approximately 60 thousand outlets selling starter kits and scratch cards and approximately 130 thousand selling electronic top-ups.

Furthermore, we have an extensive sales structure dedicated to business customers of various scale of operations. Corporate accounts (excluding smaller entrepreneurs who are classified as SMEs) are managed by a group of ca. 50 Key Customer Managers and ca. 40 dedicated account managers. Smaller SMEs (Small and Medium Enterprises) and larger customers in the SOHO segment (Small Office/Home Office), i.e. customers having at least five SIM cards and generating revenue higher than the average SOHO, are managed by about 360 authorized business advisers. The remaining Small Office/Home Office customers, along with residential customers, are served by both Polkomtel's own and authorized points of sales, call center, 4 telesales partners and Polkomtel's e-shop.

Call center

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

Cyfrowy Polsat's call center currently has over 600 operator stands as well as approximately 320 back-office stands handling written requests (including faxes and e-mails), while the call center of Plus network consists of over 800 operator stands and about 350 back-office stands. 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 companies from Polsat Group, order selected equipment together with a package of their choice or locate our nearest point of sale.

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

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

On the commercial websites www.plus.pl and www.plushbezlimitu.pl customers can verify Polkomtel's telecommunication offer, chose a handset or Internet access device (tablet, laptop, router or game console) and finally check current promotional offers. Polkomtel operates its own e-shop with products and services available to both existing and new customers. Given the diversity of available offers, our website is divided into three categories: got individual customers, for small business and for medium and large business. We conduct the sale of products without a contract, domestic appliances in particular, through our website www.plus.pl. When placing an order for contract services a customer can also choose additional services. Moreover, we introduced new standards of customer service for our online customers, which resulted in a significant increase of customer satisfaction and their willingness to buy services through the online channel. Thanks to regular research regarding user experience when surfing on our websites, we have been able to improve sales process through online channels. The website www.lte.pl contains the latest technological solutions with respect to broadband Internet that we offer.

We offer our customers access to online accounts – the Internet Customer Service Center for Cyfrowy Polsat's customers and Plus Online for Polkomtel's customers. Thanks to these functionalities our customers can manage their subscriber accounts through the Internet, where, after logging in, they can check the status of purchased services, payments, subscribed packages, dates of payments or order additional services. Furthermore, in response to market trends – in particular to the dynamically growing popularity of smartphones and the increasing role of mobile services, Polkomtel launched a mobile application dedicated to subscriber account management. It offers a wide array of functionalities and is compatible with the most popular mobile operating systems available on the market.

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. In February 2018, we refreshed our IPLA website by introducing changes which made the service even more user-friendly and adjusted to users' needs. The new version of IPLA website is available in the RWD (responsive web design) technology thanks to which the web page automatically adjusts to the screen resolution of a device used by a user. In addition we introduced the *Follow me content* functionality which enables users to continue watching the content on any device and substantially improves comfort of use and user experience. We also implemented a solution which involves recommendation of content based on a user's behavior, thus gaining the possibility of proposing to our users content that matches their needs and interests to the best degree.

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.

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

Polkomtel also offers a wide range of self-service account management options to its customers. These tools include automatic Interactive Voice Response, the possibility to make changes in customer accounts via SMS, and Unstructured Supplementary Service Data (USSD), i.e. short codes entered through the phone key-pad. In addition, the proposed customer service solutions include an Internet-based self-care system (Plus Online), including, but not limited to, FAQs, an online contact form based on the mechanism that ensures automated analysis of customers' queries and automatic response sent to the customer prior to forwarding the question to an agent, and an online communication channel offering customer support via electronic mail.

Since 2015 Polkomtel provides a mobile application dedicated to customer account management. This application enables constant and free-of-charge access to up-to-date information on billing and the current offering and allows the purchase of additional packages and services. The use of this service is free of charge and data traffic generated through this application is not subject to fees for data transmission.

Since 2000, Polkomtel has an implemented and consistently improved quality management system and since 2012 also an environmental management system. To confirm the above, Polkomtel obtained international certification ISO 9001:2008 and ISO 14001:2004 issued by DEKRA Certification Sp. z o.o. The scope of the certificates comprises sales of telecommunication products and services, sales of electric energy and customer management and retention. In November 2017, Polkomtel was successfully audited by DEKRA Certification Sp. z o.o. for compliance of quality management and environmental management systems.

Customer retention management

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

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

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

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

2.6. Wholesale business

As part of our wholesale business we offer network interconnection, international and national roaming, services to MVNOs, shared access to network assets, lease of network infrastructure, as well as other services provided to other telecommunications companies in Poland and abroad.

Exchange of traffic between operators (network interconnection)

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to networks of all operators domestically and abroad. As at December 31, 2017, Polkomtel was party to 27 interconnection agreements with national and international operators. Such a number of interconnection relations allows for optimizing the costs of call termination in the networks of other operators, while maintaining the highest quality of telecommunication services for our end-users with respect to the traffic, both initiated and terminated in our network.

As part of interconnection cooperation with other operators, in 2017, as in previous years, active steps were taken in relations with domestic and foreign operators in order to reduce the incurred costs of wholesale call termination. In particular, we focused our efforts on the reduction of call termination costs in the EEA following the introduction of the RLAH regulation. To accomplish this goal we negotiate interconnection agreements with new international partners and combine roaming and interconnection negotiations in order to improve the terms of cooperation and reduce wholesale rates for international calls. Cooperation with the biggest international operators and active management of traffic routing enabled us to immediately benefit from the reduction of wholesale termination rates in the networks of foreign operators.

In 2017, we recorded an increase of wholesale revenues from call termination services in Polkomtel's network and the service of the sale of interconnection traffic transit to Polish mobile operators. In 2017, we continued a project involving the migration of points of interconnect of Polkomtel's network with other operators to the new IP technology which relies on SIP (Session Initiation Protocol) signaling protocol, which enables making of interconnect voice calls in HD quality (HD voice). So far, Polkomtel's customers have used the HD Voice technology under on-net calls in Polkomtel's network. In 2017, we launched points of interconnect in SIP technology with Orange Polska, T-Mobile Poland and P4, which enabled our customers to make calls in HD quality with the customers of all mobile networks in Poland.

International roaming

As part of our wholesale business we actively provide roaming services to mobile operators that allow the customers of foreign mobile telecommunications network operators to use telecommunications services (including voice calls, text messaging and data transmission) when logged to Polkomtel's mobile network, i.e. outside their home network. We also enter into international roaming wholesale agreements in order to provide, both to our own customers and the subscribers of MVNOs (operating based on our network), international roaming services in the networks of our roaming partners.

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

In 2017, we continued opening new LTE relations making LTE services available to the customers of our roaming partners, thanks to which we are an attractive partner for roaming services in Poland. This helps us increase wholesale revenues from the sale of inbound roaming services in Poland to foreign operators. In 2017, we also implemented the LTE Advanced service, which – thanks to the aggregation of bandwidth – allows for reaching the data transfer at the level of 300 Mbps in LTE technology, and starting from October 2017 even up to 500 Mbps for selected sites. LTE Advanced network is also automatically available to roaming partners to the same extent as for Plus network customers.

In 2017, we put strong emphasis on the policy of reducing the roaming costs, among others by focusing on the reduction of the costs of data transmission in international roaming in foreign networks, which enabled us to offer to our residential and business customers the most competitive and safe roaming data packs on the Polish market, that is the "Atlantic" pack which includes 35 European countries as well as Canada, USA and Turkey, and the "Oriental" pack which includes 44 most popular countries in the world outside Europe, in terms of Poles' trips. Thanks to the active policy of acquisition of new roaming partners for discount agreements, mainly outside of the EAA, i.e. in areas where the costs of wholesale international roaming have been quite high so far, we are constantly reducing the costs of roaming in exotic countries, so that our customers could use our services at lower prices while roaming in these countries.

Our goal is to ensure that each EEA country has an LTE roaming service available for our customers in every network, and at least two 2G/3G networks are available in every country in other regions. We are also extending CAMEL (protocol used to settle roaming services in real time) service for prepaid and mix users to new countries, to facilitate dialing and voice calls in international roaming without the need of using the callback function. Currently, the CAMEL service is available in 223 networks in 96 countries.

In connection with the *Roam Like at Home* regulation (RLAH) on the territory of the EEA, effective from June 15, 2017, our customers may use roaming services such as voice calls, SMSs and MMSs as well as data transmission at the level of domestic prices without incurring any additional costs. The implementation of the RLAH regulation led to a considerable growth of the total time of outbound calls generated by our customers and data transmission while roaming in EEA countries. In order to minimize the growth of wholesale roaming costs related to the above mentioned developments, in 2017 Polkomtel successfully renegotiated terms of roaming agreements with our current and new roaming partners. This enabled us to substantially reduce wholesale roaming costs in 2017 and acquire additional roaming traffic in Polkomtel's network from foreign operators, which translated into a growth of revenues generated from the sale of inbound roaming.

Furthermore, we have negotiated new discount agreements for 2018, while focusing on compensating the costs of using regulated roaming in EEA by our customers with the wholesale revenues from the sale of inbound roaming services to the customers of our roaming partners.

To effectively accomplish the above mentioned goals it is necessary to efficiently manage roaming traffic of our customers. To this end, we have purchased a new roaming traffic management platform - Steering of Roaming - which on the one hand, allows for executing a business strategy aimed at reducing wholesale costs in international roaming, but on the other guarantees a high quality of provision of roaming services to our customers, without any visible problems with the functioning of telecommunication services abroad.

As at December 31, 2017, we offered international roaming services for voice calls in 576 networks in 213 countries and designated areas. In addition, our international roaming service offers roaming data transmission packages in 480 networks in 178 countries and designated areas. Access in LTE technology is possible in 120 networks in 64 countries and designated areas, while access in 3G was offered in 393 networks in 154 countries and designated areas.

National roaming and virtual operators (MVNOs)

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

National roaming

As a part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services (including MMS) to P4. P4's subscribers have used Polkomtel's mobile telecommunications network since the beginning of P4's operations in 2007.

Virtual operators (MVNOs)

Mobile Virtual Network Operators (MVNOs) are operators that provide mobile telephony and packed data transmission services, as well as fixed telephony services based on Polkomtel's network in the model in which Polkomtel provides access to the mobile network, exchange of interconnect traffic to/from MVNO's subscribers and other possible forms of wholesale support for MVNO's operations. In general, this model of cooperation takes place with operators who do not have their own technical infrastructure required to provide telecommunications services (including their own frequency allocations). Parties to such a cooperation benefit from the strengths of other parties, Polkomtel's high quality nation-wide network and support in servicing of telecommunication aspects of the MVNOs' activities as well as a dedicated offer, marketing and sales under their own brand by the MVNO wholesale partner.

As part of the cooperation with MVNOs, we provide wholesale services including voice calls, text messaging and packet data transmission (including MMS), premium rate services, value-added services, international roaming services, services provided to authorized entities, hosting services on Polkomtel's billing platform, customer support, servicing the MVNO's subscribers' complaints, access to SIM cards and telephones buying channels and to Polkomtel's top-ups channels as well as other services, depending on the needs and selected technical model of cooperation with MVNO.

Polkomtel was the first mobile operator in Poland who opened access to its network for MVNOs back in 2006. 2017 was an exceptional year as regards the acquisition of new MVNO partners, as we recorded a 30% growth of the number of MVNO partners providing services with the use of Polkomtel's network. Moreover, in 2017, Polkomtel has developed its LTE network and implemented the LTE Advanced technology. Polkomtel's increased network resources are automatically available to end-users of MVNO partners to the same extent as to Plus customers.

It is worth mentioning, that good results of our wholesale customers, expressed as a positive balance of mobile number portability recorded by selected partners in 2017, as well as the acquisition of many new MVNO partners by the Group, took place in the year with particularly demanding challenges for telecommunication operators, namely, the implementation of the mandatory registration of prepaid cards and of the RLAH regulation.

Polkomtel's MVNO partners, according to the requirements of the Anti-terrorist Act and with the support of Polkomtel, launched and implemented the process of mandatory registration of prepaid cards. This process was successfully completed for already existing SIM cards at the beginning of 2017. As part of the cooperation with our MVNOs, we made it possible for our partners to register prepaid cards, among others, at our points of sale.

The Regulation of the European Parliament and the Council came into force in mid-2017, forcing operators to change the rules of provision of roaming services in EEA countries, under the aforementioned RLAH regulation. We helped our MVNO partners adapt to these regulations and implement relevant solutions adjusting their price offers to the requirements of the EU Regulation.

Our broad scope of services and creation of dedicated solutions for the needs of our wholesale partners, allow us to cooperate under various wholesale business models, from technologically advanced models for partners who have their own telecommunications infrastructure (for instance, their own points of interconnection with operators and IT platforms), through interim models to models that require only marketing and sales channels from MVNO partners and a technical implementation is limited to an absolute minimum. We actively develop our wholesale product in order meet the requirements of our MVNO partners and quickly respond to the dynamically changing business conditions.

Very good results of MVNO partners operating on Polkomtel's network indicate, on the one hand that the market is still open to offers of new MVNO operators, and on the other, they may constitute an additional stimulus for new, potential partners to make a decision about launching operations under the MVNO model with Polkomtel.

2.7. Broadcasting and television production segment

2.7.1. Market overview

The Polish TV broadcasting market consists of state-owned and private commercial broadcasters airing both at the regional and national levels. A significant number of stations are offered through paid channels, such as cable networks and DTH platforms.

TV broadcasting in Poland started in the 1950s by the state-owned TV broadcaster TVP, which was the sole Polish TV broadcaster until 1992. Following political changes the Polish TV market was opened to private commercial broadcasters in 1992, the number of TV channels has increased substantially. On July 23, 2013, the process of implementing digital terrestrial television (DTT – Digital Terrestrial Television) had ended. Currently, DTT offers free access to 27 channels and the outreach of the multiplexes exceeds 99% of Poland's population.

The Polish TV broadcasting market is supervised by the National Broadcasting Council (the KRRiT) which grants broadcasting licenses and supervises the operations of Polish TV broadcasters (such as checking compliance with license terms for specific channels).

Polish TV advertising market

According to the estimates of Zenith media house, in 2017 Poland was the third largest advertising market in Central-Eastern Europe (after Russia and Turkey) with a total net advertising expenditure of PLN 7 billion (after discounts or rebates) and a growth rate of almost 2% compared to 2016. The value of TV advertising amounted to almost PLN 3.6 billion and remained at the same level compared to 2016.

In 2017, TV was the dominant advertising medium in Poland with 51% share in the total advertising expenditure. According to Zenith forecasts, this share is expected to remain stable in upcoming years with a slight downward tendency. The significant increase of the share of Internet as an advertising medium does not influence television's position in a substantial way, due to the decline of advertising expenditures in printed media.

Advertising expenditure by medium from 2012 to 2019:

	2012	2013	2014	2015	2016	2017	2018P	2019P
TV	52%	52%	53%	53%	52%	51%	50%	48%
Print	14%	11%	9%	8%	6%	5%	4%	4%
Outdoor	7%	7%	7%	7%	6%	6%	6%	6%
Radio	7%	7%	7%	7%	8%	7%	7%	7%
Internet	18%	20%	22%	24%	26%	29%	31%	34%
Cinema	2%	2%	2%	2%	2%	2%	2%	2%

Source: Zenith, "*Advertising Expenditure Forecasts - December 2017*"

The Polish TV ad market is characterized by a high level of TV consumption. In 2017, the average daily TV viewing time among the surveyed population remained at a very high level, estimated at 259 minutes. Considering such a high average TV viewing time, it is justified to assume that the TV market will continue to be an attractive communications platform for advertisers.

Based on data from the media house Starcom, we estimate that in 2017 Polsat Group had a 27.2% share of the Polish TV advertising market, estimated at ca. PLN 4.1 billion and an advertising power ratio (measured as the ratio of advertising market share to total individual audience share in the group All 4+) of 1.2.

We believe TV is a highly effective advertising medium. Moreover, given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, in our opinion there is still substantial growth potential for TV advertising in Poland. The Polish advertising market constitutes 0.36% of GDP, representing a substantially lower value as a percentage of GDP than in certain other European markets such as the United Kingdom (0.89%), Slovakia (0.79%), Germany (0.61%), the Netherlands (0.54%) and the Czech Republic (0.53%).

Key TV channels

The Polish TV market remains dominated by the four largest terrestrial channels: TVP1, TVP2, TVN and POLSAT, which collectively had 37.9% of the aggregate audience share in the commercial group in 2017. In 2017, further significant fragmentation of the TV market was observed. The importance of smaller broadcasters available on the multiplexes was growing, mainly at the expense of the abovementioned four largest TV channels available earlier in analogue terrestrial television.

In 2017, our main channel POLSAT had an all-day audience share of 12.3%. Average annual technical coverage was 100%. Our thematic channels had a 12.1% combined audience share. We broadcast 28 thematic channels with competitive offers on each important market segment (including sport, information, music and channels dedicated to female and male audiences). They include channels distributed by cable and satellite networks, as well as six channels available through DTT: four on MUX-2 (POLSAT, TV4, TV6 and Super Polsat), and two on MUX-1 (newly acquired ESKA TV and Polo TV as of December 4, 2017). The Group's main channel POLSAT available on MUX-2, competes with nationwide channels: TVN, TVP1, TVP2 and smaller channels available on digital terrestrial television.

In 2017, POLSAT's main competitor, TVN achieved a 12.7% all-day audience share and had 100% average annual technical coverage. The TVN channel, launched in 1997, is broadcast by TVN Group, which is currently a 100% subsidiary of the media corporation Scripps Network Interactive, which in turn is in the process of selling all its assets to Discovery Group. TVN Group's thematic channels achieved a 11.8% combined all-day audience share in 2017.

TVP Group broadcasts 12 channels, including TVP1 and TVP2, and is one of the main players on the Polish TV advertising market. In 2017, the main channels of TVP Group had 6.1% (TVP1) and 6.8% (TVP2) all-day audience shares. The technical reach of both channels reaches 99.9% of TV households in Poland. TVP's thematic channels had 7.7% audience share. Except advertising revenue, as the national state-owned broadcaster, TVP receives additional revenue from license fees mandatorily charged to Polish citizens owning TV or radio sets under the License Fees Act of April 21, 2005. Given the regulations preventing TVP from interrupting programs to broadcast advertising, which significantly decreases its advertising inventory, TVP group generated only 38.2% of its revenue from license fees in 2017.

Digital Terrestrial TV

Poland finished the conversion from analogue terrestrial broadcasting TV to DTT based on the Digital Video Broadcasting – Terrestrial (DVB-T) standard on July 23, 2013. The switch to digital broadcasting allowed to increase the number of broadcast channels, improve picture and sound quality and eliminated the interference that accompanied analogue broadcasting. Digital TV systems use an electronic program guide, which enables viewers to compile their own sets of favorite programs and exercise parental control. Digital TV systems also allowed broadcasters to offer new multimedia services such as adding additional soundtracks for individual channels (e.g. additional narration for the visually impaired – audio description, or the original soundtrack) or the possibility to add subtitles for people with hearing disabilities. Digital terrestrial television provides users with a new function of automatic recording of programs (PVR).

Digital transmission systems differ from analogue systems in their device requirements. DTT requires TV-sets equipped with a tuner or a special adapter for older devices. Thanks to the application of the DVB-T broadcasting standard with MPEG-4 compression, one multiplex can host seven - eight SD channels or three-four HD channels.

A multiplex, or MUX, is a term used to describe the package of radio and TV channels, possibly enriched by additional services, transmitted digitally on a specific band. Currently, digital television is offered in Poland within four free multiplexes and one pay multiplex dedicated for TV reception on mobile devices. It is expected that the process of digitalization in Poland may involve six multiplexes.

Until April 27, 2014, the first multiplex, MUX-1, was shared between the public broadcaster's three channels (TVP1, TVP2, TVP Info) and four commercial channels. After that date TVP released space held on this multiplex in order to allocate it to broadcasters selected in a competition. Currently, the channels available on MUX-1 include: Telewizja Trwam (socio-religious channel), STOPKLATKA TV (film channel), Fokus TV (educational channel, currently closely cooperating with Polsat Group) and TVP ABC (channel for children aged 4 to 12). The Office of Electronic Communications (UKE) estimated the reach of MUX-1 at 98.8% of the population in Poland on the date of the final switch-off of analogue terrestrial television broadcasting.

MUX-2 is reserved for commercial broadcasters including TV POLSAT. Regular broadcasting of POLSAT in digital terrestrial television started on September 30, 2010. On the date of the final switch-off of analogue terrestrial television broadcasting the coverage of MUX-2 was estimated at 98.8%.

MUX-3 is reserved solely for the public broadcaster TVP. It had the widest coverage that was estimated at 99.5% on the date of the final switch-off of analogue terrestrial television broadcasting, due to the fact that its signal is transmitted from a larger number of objects than signals of the remaining multiplexes.

MUX-4 is currently reserved for INFO-TV-FM (subsidiary of Cyfrowy Polsat) and is dedicated to broadcasting of television on mobile devices.

MUX-8 began broadcasting successively since October 25, 2016. Currently, 4 channels are already operating - Metro, Zoom TV, Nowa TV (currently closely cooperating with Polsat Group) and WP. According to a resolution of the National Broadcasting Council, TVP can launch three SD channels or one SD and one HD channel on MUX-8, however until the date of publication of this Report the public broadcaster has not decided to do so.

In addition to nationwide multiplexes, channels can be broadcast through local multiplexes. Currently, five such multiplexes have been activated. It is also worth mentioning that for the purpose of conducting tests transmitters operating in new broadcasting standards DVB-T2 with HEVC compression were activated in Warsaw and Łódź.

2.7.2. Offer

Channels

We believe we have a portfolio of channels that appeal to the important audience segments and that we will maintain the leading position in sports programming and we will strengthen our position in news programming. Our portfolio of channels addresses the entire family. As at the date of approval of this Report the Group's portfolio comprised 29 channels, including 19 HD.

Channels portfolio of Polsat Group

Channel	Broadcasting standard	Start date	Thematic group	Signal distribution	Availability	Household coverage(1)
POLSAT	SD/HD	December 5, 1992	General interest	Terrestrial/cable/satellite	FTA	100.0%
Polsat Sport	SD/HD	August 11, 2000	Sport	Cable/satellite	non-FTA	47.2%
Polsat Sport Extra	SD/HD	October 15, 2005	Sport	Cable/satellite	non-FTA	36.0%
Polsat Film	SD/HD	October 2, 2009	Movie	Cable/satellite	non-FTA	52.8%
Polsat café	HD	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	55.9%
Polsat Play	HD	October 6, 2008	Lifestyle	Cable/satellite	non-FTA	51.0%
Polsat2	HD	March 1, 1997	General interest	Cable/satellite	non-FTA	63.0%
Polsat News	HD	June 7, 2008	News	Cable/satellite	non-FTA	56.3%
Polsat News 2	SD	February 8, 2007	Business	Cable/satellite	non-FTA	58.0%
Polsat Jim Jam	SD	August 2, 2010	Children	Cable/satellite	non-FTA	44.5%
Polsat Sport News(2)	HD	June 1, 2011	Sport	Cable/satellite	non-FTA	27.8%
CI Polsat	SD	November 24, 2011	Criminal	Cable/satellite	non-FTA	40.6%
Polsat Viasat Explore	SD/HD	March 1, 2013	Lifestyle	Cable/satellite	non-FTA	43.6%
Polsat Viasat Nature	SD	March 1, 2013	Nature	Cable/satellite	non-FTA	43.7%
Polsat Viasat History	SD/HD	March 1, 2013	History	Cable/satellite	non-FTA	49.3%
TV4	SD/HD	April 1, 2000	General interest	Terrestrial /cable/satellite	FTA	99.9%
TV6	HD	May 30, 2011	Entertainment	Terrestrial /cable/satellite	FTA	95.5%
Polsat Romans	SD	September 1, 2013	Women's	Cable/satellite	non-FTA	47.5%
Disco Polo Music	SD	May 1, 2014	Music	Cable/satellite	non-FTA	48.3%
Polsat Music	HD	September 26, 2014	Music	Cable/satellite	non-FTA	44.4%
Polsat 1(3)	SD	December 18, 2015	General interest	Satellite	Non-FTA	n/a
Polsat Sport Fight	HD	August 1, 2016	Sport	Satellite	non-FTA	11.9%
Super Polsat(4)	SD/HD	January 2, 2017	General interest	Terrestrial /cable/satellite	FTA	96.5%
Polsat Doku(5)	HD	February 10, 2017	General interest	Cable/satellite	non-FTA	23.1%
Eska TV(6)	SD/HD	08-08-2008	music	Terrestrial /cable/satellite	FTA	97.6%
Eska Rock TV(6)	SD	01-09-2017	music	Cable/satellite	non-FTA	25.4%
Eska TV Extra(6)	SD/HD	16-06-2017	music	Cable/satellite	non-FTA	56.2%
Polo TV(6)	SD	07-05-2011	music	Terrestrial /cable/satellite	FTA	97.4%
VOX Music TV(6)	SD	28-04-2014	music	Cable/satellite	non-FTA	34.8%

(1) NAM, average TV household coverage, arithmetic average of monthly coverage in 2017.
(2) As of January 2, 2017 the channel is available only via cable and satellite platforms.
(3) Channel addressed to viewers abroad.
(4) Channel launched on January 2, 2017, replaced Polsat Sport News on MUX-2.
(5) Channel launched on February 10, 2017.
(6) Channel included in Polsat Group's portfolio from December 4, 2017.

POLSAT

POLSAT, our main channel, is the number one channel in Poland in terms of audience share in the commercial group (all, ages 16-49), with an audience share of 12.3% in 2017. The channel broadcasts 24 hours a day, seven days a week. The channel is available on the digital terrestrial television on the second multiplex (MUX-2). Apart from terrestrial broadcasting, POLSAT is also provided in SD and HD by all major Polish cable TV operators as well as DTH platforms. POLSAT airs a broad variety of movies, Polish and foreign series as well as talent shows realized based on license agreements. Sports offer has also an important place in our programming.

The strongest programming offer is aired in spring, from March to May, and in autumn, from September to November, in prime time (from 5:00p.m. to 11:00p.m.). It is the key period for advertisers throughout the year. That is when we broadcast the premiere episodes of series, talent shows, and new movies (mainly from Sony Pictures Television International, 20th Century Fox, The Walt Disney Company or Warner Bros International TV Distribution). In off-prime time, POLSAT airs series, docu-soaps, movies or transmissions from sport events.

Thematic channels of the Group

Channel	Target audience segment	Average audience share in the target audience segment in 2017	Core programming	Additional information
TV4 TV4 HD	All aged 16-49	4.06%	Programming offer includes films, series and intelligent entertainment.	Channel included in Polsat Group's portfolio since August 30, 2013. Available in DTT technology.
TV6 HD	All aged 16-49	1.56%	Offers drama series, animated movies, soap operas, reality shows and television quiz shows.	Channel included in Polsat Group's portfolio since August 30, 2013. Available in DTT technology.
Polsat Sport Polsat Sport HD	Men aged 16-59	0.52%	The first sport channel in the Group's offer. It airs sports events and thematic programs. The most important sports are: (i) volleyball (World Championships, World League, World Grand Prix, Plus Liga, Orlen Liga), (ii) athletics (e.g. Diamond League), (iii) football (Champions League, Nations League) (iv) handball, (v) world class boxing and (vi) MMA (Mixed Martial Arts) and KSW (Martial Arts Confrontation) contests.	
Polsat Sport Extra Polsat Sport Extra HD	Men aged 16-44	0.11%	Premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League.	Broadcast since 2009.
Polsat Sport News Polsat Sport News HD	Men aged 16-44	0.07%	The programming includes sport news, sport events transmissions and journalistic materials.	Until January 1, 2017 it was broadcast in DTT, as of January 2, 2017 available in HD standard only in cable and satellite networks.
Polsat Sport Fight HD	Men aged 16-44	0.03%	Channel dedicated to martial arts, broadcasting, among others, HBO professional boxing galas, TOP Rank, Showtime, Matchroom and mixed martial arts KSW, MMA Attack, as well as coverages of Polsat Boxing Night	Broadcast since August 1, 2016.
Polsat Film Polsat Film HD	All aged 16-49	0.77%	Wide offer of movies. Hit movies, top box-office productions and non-mainstream movies. The offer based to a large extent on productions of Sony Pictures Television International and 20th Century Fox TV.	
Polsat Cafe HD	Women aged 16-44	0.45%	Lifestyle, fashion, health and beauty, cooking. The offer includes own productions as well as foreign editions of various shows.	
Polsat Play HD	Men aged 16-44	0.76%	Male hobbies, including fishing, automotive industry, documentary and guide series, lifestyle and trendy consumer gadgets.	
Polsat 2 HD	All aged 16-49	1.43%	Reruns of programs that premiered on our other channels.	On December 18, 2015 replaced abroad by the channel Polsat 1, remains available to viewers in Poland.

Channel	Target audience segment	Average audience share in the target audience segment in 2017	Core programming	Additional information
Polsat News HD	All aged 16-49	0.75%	24-hour news channel mainly broadcasting live and covering primarily news from Poland and key international events.	
Polsat News 2	Top management	0.22%	The latest news on the economy and financial markets.	Channel acquired by TV Polsat Group in February 2007. Until June 9, 2014 broadcast under the name Polsat Biznes.
Polsat Jim Jam	Children aged 4-7	1.46%	Entertainment for children.	Polsat Jim Jam is a joint venture launched by TV Polsat and ChelloZone.
CI Polsat	All aged 16-49,	0.17%	Criminal programs based on true stories. Documentaries presenting the work of police, detectives and criminal laboratories.	Joint project of Polsat Group and A+E Networks UK. The channel is aired since the end of November 2011.
Polsat Viasat Explore Polsat Viasat Explore HD	Men aged 16-49	0.16%	Channel dedicated to men, it offers programs featuring extreme jobs, sports, journeys to places that are hard to reach.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat Nature	All aged 16-49	0.02%	Offers nature programs for the entire family.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Viasat History Polsat Viasat History HD	All aged 16-49	0.15%	Offers various programs presenting the history of different times.	Joint project of Polsat Group and Viasat Broadcasting.
Polsat Romans	Women aged 16-49	0.13%	Channel dedicated to women, broadcasts both Polish and foreign drama films and series.	Broadcasts since September 1, 2013.
Disco Polo Music	All aged 16-49	0.21%	Channel presents disco polo, dance and festive music.	Started broadcasting on May 1, 2014.
Polsat Music HD	All aged 16-49	0.05%	Entertainment channel dedicated to pop and rock music.	Started broadcasting on September 26, 2014.
Polsat 1	Poles living abroad	n/a	Latest Polish series produced by Polsat, hit productions selected from the programming libraries of Polsat, TV4, Polsat Cafe and Polsat Play.	Started broadcasting on December 18, 2015.
Super Polsat	All aged 16-49	0.84%	Offers entertainment and news programs, films, series and sports.	Started broadcasting on January 2, 2017. Available in DTT technology.
Polsat Doku HD	All aged 16-49	0.03%	Documentary channel, offers historical and science programs addressed to viewers who are interested in the problems of today's world, travel and nature.	Started broadcasting on February 10, 2017.
Eska TV Eska TV HD	All aged 15-34	0.90%	Entertainment and music channel presenting the latest music clips, exclusive interviews, celebrity gossip and music news.	Started broadcasting on August 8, 2008, joined the Group's portfolio on December 4, 2017.
Eska Rock TV	All above 20 years	0.01%	Channel offering mainstream pop-rock, classic rock and alternative music.	Started broadcasting on September 1, 2017, joined the Group's portfolio on December 4, 2017.
Eska TV Extra Eska TV Extra HD	All aged 16- 49	0.10%	Channel broadcasting current hits and greatest pop music hits from the last two decades.	Started broadcasting on June 16, 2017, joined the Group's portfolio on December 4, 2017.

Channel	Target audience segment	Average audience share in the target audience segment in 2017	Core programming	Additional information
Polo TV	All aged 16- 49	1.11%	Channel broadcasting the greatest disco polo and dance hits, most popular disco polo festivals as well as euro disco hits, italo disco and dance music from the 80s and 90s.	Started broadcasting on May 7, 2011, joined the Group's portfolio on December 4, 2017.
VOX Music TV	All aged 25-45	0.07%	Entertainment and music channel brodcasting disco hits from the 80s and 90s, italo disco, euro dance and disco polo. The channels programming schedule also includes programs dedicated to pop stars and hits.	Started broadcasting on April 28, 2014, joined the Group's portfolio on December 4, 2017.

Audience share for our channels for 2015-2017(1)

Channel	Audience share (SHR %)		
	2015	2016	2017
POLSAT	**13.18%**	**13.19%**	**12.34%**
TV4	3.65%	3.64%	4.06%
TV6	1.50%	1.70%	1.56%
Polsat2	1.41%	1.44%	1.43%
Polsat News	0.83%	0.80%	0.75%
Polsat Sport	0.53%	0.44%	0.35%
Polsat Film	0.75%	0.79%	0.77%
Polsat Play	0.66%	0.67%	0.57%
Polsat JimJam	0.16%	0.24%	0.15%
Polsat Cafe	0.39%	0.39%	0.39%
Polsat Sport Extra	0.12%	0.09%	0.09%
CI Polsat	0.12%	0.14%	0.17%
Polsat Sport News(2)	0.44%	0.35%	0.04%
Polsat News 2	0.09%	0.08%	0.07
Food Network(3)	0.10%	0.10%	n/a
Polsat Viasat Explore	0.06%	0.11%	0.10%
Polsat Viasat History	0.11%	0.14%	0.15%
Polsat Viasat Nature	0.03%	0.03%	0.02%
Polsat Romans	0.14%	0.16%	0.12%
Disco Polo Music	0.26%	0.27%	0.21%
Polsat Music(4)	0.02%	0.03%	0.05%
Polsat 1(5)	n/a	n/a	n/a
Polsat Sport Fight(6)	n/a	n/a	0.03%
Super Polsat(7)	n/a	n/a	0.84%
Eska TV(8)	0.91%	0.65%	0.48%
Eska Rock TV(8)	n/a	0.01%	0.01%
Eska TV Extra(8)	n/a	n/a	0.10%
Polo TV(8)	1.32%	1.33%	1.11%
VOX Music TV(8)	0.08%	0.08%	0.06%

Source: NAM, target All Day, 16-49

(1) Data accounts from Time Shift Viewing, live+2
(2) As of January 2, 2017 channel available only in cable networks and satellite platforms.
(3) The channel was transferred to TVN capital group in January 2017.
(4) Until May 26, 2017 the channel was broadcast under the name MUZO.TV
(5) Channel not included in the telemetric panel.
(6) Included in the telemetric panel since January 2017.
(7) Channel launched on January 2, 2017, replaced Polsat Sport News on MUX-2.
(8) Channel included in Polsat Group's portfolio since December 4, 2017.

Scheduling

We tailor our programs and programming schedules to the interests of the group, that considering its demographic characteristics, we believe is most attractive to advertisers. We analyze data relating to our audience share in detail, and, by identifying audience interests and general market trends, we attempt to ensure that our programming remains responsive to the expectations of the target audience and advertisers.

Our scheduling is based on two key commercial schedules (advertising revenue): the spring (March-May) and autumn (September-November) schedules. Then we broadcast premieres. In the summer and winter, we schedule mainly re-runs of the content premiering in the high season.

Our programming schedule is designed to maintain viewer loyalty so that the attractive programming keeps the viewer watching the specific channel. It is especially important in the time slot between early afternoon and 'prime time'. To achieve this goal, each day (from Monday to Friday) we plan stable slots so that the viewer can remember the programming scheme of the channel. This strategy is implemented between 3pm and 8pm. From 8pm, the channel proposes a strong offer including movies (i.a. Monday, Tuesday and Saturday), talent shows (Tuesday, Wednesday, Friday and Sunday) and popular series (Thursday).

Sources of Polish programming

We aim at having diversified sources of Polish content, enabling us to efficiently manage production costs. We are able to choose from a wide offering to select attractive and cost-effective programs to fit successful scheduling. In addition, for formats owned by us, we organize tenders in order to select the most cost-effective producers that ensure high quality. Polish programs are primarily commissioned to independent external producers. However, we also create programs in-house. Approximately 60% of our programming hours consist of Polish content (data for the following channels: Polsat, Polsat2, Polsat Play, Polsat Cafe, Polsat Film, Polsat News, Polsat Sport, Polsat Sport Extra, Polsat Sport News, Polsat News 2, TV4, TV6, Polsat Romans, Disco Polo Music, Polsat Music, Super Polsat).

Commissioned programs are sub-contracted, when justifiable, to third-party production companies to provide us with additional production capacity, thereby reducing overhead costs related to production employees, facilities and equipment. Our external producers include approximately 40 Polish and foreign producers such as: ATM Group S.A., Akson Studio Sp. z o.o., Tako Media Sp. z o.o., Constantin Entertainment Polska Sp. z o.o., Rochstar Sp. z o.o., Endemol Shine Polska Sp. z o.o., Jake Vision Sp. z o.o., Outset Films Sp. z o.o., Eskander, Goliat, Promiss, Sp. z o.o., Maxima Models Sp. z o.o., Artama Sp z o.o. and Albert Production Sp.J. To provide content for Polsat Play, Polsat Cafe and Super Polsat, we use the services of smaller local production companies.

In most cases, we use a standard template for all production contracts we enter into. When the production of TV programs is commissioned to external producers, the contracts generally provide that the producer transfers to us all the copyrights and related intellectual property rights of the covered programs with the exclusive right to exercise the derivative copyright. The producer's fees include production fees as well as fees for the transfer of copyrights, related intellectual property rights to the program (or, alternatively, for granting the license) and for granted authorizations and consents. All production agreements have definite terms, typically covering the time of production with the possibility for extensions.

Polsat News relies mainly on Polsat Group's own production resources. Sport channels rely mainly on broadcasts of sports events, to which we have acquired broadcasting rights, and are supported by in-house production.

Sources of foreign programming

We purchase programming licenses from foreign providers primarily for films, series and sports.

Our key partners for movie and series licenses are major movie studios such as Sony Pictures TV International, 20th Century Fox TV, The Walt Disney Company, Warner Bros International TV Distribution, CBS Studios. We also cooperate with Monolith Films. Usually, these contracts have terms of two to three years and are denominated in U.S. dollars or euro. We generally acquire broadcasting rights under one of two types of contractual arrangements. The first are the so called volume contracts, which involve the acquisition of a specified volume of films or series, while the second constitutes spot contracts, which involve the acquisition of the right to broadcast individual series or films.

Purchase of sports broadcasting rights

Important sports licenses purchased by Polsat Group include broadcasting rights to the FIVB Volleyball competitions (World Grand Prix, World Cup, World Championships) and Infront/CEV (European championships in volleyball – the men's tournament will take place in Poland in 2017), as well as Polish Volleyball Federation (World League from 2015, Hubert Wagner's Memorial, matches of the national team played in Poland). These contracts usually relate to playing seasons and have terms of three to seven years. They are generally denominated in euro. Once we have obtained the required programming licenses for certain sports events, we provide our viewers with locally-customized programming either in the form of complete productions or studio commentary.

In January 2018, Telewizja Polsat prolonged an agreement with the International Volleyball Federation FIVB and, as a result will broadcast the most important events in world and national team volleyball for the next seven years. The package of acquired rights includes the Volleyball Nations League (replacing the men's World League and women's Grand Prix) – 260 matches in total during the season and qualifying tournaments to the Volleyball Nations League, Challenger Cup/Match, qualifying tournaments to the 2020 and 2024 Olympic Games, men's and women's 2022 World Championship, and 2019 and 2023 World Cup.

We hold broadcasting rights to matches in the eliminations to World football championships in 2018 in Russia. In 2016 we signed a license agreement with the UEFA for package of qualifying matches to the 2020 European Championships and 2022 World Championships. The purchased package also includes new European football competitions – the League of Nations: qualifying matches and the finals (Final Four) in 2019 and 2021. We also acquired rights to the final match of the under 21 European Football Championship, which took place in June 2017 in Poland. Furthermore, we have been holding broadcasting rights purchased from PLPS (Polish Professional Volleyball League) to Plus League and Orlen League matches already for a decade. In 2014 we extended this contract for another five seasons 2015-2020.

In June 2017, Polsat Group acquired exclusive broadcasting rights to over 1000 matches of the UEFA Champions League and Europa League for three consecutive years (from 2018 until 2021) for all channels of distribution, including television, the Internet, and mobile devices. This is a strategic investment due to the growing popularity of football games in recent years.

Sale of advertising and sponsoring

Advertising options

There are two main forms of advertising on the TV market: advertisements broadcast in advertising breaks and sponsoring broadcast before and after selected programs and trailers during advertising breaks in-between sponsored programs.

Advertising

Broadcasters use two forms of sales of advertising time: GRP sales and monthly rate-card sales.

GRP sales are based on audience ratings and a specified price per rating point delivered. The valuation of the service is based on fixed price of one rating point.

Rate-card sales are based on a broadcaster's official rate-card for individual advertising breaks. Customers purchase specific advertising breaks at a price determined by the given rate-card.

GRP prices for specific months and rate-card discounts applied as well as annual minimum purchase commitments are set out in annual contracts negotiated with media agencies and customers. Pricing and discounts depend on the level of the annual minimum purchase commitment.

Sponsoring

Sponsor projects are sold throughout the year (usually sold on the basis of a project created together with a client). Prices and discount conditions are negotiated individually for each customer and each sponsor campaign.

Pricing of commercials

We set the prices for commercials with the objective of maximizing revenue from the commercial time available (according to law) and based on estimated level of attractiveness of specific programming content next to which the advertising breaks are located on demand forecasts for TV commercials. Forecasts of advertising break audience are prepared for each month based on the overall TV audience, the channel's share in the overall audience and seasonality (prices of commercials are highest from October to November, before Christmas season, and lowest from January to February and from July to August).

In order to provide flexibility to advertising customers, we offer advertising priced on either on a rate card basis or on a cost per GRP.

Rate-card prices of commercials are set and published each month by our advertising sales team at Polsat Media Biuro Reklamy. Advertisers select commercial breaks based on their assessment of which programs target the audience demographic they wish to reach (the channel is not accountable for the audience actually generated by the program).

GRP prices are established for specific channels each month during a calendar year by Polsat Media Biuro Reklamy advertising sales team and GRP delivery is guaranteed. Advertising sold on a cost per GRP basis is scheduled by Polsat Media on the basis of available resources after the booking of sales based on rate-cards. We believe this sales model to be the most profitable way to sell our advertising breaks. In 2017, rate-card sales accounted for 46% of all advertising sales on our main channel, POLSAT.

Pricing of sponsoring

We set the prices of sponsoring with the objective of maximizing our revenue taking into account the programming offer and legal regulations regarding sponsoring limits. Our pricing is based on the relevance of the subject matter of the program to the sponsor's needs and the target group, the quality of our programs, recognition of brands and the attractiveness of the broadcast slot. In order to provide flexibility to advertising customers, we negotiate sponsoring contracts on a case-by-case basis, taking into account all the factors mentioned above.

Sponsoring revenue is primarily dependent on programming quality and marketing attractiveness for the product and its target audience. As a result, sponsoring is not as dependent on the strength of the economy as advertising.

2.7.3. Sales

Sale of advertising and sponsorship

The key source of revenue for our broadcasting and television production segment is advertising and sponsorship revenue (approximately 82% in 2017). Almost all of our advertising revenue is collected through our advertising sales office Polsat Media Biuro Reklamy, which acts as our advertising agent (sales house). Polsat Media Biuro Reklamy is responsible for the sale of advertisements, sponsoring services and contracts connected therewith. Polsat Media Biuro Reklamy is responsible for the sale of advertising services (advertising time) for our channels.

In 2017, Polsat Media Biuro Reklamy carried out the sale of advertising time for our TV channels and 37 other broadcasters outside our Group. Polsat Media Biuro Reklamy often works with international media buying agencies that operate as intermediaries, negotiating purchase conditions and conducting campaigns for their customers. The sale of advertising time is carried out both through annual contracts entered into with media buying agencies, as well as individual direct customers. In 2017, our ten largest media agencies collectively accounted for approximately 65% of our net advertising and sponsorship revenue. Like the other nationwide broadcasters in Poland, we have a relatively stable group of advertisers that we work with.

Sale of broadcasting rights to Polsat Group's channels

The second largest source of our revenue in our broadcasting and television production segment after commercials and sponsoring, are agreements with cable TV networks and satellite TV operators to broadcast our channels, which comprised 15% of total revenue in this business segment in 2017. Our agreements with cable TV networks and satellite TV operators are generally non-exclusive licenses for the broadcasting of our channels. Under typical licenses, operators agree to pay us a monthly license fee, the amount of which generally depends on the number of customers to individual packages and set rates for the package or channel customers.

Distribution of content online

Sale of content via Internet, through our online television IPLA, is another source of revenue of TV Polsat Group. IPLA is one of the leading platforms on online video market in Poland both in terms of availability on different devices (computers/laptops, tablets, smartphones, Smart-TVs, set-top-boxes, game consoles) and in terms of content offered. Online access to our programming is based on three settlement models. The first is a transactional 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.

Sales team

Polsat Media Biuro Reklamy is responsible for sales of our advertising time, sponsorship, campaign planning, after-sales analysis, market research and analysis, development of new products and, most importantly, enhancing relationships with existing and potential advertisers. In addition to providing advice on the scheduling of advertisements on our channels, Polsat Media Biuro Reklamy sales force cooperates closely with advertisers to design special campaigns, such as sponsorship campaigns and related cross-promotional opportunities. Together with the programming department, Polsat Media's advertising sales department obtains TV audience ratings data from the NAM telemetric panel on a daily basis. They analyze this data and compare it with audience ratings of our competitors to determine the most effective strategy for scheduling advertising slots to reach advertising clients' preferred audience in the most efficient manner. The department is also responsible for ensuring that advertising slots are allocated in accordance with client specifications regarding context and timing.

Since 2009, Polsat Media Biuro Reklamy uses the PROVYS Sales system, a new sales and optimization software compatible with our fully-integrated ERP system, PROVYS TV Office, used by the Group to manage i.a. programming broadcasting. PROVYS Sales enables to simultaneously sell airtime on 64 channels serviced by Polsat Media Biuro Reklamy in 2017 with fully automated broadcasts of commercial airtime as well as campaign results verification based on daily uploaded NAM data.

In 2017, the Provys Sales system was integrated with the new platform Polsat Media AdFlow, which allows advertisers and media agencies for transfer and management of advertising materials. Thanks to this Polsat Media customers have direct contact and technical support of a team seconded to service the flow of broadcasted materials. This integration enables the automatization of a majority of processes related to billing and sending electronic invoices to users of the platform.

In addition, Polsat Media Biuro Reklamy advertising sales department conducts a wide range of market analyses based on external independent industry reports, including research conducted by Starcom and Zenith. Polsat Media Biuro Reklamy also uses data from TGI consumer research held by the Polish branch of Millward Brown, the Gemius/PBI which provides information on the behavior of Internet users in Poland and other dedicated tools provided by Gemius group (gemiusPrism, gemiusTraffic, gemiusStream, AdOcean).

We are also a member of EGTA (international trade association of TV and radio sales houses), which gives us the opportunity to interact and cooperate with sales houses from most European countries.

2.7.4. Technology and infrastructure

Broadcasting of TV channels

We broadcast TV channels through digital terrestrial television, cable TV and digital satellite platforms. Analogue terrestrial broadcasting signal was switched off on July 23, 2013.

Terrestrial transmission

POLSAT, our main channel, and the channels Super Polsat, TV4 and TV6 are broadcast via a nation-wide network of digital terrestrial transmitters within the MUX-2 operated by Emitel Sp. z o.o. (unrelated entity) and on local multiplexes operated by Telewizja Dolnośląska Echo Sp. z o.o. and MUX-TVS. Polsat Group's new channels Eska TV and Polo TV are available on MUX-1, also operated by Emitel Sp. z o.o., while the channel Eska TV Extra is broadcast on local multiplexes MUX-L1 (Emitel/Telewizja Łużyce), MUX-L2 (TVT), MUX-L3 (NTL), MUX-L4 (Telewizja Dolnośląska Echo Sp. z o.o.) and additionally on a trail multiplex in Łódź. We have agreements with the above mentioned operators for transmission, up-linking, multiplexing and monitoring of our channels in the digital network. The remaining channels of Telewizja POLSAT are broadcast via digital satellite platforms, cable TV networks and IPTV distributors.

Satellite transmission

As a Group we have several lease agreements for transponders belonging to Eutelsat S.A. These are contribution agreements: two 8-year agreements, entered into in 2017, providing the right to use two slots on the Eutelsat 12 West A satellite and a 5-year agreement, entered into in 2017 for access to Eutelsat 33C. Through Cyfrowy Polsat, TV Polsat has access to seven other Eutelsat transponders. The new channels added to the Group's portfolio in December 2017 are available via satellite on the basis of relevant agreements with hitherto service providers.

Technology and infrastructure

As the leading commercial broadcaster and producer of TV content, TV Polsat uses state-of-the-art technologies and relies on latest equipment. The main picture format is the High Definition 1080i50 standard. Since 2013 production and broadcasting has been based on electronic circulation of materials, which effectively speeds up and simplifies editing and transfer of materials, as compared to materials recorded on tape and concurrently offers additional possibilities of exploitation of the materials, such as VOD or on mobile devices. The main components of our technical resources include:

- four TV studios (A, B, C and D), all of which are equipped with cutting-edge, new or recently modernized, HD equipment:
    - studio A is the biggest studio used by the Polsat News channel and the main news program – "*Wydarzenia" ("News")*,
    - studio B is the studio for sports programs,
    - studio C is a virtual studio designated for short-form TV shows,
    - studio D is used by the channel Polsat News 2,
- two production halls of 1,200m^2 and 1,600m^2 dedicated to the production of medium to large entertainment shows or TV game shows and two smaller halls of 500m^2 and 700m^2 for the production of small and medium journalistic and entertainment programs,
- five fully digital outside broadcast vans, including four HD vans and a new small HD van for the rapid production of short sports programs,
- a two-camera Slow Motion HD van for replays during sports events,
- 13 digital satellite news trucks ensuring on-site signal feed in HD standard,
- a multi-channel automatic TV broadcasting system for broadcasting our channels (broadcasting of the newly acquired channels is executed by an external entity),
- a multiplex system ensuring the effective transmission of the signal to viewers,
- a digital switching system for TV signals in the hub,
- IT systems and networks designed to handle technological tasks in the fields of production of news and sports programs, auto-promotional materials and postproduction,
- digital program archive with a modern MAM (Media Asset Management) system for content management,
- HD editing systems connected via IT and SDI networks,
- more than 80 HD cameras for reporters, with recording on SxS memory cards, together with the necessary equipment and accessories,
- technological systems for signal exchange between head office and regional offices, and
- a twin-engine EC-135 helicopter with a gyro-stabilized camera, used for realization of programs and offering the possibility transmitting HD signal up to 100 km.

2.8. Other aspects of our business

Frequency reservations for the purpose of provision of telecommunication services

Polkomtel holds a license to provide mobile telephony services in Poland with frequencies allocated in the 900 MHz band (issued in 1996), a license to provide mobile telephony services, with frequencies allocated in the 1800 MHz band (issued in 1999), a license to provide mobile telephony services in the 2100 MHz band (issued in 2000) and a license to provide mobile telephony services, with frequencies allocated in the 2600 MHz band (issued in 2016). Currently, there is no regulatory requirement to hold a license to provide telecommunications services and the right to use frequencies results from issued frequency allocation decisions and can be extended for further periods by the President of the Office of Electronic Communications (UKE) on the basis of an application for the extension of the frequency allocation (which, in accordance with the Telecommunications Law, must be submitted within 12 to 6 months before the expiry of a given allocation). Currently, based on frequency allocations issued by the President of UKE Polkomtel is entitled to use frequencies in the 900 MHz band until February 24, 2026, in the 1800 MHz band until September 14, 2029, in the 2100 MHz band until January 1, 2023 and in the 2600 MHz band until January 25, 2031. All frequency allocations are technology neutral and can also be used to provide services in each of the technologies currently in use (including GSM, UMTS and LTE).

Based on reservation decisions issued by the President of UKE, Aero2, Polkomtel's subsidiary, is entitled to use frequencies in the 900 MHz band until December 31, 2023, in the 1800 MHz band until December 31, 2022 and in the 2600 MHz band until December 31, 2024.

Based on a reservation decision issued by the President of UKE, Sferia, Polkomtel's subsidiary, is entitled to use frequencies in the 800 MHz band until December 31, 2018.

Nordisk Polska, a subsidiary of Polkomtel, holds a frequency allocation for provision of services in the CDMA technology since 2006 which entitles to use the frequency until December 31, 2020.

In addition, we hold a number of radio licenses for equipment constituting the components of our radio network.

Broadcasting licenses

In our broadcasting and television production segment we currently dispose of 34 broadcasting licenses, including 5 universal broadcasting licenses and 29 broadcasting licenses for thematic TV channels. 3 broadcasting licenses are for terrestrial broadcasting DTT only (POLSAT channel and TV4), 6 broadcasting licenses are for terrestrial broadcasting DTT and satellite broadcasting (two licenses for Super Polsat, two licenses for TV6, and one license each for Polo TV and Eska TV) and 25 broadcasting licenses are for satellite broadcasting only. Our current broadcasting licenses were granted by the National Broadcasting Council (KRRiT).

Since 2013 Polsat Group disposes of licenses for the distribution of nation-wide TV channels already in our possession (Polsat News, Polsat Film, TV4, TV6 and Super Polsat) for a consecutive 10-year period after the expiry of the licenses currently in force.

The table below sets out the broadcasting licenses currently held by the Group:

Channel	License holder	Type of license	Licensing body	Date of expiration
POLSAT	TV Polsat	Terrestrial broadcasting license (digital)	KRRiT	March 2, 2024
Super Polsat	TV Polsat	Satellite broadcasting license /Terrestrial broadcasting license (digital)	KRRiT	August 29, 2030
Polsat 2	TV Polsat	Satellite broadcasting license	KRRiT	January 18, 2024
Polsat Sport	TV Polsat	Satellite broadcasting license	KRRiT	January 18, 2024
Polsat Cafe	TV Polsat	Satellite broadcasting license	KRRiT	July 28, 2024
Polsat Sport Extra	TV Polsat	Satellite broadcasting license	KRRiT	October 26, 2025
Polsat Play	TV Polsat	Satellite broadcasting license	KRRiT	November 15, 2025
Polsat News	TV Polsat	Satellite broadcasting license	KRRiT	May 18, 2028
Polsat Film	TV Polsat	Satellite broadcasting license	KRRiT	June 4, 2029

Channel	License holder	Type of license	Licensing body	Date of expiration
Polsat News 2(1)	TV Polsat.	Satellite broadcasting license	KRRiT	October 5, 2024
TV4	TV Polsat	Digital terrestrial broadcasting license	KRRiT	February 2, 2029
TV6	TV Polsat	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	July 22, 2030
Polsat Romans	TV Polsat	Satellite broadcasting license	KRRiT	October 15, 2023
Polsat Sport Fight	TV Polsat	Satellite broadcasting license	KRRiT	October 15, 2023
Disco Polo Music	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat Music	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat Film 2(2)	TV Polsat	Satellite broadcasting license	KRRiT	April 24, 2024
Polsat 1 (3)	TV Polsat	Satellite broadcasting license	KRRiT	May 11, 2024
Polsat Sport 2	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Doku(4)	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Sport 3(5)	TV Polsat	Satellite broadcasting license	KRRiT	March 6, 2026
Polsat Reality(5)	TV Polsat	Satellite broadcasting license	KRRiT	March 7, 2026
Polsat X(5)	TV Polsat	Satellite broadcasting license	KRRiT	March 7, 2026
Polsat Sport News	TV Polsat	Satellite broadcasting license	KRRiT	December 20, 2026
Polo TV	Lemon Records	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	February 23, 2021
VOX Music TV	Lemon Records	Satellite broadcasting license	KRRiT	April 29, 2024
Eska TV	Eska TV	Satellite broadcasting license/Digital terrestrial broadcasting license	KRRiT	May 26, 2019
Eska TV EXTRA	Eska TV	Satellite broadcasting license	KRRiT	August 1, 2026
Eska Rock TV	Eska TV	Satellite broadcasting license	KRRiT	March 16, 2026

(1) Until June 2014 the channel operated under the name “Polsat Biznes.”
(2) License acquired in April 2014 but the channel had not begun broadcasting yet.
(3) The channel began broadcasting on December 18, 2015.
(4) The channel began broadcasting on February 10, 2017.
(5) The channel has not begun broadcasting yet.

Restrictions on programming and advertising

In addition to regulating broadcasting time and the content of programming aired by Polish TV broadcasters, the Broadcasting Act also imposes certain restrictions on advertising. All of these restrictions are usually described in detail in the broadcasting licenses granted by the KRRiT. Each of our broadcasting licenses is subject to restrictions related to:

- minimum daily TV program broadcasting time;
- minimum percentage share of individual categories of programs in the monthly and daily broadcasting time;
- minimum requirements for the broadcast of programming originally produced in the Polish language and programming of European origin and the requirement to ensure that at least 10% of the broadcaster’s programming is obtained from independent producers;
- the maximum percentage share of the daily and weekly broadcasting time of shows and other transmissions produced exclusively by the broadcaster or ordered from independent producers; and
- the obligations to ensure that minor viewers do not have access to transmissions containing acts of violence and to encrypt programs broadcast at specified times or to ensure that previews of transmissions containing erotic content will not be broadcast during certain hours.

Additionally, the Amendment to the Broadcasting Act imposes on us strict advertising requirements including the following:

- advertising and teleshopping spots must be readily recognizable and distinguishable from editorial content;

- broadcasting time of commercials and teleshopping shall not exceed 12 minutes in any given clock hour, however, this limitation does not apply to announcements made by the broadcaster in connection with his own programs and ancillary products directly derived from those programs (these announcements are not to exceed two minutes in any given clock hour) as well as to announcements required by the provisions of law (sponsored announcements in particular);
- broadcasts of commercials and teleshopping spots shall be inserted between programs, however it is permitted to interrupt the following types of programs to broadcast commercials and teleshopping spots:
  - films produced for TV (excluding series, serials and documentaries) as well as cinematographic films – only once for very full 45 minutes program;
  - other programs (except for broadcasts of sports events which contain natural breaks resulting from their rules as well as broadcasts of other events containing breaks during which commercials and teleshopping spots can be aired) if the time between consecutive breaks in a TV program is at least 20 minutes;
  - news, current affairs programs and documentaries with a duration shorter than 30 minutes, religious programs and programs for children may not be interrupted to broadcast commercials or telesales spots;
- spots exclusively dedicated to teleshopping must contain explicit visual and audio disclaimers and must be broadcast continuously for at least 15 minutes; and
- product-specific advertising restrictions including restrictions related to:
  - alcohol, which is prohibited with the exception of beer, the advertising of which is allowed between 8 p.m. and 6 a.m.;
  - tobacco, tobacco accessories and products imitating tobacco products as well as gambling, the advertising of which is prohibited at all times;
  - pharmaceutical products, the advertising of which is prohibited save for non-prescription pharmaceuticals (the so-called OTC pharmaceuticals), the advertising of which must meet certain strict legal requirements;
  - health care services, as defined in the regulations on medical activity, available exclusively on the basis of a referral, the advertising of which is prohibited;
  - psychotropic substances and/or intoxicating substances, the advertising of which is prohibited;
  - baby formulas, the advertising of which is prohibited.

Moreover, the Amendment, imposes on broadcasters the duty to ensure that their media services are accessible to people with visual or hearing disabilities, in particular, by introducing appropriate amenities (such as audio description, subtitles for the hearing-impaired and sign language translation), so that at least 10% of the quarterly broadcasting time (excluding advertising and teleshopping spots) contained such amenities.

On October 29, 2014 television broadcasters operating on the Polish market: ITI Neovision S.A., Telewizja Polsat Sp. z o.o., Telewizja Polska S.A., Telewizja Puls Sp. z o.o., TVN S.A., VIMN Poland Sp. z o.o. and The Walt Disney Company Limited, reached an agreement aimed at the protection of children from harmful content in relation to counteracting to the promotion of unhealthy eating habits. In cooperation with the National Broadcasting Council, broadcasters developed as set of qualifying rules for promotional videos and guidelines for sponsorship to be broadcast with children's programs. The set of rules discussed above took form of self-regulation and is applicable from January 1, 2015.

Trademarks

We use a number of trademarks to which we hold copyrights and which are registered with, or have applications pending for registration with the appropriate authorities in order to secure our rights to these trademarks. The most significant trademarks to our business operations are the word and device marks of "Cyfrowy Polsat," "POLSAT," "Plus," "smartDOM," "IPLA," "TV4" and "TV6."

Research and development - new services and implementations

In 2017, we continued our efforts in the field of implementation of state-of-the-art technologies and latest technical solutions which offer superior quality and enhanced functionality of services to Polsat Group customers and enable us to expand our offer by adding new services and products.

In February 2017, Polkomtel introduced the JA+ Gaz (I+Gas) offer, i.e. the possibility of signing up for natural gas supply service at Polsat Group's points of sale. The offer includes a guarantee of a fixed price throughout the contract's duration. As part of the smartDOM loyalty scheme one can obtain savings on utility bills and discounts for the gas consumed by a household.

In February 2017, Polkomtel launched a service called Plus Internet Monitoring for its B2B customers. The service is offered in cooperation with the leader in the area of Internet monitoring, BRAND24. Plus Internet Monitoring is a tool which enables the monitoring of social media and the Internet. The tool collects public statements regarding brands, people or products on an on-going basis.

In June 2017, Polkomtel, in cooperation with Zerkam, introduced a service called Monitoring Firmy (Company Monitoring). This service features secure and easy to install video monitoring with a live view. Monitoring is available via a PC, smartphone, or tablet. It supports video recording in a cloud based on a predefined recording schedule, or activated when motion is detected by a camera.

In August 2017, Polsat Group's multimedia offer was extended to include a music streaming service called Plus Music. The service was created by upgrading the existing Muzodajnia service along with change of the name. The existing offers which enabled downloading of music in the form of mp3 files at the lowest prices in Poland remained unchanged. A fully-functional music streaming offer was added, along with supporting applications (for Android and iOS) and the www.plusmusic.pl website. Existing customers of Muzodajnia service were migrated to Plus Music and can also use the streaming service. Plus Music is the only service on the market which combines mp3 downloading with streaming while offering its users, free of charge, music playlists which are not interrupted by commercials. Polsat Group customers can benefit from a promotion thanks to which use of the Plus Music application does not consume their data packs.

In September 2017, Polkomtel added the Plus Marketing Automation service to the portfolio of the solutions it offers to B2B customers. The service is offered in cooperation with InteliSoft. Plus Marketing Automation is a web application which exploits the potential offered by the traffic on a company's website to help companies achieve their sales and marketing targets. Plus Marketing Automation operates on WWW pages which are connected to it while monitoring anonymous and identified customers and examining their actual needs. The solution is able to dynamically personalize marketing and sales communication, thus triggering quick purchase decisions.

In September 2017, Polkomtel signed contracts with partners regarding sharing of statistical information from Polkomtel's telecommunication network for the needs of development of business analyses for B2B customers (Big Data).

In November 2017, in cooperation with Locon, Polkomtel added a location watch for children to its offer. The device, apart from supporting mobile phone functions (such as making voice calls), expands the scope of operation of the "Gdzie jest bliski" (Where is a relative) location service. When using the mobile-based location application "Gdzie jest bliski Plus", parents can check the location of their children, receive a notification when a child leaves a predefined area, e.g. home or school. When in jeopardy, a child can send an SOS message from the watch. Based on this message the parent will receive information on the child's location, shown on a map, and will be able to listen to what is happening in the place where the child is.

In November 2017, Plus network operator carried out the commercial launch of the SmartM2M Platform for its B2B customers. It is a portal for remote management of transmission solutions. It enables continuous monitoring of SLA as well as mass scale management of M2M SIMs, devices in which they are installed and their locations. The service enables our Key Accounts to connect the application, the devices and the sensors which operate in their companies with Plus network infrastructure, thus obtaining the possibility of secure acquisition, transfer and analysis of data.

In December 2017, Polkomtel introduced services which support recording of voice calls and registration of SMSs on mobile numbers to its B2B offer. The service is offered in a version dedicated to the financial sector. It was launched in response to the requirements of the MIFID2 EU directive which took effect from January 3, 2018. In accordance with the MIFID2 directive, registration of the communication between the staff of financial institutions and their clients supports the security of the process of entering into financial transactions as well as the process of handling of potential customer claims. Apart from meeting the requirements imposed by the MIFID2 directive, the service meets top security standards which were the main selection criterion for financial sector customers.

Monitoring as a Service was introduced by Polkomtel in December 2017. This service is designed for B2B customers and involves monitoring and presentation of carrier services parameters.

In December 2017, Polkomtel launched Repair Services for Companies for its B2B customers. The services are available to both those customers who purchase new devices together with telecommunication services as well as to customers who only buy telecommunication devices. The services are available in two options: “Display Repair Service for Companies” and “Device Repairs for Companies”. The first service guarantees repairs of the display in mobile handsets, smartphones, tablets and laptops. “Device Repairs for Companies” covers repairs of a terminal’s display and casing, the camera and the buttons, as well as repairs in the event of damage caused by water. This option is available for feature phones, smartphones and tablets. When choosing this option, Plus’s business customers are also guaranteed free of charge access to a loaner/replacement device for the duration of the repairs.

In October 2017, Polkomtel and Cyfrowy Polsat launched a FUT (Friendly User Test) of Internet access service based on the GPON technology which offers data transfer rates of up to 300 Mbps. The FUT was carried out in two apartment buildings in Port Praski housing estate. The results of the FUT will serve as the basis for Polsat Group’s decision regarding provision of services relying on this technology on a commercial basis.

In October 2017, Polsat Group successfully implemented new technological solutions making mobile Internet access even faster and more stable and expanding network capacity. Białystok is the first Polish city where the inhabitants can currently enjoy these latest solutions. It is the city which saw the first ever aggregation of 50 MHz of spectrum in three frequency bands: 1800 MHz, 2100 MHz and 2600 MHz. 256 QAM modulation has also been applied, which enables achieving data transfer rates that are by even 33% faster. The MIMO 4x4 solution was implemented in the 2600 MHz frequency band, resulting in a twofold increase of the data transfer rates in this frequency band. Currently, the maximum download rate in LTE Plus Advanced network is 498 Mbps.

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

IT systems

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

In the segment of services to individual and business customers we use IT systems facilitating effective and efficient management of our customer base. These systems include, among others, a customer relationship management system, sales support system, the Internet Customer Service Center, and a transaction support system.

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

In our broadcasting and TV production operations we rely on numerous IT systems which support management of production of programs, data storage, creation of graphical elements, management of our program library, as well as license management. All the systems related to these areas are provided by external providers.

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

IT systems are critical to our operations in the field of telecommunication. In network management, we control all network infrastructure elements with respect to their availability, performance and security to control traffic and plan capacity of the network in line with expected business needs.

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

We use management systems that include, among other things, financial control, revenue assurance, fraud detection, rating and scoring systems and those that support the reporting process for internal and regulatory purposes. Apart from the main data center, our subsidiary Polkomtel maintains an off-site back-up facility in a disaster recovery center, which holds duplicated information from major systems and data of decisive nature to ensure that, in the event of a potential disaster, it can assure continuity of the most critical services.

Simplification and modernization of software development processes and their reorientation towards specific business goals has played an important part in improving the efficiency of Polkomtel's IT systems in recent years. At the same time, growing competitiveness among Polkomtel's suppliers has helped to considerably reduce IT system costs in many areas.

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

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

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

Real estate property

Cyfrowy Polsat owns the majority of the real estate property on which our DTH satellite TV infrastructure, studios, some offices and warehousing facilities are located. All of our real estate property is located in Poland. We believe that all of our real estate property is well maintained and in good condition. As at December 31, 2017, there was a mortgage registered on the real estate property owned by us, established in respect to the Combined SFA. Some insignificant parts of Cyfrowy Polsat’s real estate property are encumbered with typical easement rights for electricity cables and other media. Part of our real estate property is being leased from third parties.

In order to conduct its business activities, especially in the field of provision of telecommunication services, Polkomtel uses, among others, the following real estate property:

- office space, including the company’s principal registered office and regional offices, technical space and sales points in regions, which are located in leased premises;
- key technological objects such as mobile switching centers and data centers, which are chiefly located in premises owned by Polkomtel or Polsat Group;
- points of sales network which is organized based on leased premises and partnerships with third parties;
- base stations, located on leased areas.

A majority of Polkomtel’s real estate property is encumbered with typical easement rights, mainly for electricity and telecommunication cable conservation.

In our television production and broadcasting segment, our basic production and TV broadcasting operations are carried out in leased premises in the office-industrial building located at 77 Ostrobramska Street in Warsaw and in production studios located at 4A Łubinowa Street in Warsaw, owned by Cyfrowy Polsat.

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

Insurance agreements

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

We have motor vehicle insurance policies, all risk property insurance policies, as well as third party liability insurance on business operations and professional liability insurance on broadcasting activity, liability on business interruption, and third-party liability insurance for members of management and supervisory boards of the companies belonging to Polsat Group.

In 2017, Polsat Group was party to the insurance agreements described below.

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

In the scope of third-party liability insurance a general agreement was concluded for the years 2017-2019 with the possibility of extending the term of the contract for another year with TUiR Warta S.A. in co-insurance with STU Ergo Hestia S.A. regarding third-party liability insurance, including professional liability insurance. Furthermore, an agreement regarding bookkeeping liability insurance was concluded with PZU S.A. The following insurers are engaged in the liability insurance policy of directors and management board members of companies belonging to Polsat Group: TUiR Allianz Polska S.A., AIG Branch in Poland, Chubb Branch in Poland, TUiR Warta S.A., Sopockie TU Ergo Hestia S.A. and PZU S.A.

In 2017, our subsidiary Polkomtel continued a general fleet motor insurance agreement with STU Ergo Hestia S.A. (collision, comprehensive and third party insurance, theft insurance, accident insurance and assistance), which extends to the entire motor fleet of Polsat Group.

In 2017, the international business travel health insurance with Colonnade Insurance S.A. Branch in Poland and personal injury insurance with Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. were continued.

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

Charity and sponsorship activities

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

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

3. Significant events and agreements

3.1. Corporate events

Early redemption of the Litenite Notes

On April 12, 2017, our subsidiary Litenite delivered a voluntary early redemption notice to noteholders of the Litenite Notes, setting the date of the early redemption and the early redemption value. The early redemption was executed on April 26, 2017 according to the value determined in the terms of issuance of the Litenite Notes at the total level of PLN 886,703,685.12 increased by a premium for early redemption in the amount of PLN 58,658,296.32.

The aim of the early redemption of the Litenite Notes was the consistent execution of the strategic goal in the area of efficient capital resource management that is the consistent reduction of the indebtedness of Cyfrowy Polsat Group.

Decision of the Head of the Mazovian Tax Office in Warsaw

On May 25, 2017 the Head of the Mazovian Tax Office in Warsaw ("Tax Office") issued a decision determining the value of a tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 million plus interest on tax arrears, of which the Company informed in its current report no. 12/2017 dated May 29, 2017.

In the issued decision the Tax Office contested the Company's right to charge into tax deductible expenses certain expenditures incurred in 2011. The decision was issued in spite of the Company having presented a number of arguments stipulating that the findings of the Tax Office were incorrect and had no legal basis. In particular, the Tax Office disregarded that the Company received an individual tax interpretation confirming the correctness of the Company's operations in the scope covered by the current findings of the Tax Office.

The decision in question is neither final nor enforceable. The Company has appealed within the statutory period against the decision of the Tax Office to the head of the Treasury Administration Chamber in Warsaw.

At present the Company has not created any provisions encumbering its financial results.

Dividends for 2016

Pursuant to the resolution of the Annual General Meeting dated June 27, 2017, dividend for the year 2016 was paid out on August 3, 2017 in the amount of PLN 204.7 million, which represented 35.4% of the Company's net profit for 2016. The value of dividend per one share amounted to PLN 0.32, with 639,546,016 shares of the Company entitled to dividend.

Changes in the Supervisory Board of the Company

Mr. Heronim Ruta resigned from membership in the Supervisory Board of the Company, effective as of November 30, 2017.

3.2. Business related events

Expansion of the channel portfolio of TV Polsat

On January 2, 2017 TV Polsat launched a new DTT channel, Super Polsat, which replaced the channel Polsat Sport News on MUX-2. This is a general interest channel, on which we air entertainment and information programs, films, series and live sports. As of January 2, 2017, the channel Polsat Sport News is available only via cable and satellite networks as Polsat Sport News HD.

On February 10, 2017, TV Polsat expanded its portfolio of thematic channels by introducing Polsat Doku HD. The channel offers a wide array of the best premier documentary productions from all over the world which touch on diverse topics and are addressed to the entire family.

Following the agreement signed on December 4, 2017 with ZPR Media Group, Telewizja Polsat acquired 100% of shares in Eska TV S.A. (broadcaster of Eska TV, Eska TV Extra and Eska Rock TV channels), 100% of shares in Lemon Records Sp. z o.o. (broadcaster of Polo TV and Vox Music TV channel), as well as minority stake of 34% in TV Spektrum Sp. z o.o. (broadcaster of Fokus TV and Nowa TV channels). The transactions, worth PLN 103 million in total, were finalized using own financial resources (for more details see item 4.3. – *Operating and financial review of Polsat Group – Major investments in 2017 – Acquisition of new TV channels*). In February 2018, Telewizja Polsat purchased another stake of 15% in TV Spektrum Sp. z o.o.

Acquisition of sports rights

In June 2017, Polsat Group gained exclusive rights to broadcast over 1000 matches of the UEFA Champions League and Europa League over three consecutive years (from 2018 until 2021) on all channels of distribution, including television, internet and mobile devices. This is a strategic investment given the increasing popularity of broadcasts of football events observed in recent years. The first matches in the UEFA Champions League will be broadcast by TV Polsat in September 2018.

Implementation of the Roam like at home rule

Pursuant to the Resolution of the European Parliament and Council of November 25, 2015, as of June 15, 2017 retail charges for regulated roaming services were levelled with domestic charges (the *Roam Like at Home,* or RLAH regulation). The third quarter of 2017 was the first quarter, when the RLAH regulation was in force and its effects were fully observable.

Thanks to the full implementation of the RLAH regulation as of June 15, 2017, whilst on the territory of the European Economic Area ("EEA"), our customers can use our telecommunication services on terms identical as domestic terms. In particular, the subscribers of unlimited contract tariffs, highly popular in Poland, have the possibility of making voice connections, sending short text messages and using a specified data transmission pack, dependent on the subscription fee, in international roaming without incurring any additional costs. Concurrently, all incoming connections in roaming on the EEA are free of charge.

The final shape of the regulation translated into a clear growth of the volume of traffic generated by Poles whilst abroad, which is connected with a significant increase in costs of wholesale purchase of roaming traffic incurred by domestic operators, including Polsat Group. As a consequence, certain local operators, including Polkomtel, P4 and Orange Polska applied to the regulator for permission to impose surcharges on roaming retail rates. The Office of Electronic Communications is successively reviewing each application, issuing consent to apply such surcharges. Concurrently, Polkomtel has actively approached the issue of renegotiating its bilateral agreements with its roaming partners.

Acquisition of Coltex ST Sp. z o.o.

On October 11, 2017 our subsidiary Liberty Poland S.A, concluded a conditional agreement for the purchase of 100% shares of Coltex ST Sp. z o.o. with Coltex Rogala Spółka Jawna, Star Telecom Sp. z o.o. and R.S. Trading Lachowscy Spółka Jawna. The agreement was concluded subject to series of conditions precedent, *inter alia* the issue of the relevant approval by the President of the Office of Competition and Consumer Protection. The purchase price was agreed as PLN 27.5 million.

On December 22, 2017, the President of the Office of Competition and Consumer Protection approved the acquisition of shares in Coltex ST Sp. z o.o., following which the transaction was finalized on March 1, 2018 (for more details see item 4.3. – *Operating and financial review of Polsat Group – Major investments in 2017 – Acquisition of Coltex ST Sp. z o.o.*).

Acquisition of a stake in Netia S.A.

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

The first stage, executed on December 4 and 5, 2017, consisted in the Company purchasing in aggregate a block of shares representing ca. 32% of the total number of votes at the Netia General Meeting. The Company purchased 63,407,500 Netia shares from Mennica Polska S.A. and 47,294,941 Netia shares from FIP 11 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych for PLN 5.77 per share that is PLN 638.7 million in total. The purchase of shares from both abovementioned Netia shareholders was executed in block transactions on the regulated market operated by the Warsaw Stock Exchange (Giełda Papierów Wartosciowych w Warszawie S.A.) through a brokerage house. The transaction was financed from own cash resources and the available limit of Revolving Facility Loan.

In the second stage, initiated on December 5, 2017, the Company announced a tender offer for the sale of 119,349,971 Netia shares, which represent 34.24% of the share capital of Netia and 34.24% of the total number of votes at the Netia General Meeting ("**Tender Offer**"). The Tender Offer has been announced under the conditions precedent formulated in clauses 29 and 30 of the Tender Offer document. After one of the conditions precedent reserved in the Tender Offer is satisfied, that is after the General Meeting of Netia adopts a resolution on a decrease in the share capital of Netia by PLN 13,102,314.00 through the redemption of 13,102,314 treasury shares held by Netia, representing 3.76% of the share capital of Netia and the registration of the capital decrease by the competent registry court before the end of the subscription period for the sale of the shares under the Tender Offer, the Tender Offer will concern 110,702,444 shares of Netia carrying the right to 110,702,444 votes at the General Meeting of Netia, representing 33% of the share capital of Netia and 33% of the total number of votes at the General Meeting of Netia.

The Tender Offer price for one share of Netia is PLN 5.77. The subscription period began on January 30, 2018. The Tender Offer has been addressed to all shareholders of Netia, however of Netia's significant shareholders, FIP 11 Fundusz Inwestycyjny Zamknięty Aktywów Niepublicznych undertook to place a subscription in the Tender Offer to sell no less than 37,325,134 Netia shares and that it would neither withdraw from, nor cancel its subscription.

Given the fact, that until the initially planned end of the subscription period, that is March 5, 2018, the President of the Office of Competition and Consumer Protection has not issued an approval necessary to finalize the transaction, the subscription period has been prolonged by 35 days, that is until April 9, 2018.

More information regarding the acquisition of a controlling stake in Netia is presented in item 4.3. - *Operating and financial review of Polsat Group – Major investments in 2017 – Acquisition of a stake in Netia S.A.*).

Agreement with Karswell Limited

Provisions of the Combined SFA, concluded on September 15, 2015, permitted companies from Polsat Group to allocate a strictly limited amount to acquisitions. Due to those restrictions, which were bidding as at the date of the announcement of the Tender Offer, under the Tender Offer Netia shares will be acquired by the Company and its affiliate – Karswell Limited. In the Tender Offer Karswell intends to acquire no more than 84,687,926 shares of Netia carrying the right to 84,687,926 votes at the General Meeting of Netia, representing 24.30% of the total number of votes at the General Meeting of Netia and 24.30% of the share capital of Netia. In the event of the registration of the decrease in the share capital of Netia by the competent registry court before the end of the subscription period for the sale of the shares under the Tender Offer, Karswell intends to acquire no more than 76,040,399 shares carrying the right to 76,040,399 votes at the General Meeting of Netia which represent 22.67% of the total number of votes at the General Meeting of Netia and 22.67% of the share capital of Netia.

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

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

3.3. Events after the balance date

Changes in the shares of votes held at the General Meeting of the Company

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

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

56.64% of the share capital of the Company, representing 62.85% of the total number of votes at the General Meeting of the Company.

Details regarding the changes in the structure of ownership of significant numbers of shares of the Company are presented in item 8.4.1. – *Corporate governance statement – Share capital and shareholding structure of Cyfrowy Polsat – Shareholders holding, directly or indirectly, material bundles of shares*.

Acquisition of sports rights by Telewizja Polsat

In January 2018, Telewizja Polsat prolonged an agreement with the International Volleyball Federation FIVB and, as a result will broadcast the most important events in world and national team volleyball during the next seven years. The package of acquired rights includes the Volleyball Nations League (replacing the men's World League and women's Grand Prix) – 260 matches in total during the season and qualifying tournaments to the Volleyball Nations League, Challenger Cup/Match, qualifying tournaments to the 2020 and 2024 Olympic Games, men's and women's 2022 World Championship, and 2019 and 2023 World Cup.

New smartDOM edition

In February 2018, we launched a refreshed edition of our strategic bundled offer, the smartDOM program. Currently, the program comprises nine products and services for the home. Apart from our basic, core products and services: telephony from Plus, broadband LTE Plus and Plus Advances and Cyfrowy Polsat satellite television, smartDOM customers can also buy electric energy and gas, banking, insurance and home security services, as well as telecommunication devices, home electronics and domestic appliances. The portfolio of products available in the smartDOM program was expanded to include two new products: digital terrestrial television with 12 encoded TV and 11 radio channels and wireless home telephony.

One of the main, invariable principles of the smartDOM program is the simple relation – the more products and services a customer has, the more he can save thanks to obtained discounts. At the beginning of 2018 we introduced an important modification by eliminating the entry threshold. Currently, every customer can join the smartDOM program irrespectively of his or her monthly subscription fee. The discount system was also changed – for every additional service from the TV (including DTT), mobile or wireless home telephony and broadband Internet offer the customer receives a discount of PLN 10 each month.

In February 2018, we also decided to modify the smartFIRMA program, which currently functions according to similar principles as the smartDOM program.

Conclusion of an amendment to the Combined SFA

On March 2, 2018, the Company, acting as the Obligors' Agent, and UniCredit Bank AG, London Branch, acting as the Finance Parties' Agent, executed the Second Amendment and Restatement Deed to the Facilities Agreement of September 21, 2015, amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015 (see item 4.6.5. *Operating and financial review of Polsat Group – Review of our financial situation – Liquidity and capital resources – Material financing agreements executed by the Group*).

The Second Amendment and Restatement Deed introduced, among others, amendments relating to the termination date of the Term Facility Loan and the Revolving Facility Loan, by changing to September 30, 2022 (originally falling on September 21, 2020) and the level of the ratio of consolidated net debt to consolidated EBITDA, upon achieving of which the Company may request the release of security established in connection with the Facilities Agreement (excluding the release of guarantees granted pursuant to the Facilities Agreement) or after exceeding of which the Company shall re-establish the released security, by revising it to 3.00:1 (originally 1.75:1).

Decision of the Head of the Małopolska Customs and Tax Office in Cracow

On February 15, 2018, the Head of the Małopolska Customs and Tax Office in Cracow (the "Tax Authority") issued a decision assessing a tax liability from uncollected withholding corporate income tax in 2012 in the amount of PLN 24.2 million increased by interest on tax arrears.

The Tax Authority challenged the Company's right to an exemption from the obligation to withhold income tax on certain interest payments effected in 2012.

The decision in question is neither final nor enforceable. The Company will appeal against the decision of the Tax Authority on the basis of possessed opinions issued by renowned entities. At present the Company does not intend to create any provisions encumbering its financial results.

Moreover, the Tax Authority is performing control activities in the same area in relation to 2013 and 2014. If an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, additional tax liabilities of the Company in that respect might amount to ca. PLN 35 million increased by interest on tax arrears.

4. Operating and financial review of Polsat Group

4.1. Key factors impacting our operating activities and financial results

4.1.1. Factors related to social-economic environment

Economic situation in Poland

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

Based on data published by the European Commission, a noticeable recovery of economies both of Poland and other EU countries took place in the years 2015-2017. GDP growth for Poland in 2015 and 2016 was 3.8% and 2.9%, respectively, and is estimated at 4.2% for 2017. 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 2018 and 2019 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, mobile telephony, broadband access, bundled services and end-user devices generally will grow in line with the overall GDP growth and further growth of the level of wages in Poland, and will support our future revenue growth. We expect that the positive growth dynamics of GDP in the years 2018-2019 will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

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

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

We believe that our programming packages offer the best value-for-money on the Polish pay TV market at present. Moreover, we invest in new, attractive and unique content, as demonstrated, e.g. by the purchase of broadcasting rights to the UEFA Champions League and Europa League for the seasons 2018-2021. This gives us a chance to attract a significant portion of migrating customers to our platform. Moreover, we offer pay TV services as part of our integrated offer, which has a positive impact of the level of loyalty of our customer base and contributes to maintaining a 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 Europe or the United States and in our opinion has significant growth prospects, especially in light of the improving quality of broadband links on the market. The launch of services by global players, such as Netflix, Showmax or Amazon Prime, is proof that Poland is considered an attractive market. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of the advertising market in Poland

A significant part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising air-time is highly correlated with the macro-economic situation. In the past, given the increasing GDP of Poland, the TV advertising market was characterized a regular single-digit (in percentage terms) growth rate. Assuming further positive GDP growth dynamics in the years 2017-2018, we believe that growth of the Polish advertising market can be expected.

In our opinion, television remains an effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still a substantial growth potential for TV advertising in Poland in the long term. What is more, the expected high rate of economic growth in 2018-2019 should have a positive influence on the level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs.

Prospects of the online advertising market are also positive. According to the IAB AdEx report, online advertising expenditures increased at a rate of 6.0% y-o-y and reached the value of nearly PLN 2.7 billion in the first three quarters of 2017. 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 part of our revenue. In the first three quarters of 2017, those expenditures increased by 30% and represented 12% of the total expenditures on online advertising. We believe that thanks to one of the leading positions on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels

With the high penetration of the Polish market by pay TV, that provides viewers with an increasingly greater selection of thematic channels, as well as a broader offer of channels available via digital terrestrial television (DTT), main general entertainment channels (FTA) are experiencing a gradual decline in audience shares. According to data published by Nielsen Audience Measurement, in 2017 the total share of the four leading channels (POLSAT, TVN, TVP1 and TVP2) in the commercial group (16-49 years old) was 37.9%, while in 2016 it was equal to 40.6%.

What is more, Starcom data suggests that the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we focus on developing our thematic channels portfolio and increasing the attractiveness of the content offered to our viewers. In this respect the acquisition of new TV channels - Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV, and initiating cooperation with the broadcaster of DTT channels Fokus TV and Nowa TV is of significant importance.

Fixed-mobile substitution and growth of investments in state-of-the-art fixed broadband networks (NGA)

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, visible in the voice services segment for many years, is recently also noticeable in the area of mobile broadband access.

In Poland, fixed-mobile substitution had a larger scale than in most EU countries. Based on UKE data, in 2016 the volume of voice traffic in fixed-line networks amounted to 8 billion minutes and was already over 12 times lower than the volume of voice traffic in mobile networks (ca. 97.3 billion minutes). At the same time, the availability of fixed-line broadband is currently still limited mainly to urban areas. High-quality fixed-line broadband services are offered only to a limited extent outside urban areas, which is due to historical underinvestment resulting from the high cost of build-out of local loops (the so called “last mile”).

In response to the pressure from rapidly developing mobile technologies fixed-line operators are currently increasing investments in the modernization and roll-out of networks based on state-of-the-art fixed technologies (NGA – Next Generation Access), including optical fiber (FTTx) and cable (ex. DOCSIS 3.0) technologies. On areas, where low profitability of investment projects financed from own funds would constitute a significant barrier to entry, selected operators can rely on European funding allocated under the Operational Programme Digital Poland. In particular, in 2017 a contest to co-fund 58 areas selected from 76 covering the whole country was concluded. Under this contest procedure, entities investing in the selected areas can count of co-funding in the total amount of PLN 2 billion in the years 2018-2020.

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 in the future also 5G, create an opportunity for continued growth of the mobile broadband market in Poland over the next years. At the same time, large scale investments in the modernization and roll-out of NGA networks will lead to the successive stabilization of the fixed-line market and, in a longer time horizon, may contribute to return of growth of the fixed broadband market.

Growing demand for smartphones and data transmission

In Poland the popularity and sales of smartphones has been gradually growing. Currently, smartphones have almost completely replaced traditional handsets in our sales structure. Concurrently, we estimate that among all handsets used by our customers only about 70% constitute smartphones. This disproportion shows that the saturation of our mobile services customer base with smartphones will continue to grow in the next years.

Popularization of smartphones 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 2017, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow eight-fold in the years 2017-2023.

We expect that the growing popularity, availability and technological advancement of smartphones offered by manufacturers, combined with improving quality parameters of data transmission over our mobile network and the constantly expanded offer of applications and content for customers will continue to be the driving factor behind growing demand for data transmission services.

Roll-out of competing LTE networks

Following the resolution in 2015 of the LTE auction of 5 blocks in the 800 MHz bandwidth and 14 blocks in the 2600 MHz bandwidth, Polsat Group's competitors gained the possibility to provide high quality services in LTE based on the 800 MHz frequencies. In 2017, our competitors were investing heavily in the roll-out of their mobile networks based on the 800 MHz spectrum, thus consistently increasing the coverage of their respective LTE networks.

Cooperation between certain telecommunication operators in the scope of network sharing may have a significant effect on the shape of the Polish telecoms market in the foreseeable future. In December 2016 T-Mobile Polska and Orange Polska signed an agreement, pursuant to which they will develop their own LTE networks using jointly the network of transmitters of the joint venture NetWorks!, however, they will not share radio resources from the 800 MHz bandwidth.

In February 2018, the operator of Play network announced the roll-out of over 1000 new transceiver stations which are intended to increase the coverage footprint of Play's own network in the year 2018. Thus Play wants to close the gap to the remaining three players who rely on a substantially higher number of own transceiver stations. Play's substantial roll-out plans are intended to reduce the operator's reliance on national roaming services, presently used by Play to ensure nationwide coverage for its customers. At the same time Play customers can count on an improvement of quality of services provided by the operator. Currently, Play often reduces the quality of provided services to avoid excessive costs of purchase of wholesale national roaming services.

In our opinion the significant improvement of the quality of LTE mobile broadband services provided by our competitors and the systematic expansion of the coverage footprints of their networks resulting from infrastructural investments, as well as exorbitant costs related to the purchase of the 800 MHz frequencies will influence, in coming periods, the competition model functioning on the Polish mobile broadband market by turning from price competition towards qualitative competition.

Information on seasonality

Wholesale revenue includes *inter alia* advertising and sponsoring revenue which tends to be lowest during the third quarter of each calendar year due to the summer holidays period and highest during the second and fourth quarter of each calendar year due to the introduction of a new programming offer. In the year ended December 31, 2017, TV Polsat Group generated approximately 20.8% of advertising revenue in the first quarter, 27.4% in the second quarter, 20.6% in the third quarter and 31.1% in the fourth quarter.

Within retail revenue category mobile revenue is a subject to slight fluctuations during the year. This revenue stream tends to decrease in the first quarter of each year due to fewer number of calendar and business days.

Other revenues are not directly subject to substantial seasonal fluctuations.

4.1.2. Factors related to the operations of the Group

Growing importance of bundled 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 consumption patterns and our customers' expectations striving 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 electronics and appliances.

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

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

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

Investments in network roll-out and spectrum refarming

In 2017, residential customers of Cyfrowy Polsat and Polkomtel transferred 732 PB of data. Striving to maintain the high quality of services that we provide, we continue to invest in our telecommunication network roll-out. In particular, upon having approached the level of coverage of over 99% of the population with our LTE network, we are currently focusing on expanding the capacity of our telecommunication network and extending the coverage footprint of LTE-Advanced, which already reached 54% of Poles by the end of 2017.

Investments in the development of our LTE network are mainly conducted using own spectrum in 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz frequency bands. As at the end of 2017 we had over 9.9 thousand active LTE transmitters.

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

The next crucial phase in the development of our network consists in the refarming of the 900 MHz and 2100 MHz spectrum, which will result in the allocation of part of the bandwidth currently used for 2G and 3G services to LTE and LTE-Advanced technologies. We are involved in intensive work aimed at completing the refarming process before the end of 2018. We have already released the 900 MHz bandwidth, used so far for the provision of services in the 2G technology, on the entire territory of Poland, and currently preparing for the migration of services provided in new and definitely more effective technologies to this frequency.

In the third quarter of 2017 we launched LTE Plus Advanced services in the city of Białystok using state-of-the-art technological solutions based on the aggregation of frequencies in the 1800 MHz, 2100 MHz and 2600 MHz bands with a total bandwidth of 50 MHz. Thanks to the application of additional solutions (QAM 256 modulation and MIMO 4x4) the maximum download speed in LTE Plus Advanced increased to 498 MB/s in this area.

Simultaneously, work is in progress throughout Poland with a view of expanding the capacity of our transmission network to support the continuously increasing data transfer volumes. Transmission network roll-out enables us to use our existing towers and other network locations, which have so far operated in 2G and 3G technologies, for the provision of LTE and LTE-Advanced services. We also consistently aggregate spectrum in the 800 MHz, 1800 MHz and 2600 MHz bandwidths in successive cities, which – combined with the application of the 256 QAM modulation – allows us to offer our customers increasingly higher service quality.

We trust that continuous investments in telecommunication network roll-out will enable us to maintain our competitive edge in the form of the possibility of providing top quality data transmission services without having to incur excessively high cost of purchase or extension of spectrum permits.

Development of IPLA

IPLA, leader on the online video market, strengthens our position as aggregator and distributor of content and ensures an important competitive advantage. We continue to develop the service using our experience in sales of pay TV, which helps us achieve synergies in terms of costs and revenues.

Mobile video traffic is the fastest growing segment of global mobile data traffic. According to estimates presented in the Ericsson Mobility Report dated November 2017 in the years 2017-2023 data consumption of video content will increase at an average annual rate of 50%, reaching ca. 75% of the entire data traffic in 2023. Bearing this in mind, we believe that IPLA online television will make an increasingly significant element of our business in the future.

Attractive content of our TV channels

We offer the biggest and most versatile portfolio of TV channels on the Polish market, which places us in the leading position in terms of audience among private television groups in Poland and translates into our share in the advertising market. Our direct production covers mainly news programs, documentaries, shows and series based on international formats as well as solely created concepts. Moreover, we have contracts with major film studios, such as Sony Pictures Entertainment Inc., 20th Century Fox International Television, Inc., The Walt Disney Company, Warner Bros International TV Distribution or Monolith Films Sp. z o.o., which provide access to a wide selection of the most attractive films and series.

We also offer a wide selection of sports transmissions, including qualifiers to the UEFA EURO 2020, FIFA World Championships 2022, two editions of the football Nations League 2018/19 and 2020/21, big volleyball tournaments – the men's and women's World Volleyball Championships 2018 and 2022, new, attractive games of the volleyball Nations League (2018-2024), the 2019 and 2023 World Cup, qualifying competitions for the Olympic Games in Tokyo (2020) and Paris (2024), Plus Liga and Orlen Liga, boxing and mixed martial arts galas (KSW, FEN and UFC), Wimbledon and ATP 1000 and 500 tournaments, and many others. Additionally, in 2017 we acquired rights to the most popular football club competitions – the UEFA Champions League and UEFA Europa League (for the years 2018-2021).

We believe that attractive content, including such content that is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

4.1.3. Factors related to the regulatory environment

International roaming in mobile networks

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

Pursuant to the Resolution of the European Parliament and Council of November 25, 2015, as of June 15, 2017 retail charges for regulated roaming services were levelled with domestic charges starting (the *Roam Like at Home* regulation). The majority of price plans used on the Polish market include the so-called unlimited tariffs which enable making unlimited domestic calls and sending an unlimited number of short text messages against a fixed monthly subscription fee, and incoming voice calls on the Polish market are free-of-charge, as a general rule. In view of the above, the implementation of the *Roam Like at Home* regulation has and will continue to have in the subsequent periods a significant impact on the reduction of the stream of telecommunication retail revenue of all operators who have fully implemented this regulation, including Polsat Group. We estimate that Polsat Group's loss of retail revenue may reach the amount of ca. PLN 100.0 million in the 12 month period starting June 15, 2017, with a concurrent hike in the growth of the volume of traffic generated by the Company's customers abroad.

When our customers generate traffic while roaming abroad, we incur costs of purchasing that traffic attributable to foreign telecommunication networks. Wholesale settlement rates for the purchase of roaming traffic on the territory of the EEA are also subject to regulatory reductions. In particular, the implementation of the *Roam Like at Home* regulation starting from June 15, 2017 was preceded by the implementation of an interim plan of a reduction of wholesale charges for international roaming services valid on the territory of the EEA.

Currently valid, maximum rates are presented below:

[EUR]	Maximum average wholesale prices (settlements between operators) on the territory of the EEA from:						
	July 1, 2014 to June 14 ,2017	June 15, 2017	January 1, 2018	January 1, 2019	January 1, 2020	January 1, 2021	January 1, 2022
Data transmission (per 1 GB)	51.2	7.7	**6.0**	4.5	3.5	3.0	2.5
Outbound voice calls (per minute)	0.05	0.032	**0.032**	0.032	0.032	0.032	0.032
SMS (per 1 SMS)	0.02	0.01	**0.01**	0.01	0.01	0.01	0.01

Despite the considerable reduction of the maximum settlement rates introduced in parallel with the implementation of the *Roam Like at Home* regulation, the hike in the traffic volume generated by our customers roaming abroad translates into a significant growth of costs related to the purchase of roaming traffic, which in the case of services provided on the territory of the EEA, generates losses on selected roaming services. For example, in the second half of 2017 our costs of wholesale purchase of roaming traffic increased, while concurrently our revenue from these services decline, which had a negative impact on the level of EBITDA in the total amount of PLN 98 million. We are currently actively renegotiating our wholesale agreements with the view of reducing costs related to the purchase of roaming traffic, which should lead to a reduction of the rate of growth of costs in subsequent quarters.

Due to the fact that the adverse effect of the *Roam Like at Home* regulation concerns every operator on the Polish market who provides roaming services, it cannot be ruled out that this situation will result in changes introduced to price lists of retail services by individual operators. In particular, in order to cover losses on regulated roaming services, individual operators may be released from the obligation of levelling roaming charges prices with domestic prices, by introducing a mechanism of surcharges to domestic prices, provided that these operators can prove that they would not be able to recover the costs incurred in connection with the provision of roaming services. To our best knowledge, as at the date of publication of this Report part of the operators present on the Polish market, including Polkomtel, Orange Polska, T-Mobile Polska and P4, Play mobile network operator, have approached the Office of Electronic Communications (UKE) asking for consent to apply surcharges. Until now several virtual operators, P4 and Polkomtel received positive decisions. Among others P4 and Virgin Mobile have decided to apply the surcharges, however the method of implementation is different.

The *Fair Usage Policy (FUP)*, developed by the European Commission, is an additional tool which should protect the interests of operators in individual member states after the implementation of the *Roam Like at Home* regulation. This policy allows for the application of surcharges to domestic retail prices of regulated roaming services, if such services are used by individual customers in an unlawful or abusive manner. Recently, some domestic operators, including Polkomtel, have started to inform customers of their excessive usage of roaming services, which could lead to charging additional fees if the customers do not change their behavior.

4.1.4. Financial factors

Exchange rates fluctuations

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

Foreign exchange rate fluctuations have historically affected the level of our operating costs, finance costs, as well as the profit or loss on investing activities, and are expected to do so in the future. In particular, our exposure to foreign exchange rate fluctuations stems from our foreign currency payments made in different areas of our operations. These include, among others, payments for license fees, transponder capacity lease, purchase of content and equipment, or international roaming and interconnect 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 Group has in place a market risk management policy and uses, inter alia, natural hedging and hedging transactions.

Interest rate fluctuations

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

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

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

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

4.1.5. Influence of changes in financial reporting standards issued but not yet effective

A number of new standards are effective for annual periods beginning after January 1, 2018 and earlier application is permitted. However the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's financial statements in the period of initial application.

Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from January 1, 2018. As at the date of publication of this Report the Group has not made its final decision whether to adopt IFRS 15 retrospectively without restatement of the comparative information or retrospectively with restatement of the comparative information. The Group has assessed the estimated impact that the initial application of IFRS 9 and IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at January 1, 2018 is based on assessments undertaken to date and is summarised below. The actual impact of adopting the standards at January 1, 2018 may change because the Group is still in the process of confirmation of final assumptions required to recognize revenue pursuant to the new standard.

[mPLN]	Estimated impact of adoption of IFRS 9 and IFRS 15			
	As reported at December 31, 2017	Estimated adjustments due to adoption of IFRS 9	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance at January 1,2018
Retained earnings	4,871.4	(2.2)	483.4	5,352.6

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at January 1, 2018 is PLN 481.2 million. The principal components of estimated adjustment are as follows:

- an increase of PLN 483.4 million in retained earnings due to earlier recognition of revenue,
- a decrease of PLN 2.2 million in retained earnings due to impairment losses on financial assets.

IFRS 9 Financial Instruments

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

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

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

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward-looking "expected credit loss" ("ECL") model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group anticipates that the application of the expected credit loss model of IRFS 9 will result in earlier recognition of credit losses for the respective items.

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

IFRS 15 Revenue from Contracts with Customers

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

In the case of the Group, the biggest change caused by the implementation of the standard concerns the recognition of revenues from multi-element contracts (e.g. mobile contract plus handset), which includes sale of subsidized products delivered at date of the agreement: the cumulative amount of revenues over the contract term will not change, but there will be a change in the allocation between revenues from sale of equipment and revenues from the services rendered (a greater part of the total remuneration will be assigned to the equipment delivered in advance, requiring earlier recognition of revenue).

Earlier revenue recognition will result in the recognition of assets from contracts in the statement of financial position representing the Group's right to future remuneration for the products and serviced provided to the customer.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. The standard is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

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 Group assesses that the agreements for base transceiver stations and space rental which are currently presented as operational lease may be classified as financial lease. The Group is currently assessing the impact of IFRS 16 on the consolidated financial statements. Future minimum lease payments under operating lease pursuant to currently effective standards are presented in Note 32 of the consolidated financial statements for the financial year ended December 31, 2017.

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4.2. Key market trends

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

- high level of market penetration with services provided by the Group as well as a high level of competitiveness of the markets in which we operate;
- bundling of media and telecommunications services, as well as services from other sectors, such as electric energy or financial and banking products;
- growing 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;
- development of state-of-the-art fixed broadband networks (NGA), optical fiber in particular;
- dynamic development of non-linear video content, distributed via VOD and OTT services, accompanied by growing online ad spending;
- entry of global VOD and OTT players to the Polish market, as well as investments of operators already present on the market in offered content on order to adjust it to the preferences of local viewers;
- increasing sales of smart-TVs - television sets with integrated Internet access;
- growing number of mobile customers and users, driven by, inter alia, gradual fixed-to-mobile substitution, and the growing popularity of *machine-to-machine* solutions;
- pressure on revenue from traditional mobile telecommunications services caused by the intensifying competition on the mobile services market, and by traditional mobile telecommunications services being driven out by data transmission communication;
- pressure on revenue from roaming services, resulting from the regulation of roaming charges in the European Union implemented in 2017;
- change of pricelists on the TV advertising market resulting from high demand for advertising observed in 2017 and expected in 2018;
- further fragmentation of the television market (growing share of thematic channels in audience and advertising revenue); and
- consolidation of the pay TV market, in the cable TV segment;
- ownership changes in the broadcasting and television production market;
- consolidation of the telecommunication markets, manifested by acquisitions of local fixed-line operators by larger telecommunication groups; and
- Significant slowdown of the scale of migration of subscribers towards free of charge digital terrestrial television.

4.3. Major investments in 2017

Acquisition of sports rights from UEFA

In 2017, Polsat Group acquired exclusive rights to broadcast over 1000 matches of the UEFA Champions League and Europa League over three consecutive years (from 2018 until 2021) on all channels of distribution, including television, internet and mobile devices. This is a strategic investment given the increasing popularity of broadcasts of football events observed in recent years and the broad possibilities of its monetization. The first matches in the UEFA Champions League will be broadcast by TV Polsat in September 2018.

Acquisition of Coltex ST Sp. z o.o.

On October 11, 2017 our subsidiary Liberty Poland S.A, concluded a conditional agreement for the purchase of 100% shares of Coltex ST Sp. z o.o. with Coltex Rogala Spółka Jawna, Star Telecom Sp. z o.o. and R.S. Trading Lachowscy Spółka Jawna. The agreement was concluded subject to series of conditions precedent, *inter alia* the issue of the relevant approval by the President of the Office of Competition and Consumer Protection. The purchase price was agreed as PLN 27.5 million.

On December 22, 2017, the President of the Office of Competition and Consumer Protection approved the acquisition of shares in Coltex ST Sp. z o.o., following which the transaction was finalized on March 1, 2018.

Coltex ST Sp. z o.o. operates on the Polish distribution market of products and services related to the sector of general telecommunication services for individual and business customers, comprising in particular the sale of fixed and mobile telecommunication services (mainly voice and data transmission/broadband access), pay TV services (satellite and cable TV), end-user devices (such as handsets, smartphones, tablets, routers, laptops, accessories, set-top boxes, satellite antennas, television sets and selected household appliances).

Acquisition of a stake in Netia S.A.

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

The first stage, executed on December 4 and 5, 2017, consisted in the Company purchasing in aggregate a block of shares representing ca. 32% of the total number of votes at the Netia General Meeting for the total amount of PLN 638.7 million (PLN 5.77 per share). The transaction was financed from own cash resources and the available limit of Revolving Facility Loan. The valuation of the block of shares in Netia was executed using the DCF method, peer companies and comparable transactions. The valuation partly reflects cumulative synergies in the years 2019-2023, the level of which the Company estimates at approximately PLN 800 million.

In the second stage, initiated on December 5, 2017, the Company announced a tender offer for the sale of 119,349,971 Netia shares, which represent 34.24% of the share capital of Netia and 34.24% of the total number of votes at the Netia General Meeting (“**Tender Offer**”). The Tender Offer has been announced under the conditions precedent formulated in clauses 29 and 30 of the Tender Offer document. After one of the conditions precedent reserved in the Tender Offer is satisfied, that is after the General Meeting of Netia adopts a resolution on a decrease in the share capital of Netia by PLN 13,102,314.00 through the redemption of 13,102,314 treasury shares held by Netia, representing 3.76% of the share capital of Netia and the registration of the capital decrease by the competent registry court before the end of the subscription period for the sale of the shares under the Tender Offer, the Tender Offer will concern 110,702,444 shares of Netia, representing 33% of the share capital of Netia and 33% of the total number of votes at the General Meeting of Netia. As at the date of approval of this Report the above-mentioned condition had not been fulfilled.

The Tender Offer price for one share of Netia is PLN 5.77. The subscription period began on January 30, 2018. Given the fact, that until the initially planned end of the subscription period, that is March 5, 2018, the President of the Office of Competition and Consumer Protection has not issued an approval necessary to finalize the transaction, the subscription period has been prolonged by 35 days, that is until April 9, 2018.

Provisions of the Combined SFA, concluded on September 15, 2015, permit companies from Polsat Group to allocate a strictly limited amount to acquisitions. Due to those restrictions, which were bidding as at the date of the announcement of the Tender Offer, under the Tender Offer Netia shares will be acquired by the Company and its affiliate – Karswell Limited. Cyfrowy Polsat will acquire no more than 34,662,045 Netia shares in the Tender Offer for a total sum of ca. PLN 200 million, while Karswell will acquire (as provisioned for in an agreement concluded with the Company on December 5, 2017 and described in more detail in item 3.2. – *Significant events and agreements – Business related events – Acquisition of a stake in Netia S.A.*), up to 84,687,926 Netia shares (in the event of the registration of the decrease in the share capital of Netia by the competent registry court before the end of the subscription period for the sale of the shares under the Tender Offer, Karswell intends to acquire no more than 76,040,399 shares), which in total will allow to reach the threshold of no more than 66% of votes at the General Meeting of Netia.

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

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

Netia owns an extensive, nationwide fixed-line infrastructure, comprising ca. 20 thousand kilometers of backbone optic fiber network across Poland. Such infrastructure would constitute a highly valuable asset to Polsat Group, thanks to which we could offer our customers new services based on new generation fixed-line technologies. The possibility of flexible, cost-efficient and time-to-market roll-out of our mobile network coverage in the future, as well as fiber-based fixed-line coverage to selected areas of Poland would allow us to offer attractive terms to our customers in the short-term. The development of an equivalent in scale backbone network using own resources would be a long-term process.

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

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

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

Acquisition of new TV channels

Following the agreement signed on December 4, 2017 with ZPR Media Group, Telewizja Polsat acquired 100% of shares in Eska TV S.A. (broadcaster of Eska TV, Eska TV Extra and Eska Rock TV channels), 100% of shares in Lemon Records Sp. z o.o. (broadcaster of Polo TV and Vox Music TV channels), as well as minority stake of 34% in TV Spektrum Sp. z o.o. (broadcaster of Fokus TV and Nowa TV channels). The transaction worth PLN 103 million was finalized using own financial resources.

On February 2, 2018, Telewizja Polsat acquired a further 15.46% in TV Spektrum Sp. z o.o., increasing its total stake in the company to 49.48%.

The acquisition of new TV channels and the initiation of cooperation in the scope of developing two other channels available via digital terrestrial television is perfectly in line with the Group's strategy to maintain a strong market presence, measured by viewership results, on an increasingly fragmented market. The channels Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV will significantly strengthen the music programming in Telewizja Polsat and cooperation with Nowa TV and Fokus TV channels will complement its comprehensive program range. All the channels have a strong market position and solid viewership: in total ca. 3% in the commercial group in 2017.

In connection with this transaction we expect to achieve synergies in the areas of sales and costs estimated at ca. PLN 15 million annually.

4.4. Operating review of the Group

Key performance indicators (KPI) presented below for the four quarters of 2017 and 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 2017 and 2016 are not fully comparable. However, the effect of consolidation of the operating results of Aero2 Group on the overall reported operating results of Polsat Group is immaterial.

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

	for the 3-month period ended December 31		change / %	for the 12-month period ended December 31		change / %
	2017	2016		2017	2016	
SEGMENT OF SERVICES TO INDIVIDUAL AND BUSINESS CUSTOMERS						
Total number of RGUs (EOP) (contract + prepaid)	**16,522,597**	**16,524,936**	**(0.0%)**	**16,522,597**	**16,524,936**	**(0.0%)**
Contract services						
Total number of RGUs (EOP), incl.	**13,685,044**	**13,254,598**	**3.2%**	**13,685,044**	**13,254,598**	**3.2%**
Pay TV, incl.	4,942,640	4,766,429	3.7%	4,942,640	4,766,429	3.7%
Multiroom	*1,099,582*	*1,021,720*	*7.6%*	*1,099,582*	*1,021,720*	*7.6%*
Mobile telephony	6,932,676	6,730,427	3.0%	6,932,676	6,730,427	3.0%
Internet	1,809,728	1,757,742	3.0%	1,809,728	1,757,742	3.0%
Number of customers (EOP)	**5,776,598**	**5,882,804**	**(1.8%)**	**5,776,598**	**5,882,804**	**(1.8%)**
ARPU per customer [PLN]	89.0	90.7	(1.9%)	89.0	88.7	0.3%
Churn per customer	8.8%	8.3%	0.5 p.p.	8.8%	8.3%	0.5 p.p.
RGU saturation per one customer	2.37	2.25	5.3%	2.37	2.25	5.3%
Average number of RGUs, incl.	**13,596,202**	**13,119,033**	**3.6%**	**13,439,272**	**12,886,254**	**4.3%**
Pay TV, including:	4,905,839	4,712,813	4.1%	4,840,510	4,623,881	4.7%
Multiroom	*1,082,951*	*995,820*	*8.7%*	*1,057,120*	*971,381*	*8.8%*
Mobile telephony	6,894,295	6,667,869	3.4%	6,822,690	6,579,467	3.7%
Internet	1,796,068	1,738,351	3.3%	1,776,072	1,682,906	5.5%
Average number of customers	**5,781,207**	**5,868,541**	**(1.5%)**	**5,821,411**	**5,876,500**	**(0.9%)**
Prepaid services						
Total number of RGUs (EOP), including:	**2,837,553**	**3,270,338**	**(13.2%)**	**2,837,553**	**3,270,338**	**(13.2%)**
Pay TV	79,561	79,306	0.3%	79,561	79,306	0.3%
Mobile telephony	2,579,613	2,972,443	(13.2%)	2,579,613	2,972,443	(13.2%)
Internet	178,379	218,589	(18.4%)	178,379	218,589	(18.4%)
ARPU per RGU [PLN]	20.1	19.2	4.7%	19.9	18.6	7.0%
Average number of RGUs, including:	**2,851,766**	**3,341,220**	**(14.6%)**	**2,912,076**	**3,662,780**	**(20.5%)**
Pay TV	65,088	54,083	20.3%	59,457	46,356	28.3%
Mobile telephony	2,601,552	3,058,691	(14.9%)	2,663,566	3,362,107	(20.8%)
Internet	185,126	228,446	(19.0%)	189,053	254,317	(25.7%)
BROADCASTING AND TELEVISION PRODUCTION SEGMENT						
Audience share	24.4%	25.0%	(0.6 p.p)	24.5%	24.8%	(0.3 p.p.)
Advertising market share	27.0%	27.1%	(0.1 p.p.)	27.2%	26.7%	0.5 p.p.

When assessing our operating results in the segment of services to individual and business customers, we analyze contract services and prepaid services separately. In the case of contract services we consider the number of unique, active services provided in the contract model (RGUs), the number of customers, churn rate and average revenue per customer (ARPU). When analyzing prepaid services we consider the number of unique, active services provided in the prepaid model (prepaid

RGUs) as well as average revenue per prepaid RGU. The number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.

4.4.1. Segment of services to individual and business customers

As at December 31, 2017, in the segment of services to individual and business customers our Group provided a total of 16,522,597 services in the contract and prepaid models, which means a return to the level recorded at the end of 2016, before the decline triggered by mandatory registration of prepaid SIM cards and the deactivation of unregistered ones at the beginning of February 2017. It is worth emphasis that the share of contract services in the total number of services that we provide is growing consistently, and has reached the level of 82.8% at the end of the fourth quarter of 2017, as compared to 80.2% recorded at the end of the fourth quarter of 2016. At the end of 2017 we recorded a YoY growth in the number of all our core services provided in the contract model, i.e. pay TV, mobile telephony services, and mobile broadband. At the same time, following several quarters of pressure resulting from the entry into force of legal regulations obligating customers of all mobile networks to register prepaid SIM cards, we observe an explicit stabilization of the number of provided prepaid services.

Contract services

As at December 31, 2017, we provided contract services to a total of 5,776,598 customers, i.e. 1.8% less compared to 5,882,804 customers the Group had as at December 31, 2016. The main reason behind the decline of the contract customer base was the outflow of single-play customers, especially with a mobile telephony service, as well as further merging of contracts under one common contract for the household, which is reflected in the growing RGU saturation per customer ratio (increase by 5.3% YoY). In line with our strategic assumptions, we avoid conducting an aggressive sales policy on individual products and concentrate 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 430,466 in the last 12 months, that is by 3.2%, to 13,685,044 as at December 31, 2017, from 13,254,598 as at December 31, 2016. As at December 31, 2017, every customer in our base had on average 2.37 contract services, which constitutes an increase of 5.3% compared to 2.25 contract services per customer as at December 31, 2016.

We recorded growth in the number of all types of services provided in the contract model. The number of pay TV services provided in the contract model amounted to 4,942,640 as at December 31, 2017, which constitutes an increase by 176,211, or 3.7%, compared to 4,766,429 as at December 31, 2016. This increase is due in particular to the growing popularity of our Multiroom service (YoY increase by nearly 78 thousand, to 1.1 million RGUs), as well as to dynamically increasing sales of paid OTT services. The number of provided mobile telephony services in the contract model increased by 202,249, or 3.0%, reaching the level of 6,932,676 as at December 31, 2017, up from 6,730,427 as at December 31, 2016. This growth was driven by the successful implementation of our strategy of cross-selling. In terms of mobile broadband, as at December 31, 2017, we provided 1,809,728, RGUs in the contract model, that is by 51,986, or 3.0%, more than as at December 31, 2016, when we provided 1,757,742 such services. 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., selling additional products and services to the customer base of Cyfrowy Polsat and Polkomtel, among others within the framework of our bundled services offer, which has a positive impact on ARPU per contract customer. In 2017 the average revenue per contract customer increased by 0.3%, to PLN 89.0 from PLN 88.7 in 2016. In the fourth quarter of 2017 ARPU deceased to PLN 89.0 from PLN 90.7 recorded in the corresponding period of 2016. ARPU dynamics in both analyzed periods of 2017 was significantly negatively impacted by the levelling of retail roaming charges with domestic fees across the European Economic Area as of June 15, 2017 (the *Roam Like at Home* regulation). We also anticipate that this impact may adversely affect the rate of growth of contract ARPU also in the first two quarters of 2018.

Our churn rate amounted to 8.8% in the twelve-month period ended December 31, 2017, compared to 8.3% in the twelve-month period ended December 31, 2016. This is primarily the effect of the high level of loyalty of our customers connected with the successful implementation of our multiplay strategy.

Our bundled services offer, based on a mechanism of offering attractive rebates on every additional product or service purchased from the Group's portfolio, remains very popular and continues to record very good sales results, which has a positive effect on the level of RGU saturation per customer, ARPU per contract customer, and the churn rate. At the end of December 2017, already 1,510,715 customers were using our bundled offer, which constitutes an increase of 204,252 customers, or 15.6%, YoY. This means that the saturation of our customer base with multiplay services was at the level of 26.2% at the end of 2017. This group of customers had a total of 4,519,761 RGUs, that is by 649,588, or 16.8%, more than in the previous year. In the second quarter of 2017 we addressed the bundled services offer also to customers who subscribe to services in low-end tariffs, which had a positive influence on the growth dynamics of the multiplay customer base, as well as on the blended level of ARPU across the entire customer base. Bearing in mind the long-term goal of our Group - the maximization of revenue per contract customer through cross-selling - our bundled services offer is perfectly in line with our strategy.

Prepaid services

The number of prepaid services provided by us as at December 31, 2017 decreased by 432,785 , that is by 13.2%, to 2,837,553 from 3,270,338 as at December 31, 2016, where the decline was most pronounced in the first quarter of 2017 primarily driven by the statutory obligation to register newly purchased prepaid SIM cards starting from July 25, 2016. This regulation led to a significant decline in the number of new activations on the entire market and forced operators to deactivate all prepaid SIM cards that had not been validly registered as at February 1, 2017.

In 2017, average revenue per prepaid RGU (prepaid ARPU) increased by 7.0%, to PLN 19.9 from PLN 18.6 in 2016, whereas in the fourth quarter of 2017 prepaid ARPU increased by 4.7% to PLN 20.1 from PLN 19.2 in 2016. High growth dynamics of prepaid ARPU in both analyzed periods of 2017 was, among other things, the effect of the elimination of SIM cards characterized by low ARPU (so called one-time use cards) from the base, as well as the expiration of the effect of promotions aimed at encouraging users to register their prepaid cards early, as these promotions had a negative impact on APRU in the prepaid segment in the second half of the previous year.

4.4.2. Broadcasting and television production segment

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

Audience shares

	3 months ended December 31		change [pp]	12 months ended December 31		change [pp]
	2017	2016		2017	2016	
Audience share[(1) (2)], including:	**24.39%**	**24.98%**	***(0.59)***	**24.46%**	**24.76%**	***(0.30)***
POLSAT (main channel)	***12.04%***	***13.47%***	***(1.43)***	***12.34%***	***13.19%***	***(0.85)***
Thematic channels	***12.35%***	***11.51%***	***0.84***	***12.12%***	***11.57%***	***0.55***
TV4	4.26%	3.93%	*0.33*	4.06%	3.64%	*0.42*
TV6	1.45%	1.56%	*(0.11)*	1.56%	1.70%	*(0.14)*
Polsat 2	1.46%	1.40%	*0.06*	1.43%	1.44%	*(0.01)*
Super Polsat[(3)]	0.85%	n/a	*n/a*	0.84%	n/a	*n/a*
Polsat Film	0.78%	0.79%	*(0.01)*	0.77%	0.79%	*(0.02)*
Polsat News	0.65%	0.77%	*(0.12)*	0.75%	0.80%	*(0.05)*
Polsat Play	0.52%	0.65%	*(0.13)*	0.57%	0.67%	*(0.10)*
Polsat Cafe	0.32%	0.40%	*(0.08)*	0.39%	0.39%	-
Polsat Sport	0.28%	0.28%	-	0.35%	0.44%	*(0.09)*
Disco Polo Music	0.22%	0.26%	*(0.04)*	0.21%	0.27%	*(0.06)*
CI Polsat	0.15%	0.13%	*0.02*	0.17%	0.14%	*0.03*
Polsat JimJam	0.12%	0.26%	*(0.14)*	0.15%	0.24%	*(0.09)*
Polsat Viasat History	0.13%	0.16%	*(0.03)*	0.15%	0.14%	*0.01*
Polsat Romans	0.13%	0.16%	*(0.03)*	0.12%	0.16%	*(0.04)*
Polsat Viasat Explore	0.09%	0.13%	*(0.04)*	0.10%	0.11%	*(0.01)*

	3 months ended December 31		change [pp]	12 months ended December 31		change [pp]
	2017	2016		2017	2016	
Polsat Sport Extra	0.06%	0.09%	*(0.03)*	0.09%	0.09%	-
Polsat News 2	0.04%	0.08%	*(0.04)*	0.07%	0.08%	*(0.01)*
Polsat Music HD [(4)]	0.05%	0.05%	-	0.05%	0.03%	*0.02*
Polsat Sport News HD[(5)]	0.04%	n/a	*n/a*	0.04%	n/a	*n/a*
Polsat Doku[(6)]	0.04%	n/a	*n/a*	0.03%	n/a	*n/a*
Polsat Sport Fight[(7)]	0.04%	n/a	*n/a*	0.03%	n/a	*n/a*
Polsat Viasat Nature	0.03%	0.03%	-	0.02%	0.03%	*(0.01)*
Polsat Sport News[(5)]	n/a	0.30%	*n/a*	n/a	0.35%	*n/a*
Polsat Food Network[(8)]	n/a	0.09%	*n/a*	n/a	0.10%	*n/a*
Polsat 1[(9)]	n/a	n/a	*n/a*	n/a	n/a	*n/a*
Channels acquired in December 2017[(10)]						
Polo TV	0.86%	1.31%	*(0.45)*	1.11%	1.33%	*(0.22)*
Eska TV	0.76%	0.04%	*0.72*	0.48%	0.65%	*(0.17)*
Eska TV Extra	0.08%	n/a	*n/a*	0.10%	n/a	*n/a*
Vox Music TV	0.06%	0.60%	*(0.54)*	0.06%	0.08%	*(0.02)*
Eska Rock TV	0.01%	0.02%	*(0.01)*	0.01%	0.01%	-
Advertising market share[(11)]	**27.0%**	**27.1%**	***(0.1 pp)***	**27.2%**	**26.7%**	***0.5 pp***

1) Nielsen Audience Measurement, All day ages 16-49 audience share, including Live+2 (viewership results include 2 additional days of time-shifted viewing).
2) When calculating the total audience share of Polsat Group and audience share of thematic channels, we take into account the moment of including the channel in our portfolio.
3) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News.
4) Until May 26, 2017, channel broadcast under the name "MUZO.TV".
5) Channel available only in cable and satellite networks since January 2, 2017 under the name "Polsat Sport News HD".
6) Channel broadcast since February 10, 2017, data for the broadcasting period.
7) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.
8) From January 2017 channel available as "Food Network" in TVN Group.
9) Channel not included in the telemetric panel.
10) Channels included in Polsat Group's portfolio from December 4, 2017, data for the entire analyzed period.
11) Our estimates based on preliminary Starcom data.

The audience share in the commercial group (all viewers aged 16-49, including Live+2, i.e. 2 additional days of time-shifted viewing) for the entire Polsat Group in the fourth quarter and of the entire 2017 amounted to 24.4% and 24.5%, respectively. The total audience share in 2017 for the Group was under pressure from lower viewership figures of the main channel POLSAT, which was connected, among others, with the broadcasts of very popular UEFA EURO 2016 matches in the previous year. As a result in 2017 the main channel had an audience share of nearly 12.3% - down by close to 0.9 p.p. compared to 2016.

In turn, the consistently growing audience share of thematic channels, which increased by a total of nearly 0.8 p.p. in the fourth quarter of 2017, to the level of 12.4%, and in 2017 – by 0.5 p.p. to the level of 12.1%, had a positive impact on viewership figures recorded by the entire Group. Comparing 2017 with the previous year, we have observed the highest growth in terms of audience share as a result of the launch of Super Polsat channel, as well as the increasing popularity of the channel TV4, which stems from an enriched programing offer of this channel, and specifically to broadcasting in *prime time* of very popular detective and crime series. We expect that the newly acquired channels - Eska TV, Eska TV Extra, Eska Rock TV, Polo TV and Vox Music TV will strongly support viewership figures of our thematic channel portfolio in the coming quarters.

Both in the fourth quarter and in 2017, viewers in the commercial group (all viewers aged 16-49, including Live+2) were attracted by the fixed slots on our main channel's schedule. Premier episodes of the TV series *First Love* turned out to be very popular, gaining an audience share of 18.3% in the fourth quarter and 18.1% in 2017. Monday's film slot *Mega Hit* had an audience share of 14.5% in the fourth quarter and 15.6% in 2017. The series *Świat według Kiepskich,* aired from Monday to Saturday at 7.30 p.m. had an audience share of 12.2% in the fourth quarter and 12.1% in 2017.

The news program broadcast daily at 6.50 p.m., *Wydarzenia* (*News*), maintained high viewership figures with an audience share of 17.2% in both the fourth quarter of 2017. The morning block of news and information programs, *Nowy Dzień z*

Polsat News (*New day with Polsat News*), broadcast daily from Monday to Friday, is worth mentioning. This block had an audience share of 15.6% in the fourth quarter of 2017 and 16.6% in 2017.

The results of both the fourth quarter and 2017 were significantly influenced by programs from the season broadcast programming. A large audience was gathered by the show *Your Face Sounds Familiar.* The Saturday slots dedicated to this show had an audience share of 15.1% in the fourth quarter and 14.4% in 2017. Another position in our scheduling, the show *Our New House*, gathered on average 14.1% of viewers in the fourth quarter and 13.7% in 2017. The reality show *The Brain* had an audience share of 10.3% in the fourth quarter and 13.0% in 2017. *Live cabaret* entertainment series, broadcast on Sunday evenings, had an audience share of 13.0% in the fourth quarter of 2017 and 14.0% in 2017. The results of novelties introduced in the autumn broadcast programming are worth mentioning. In the fourth quarter of 2017 the drama series *In the Heart's Rhythm* gained an audience share of 11.1%, while the reality show *Plus Size Supermodel* – 13.6%.

Additionally, record high results of sports events broadcast in 2017 are worth notice. The most widely viewed qualifying match to the FIFA World Cup 2018 was the match Poland-Montenegro, which took place on October 8, 2017, gaining an audience total share in Polsat and Polsat Sport of 63.9%. Another important sports event was the meeting Poland-Romania of June 10, 2017 with a total share of Polsat and Polsat Sport of 61.3%.

Cabaret and entertainment shows were highly popular in both analyzed periods. *Polsat Superhit Festival 2017* gained a very high audience share. The broadcasting of this festival on May 28, 2017, entitled *Sopocki Hit Kaberetowy – Życie Jest Piękne,* attracted 28.7% of viewers to their TV sets. The cabaret *XI Płocka Noc Kabaretowa,* aired on April 30, 2017 on the main channel, had an audience share of 25.2%. The concert *Wrocław w rytmie disco*, aired on Polsat channel on June 14, 2017 gave the channel a 26.1% share in the audience. Moreover, the *Świętokrzyska Gala Kabaretowa,* aired on August 25 2017, had an audience share of 23.0%. The concert "*Christmas Carols with Polsat*", aired on Christmas eve, had an audience share of 26.7%, while the movie "*Home Alone 2: Lost in New York*", aired on the same day, captured 39.5% of the audience share.

Advertising and sponsoring market share

According to preliminary Starcom estimates, expenditures on TV advertising and sponsoring in 2017 amounted to about PLN 4.1 billion and increased year-on-year by 1.3%. Based on these data, we estimate that in 2017 our TV advertising market share increased year-on-year by 0.5 percentage points to 27.2% from 26.7% in 2016.

In the fourth quarter of 2017, expenditures on TV advertising and sponsoring amounted to ca. PLN 1.3 million, which constitutes an increase of 5.6% year-on-year. Our TV ad market share amounted to 27.0% in the fourth quarter of 2017 and remained at a stable level compared to 27.1% in the corresponding period of 2016.

If we compare the current portfolio of Polsat Group's channels, we generated 1.31% less GRPs in 2017 compared to 2016.

Distribution and technical reach

Technical reach(1)	3 months ended December 31		Change [pp]	12 months ended December 31		Change [pp]
	2017	2016		2017	2016	
Polsat	100.0%	99.9%	0.10	100.0%	99.9%	0.10
TV4	100.0%	99.8%	0.20	99.9%	99.8%	0.10
Eska TV(2)	97.8%	45.5%	52.30	97.6%	83.6%	14.00
Polo TV(2)	97.6%	96.4%	1.20	97.4%	95.6%	1.80
Super Polsat(3)	97.0%	n/a	n/a	96.5%	n/a	n/a
TV6	95.5%	95.2%	0.30	95.5%	94.6%	0.90
Polsat 2	62.6%	63.0%	(0.40)	63.0%	63.1%	(0.10)
Polsat News 2	58.4%	56.8%	1.60	58.0%	56.0%	2.00
Polsat News	56.0%	55.7%	0.30	56.3%	55.8%	0.50
Eska TV Extra(2)	58.8%	n/a	n/a	56.2%	n/a	n/a
Polsat Cafe	55.3%	55.4%	(0.10)	55.9%	55.1%	0.80
Polsat Film	53.3%	51.9%	1.40	52.8%	51.4%	1.40
Polsat Play	51.7%	49.7%	2.00	51.0%	49.0%	2.00
Polsat Viasat History	48.5%	48.5%	-	49.3%	43.6%	5.70

Technical reach[1]	3 months ended December 31		Change [pp]	12 months ended December 31		Change [pp]
	2017	2016		2017	2016	
Disco Polo Music	48.6%	46.7%	*1.90*	48.3%	46.2%	*2.10*
Polsat Romans	47.9%	48.0%	*(0.10)*	47.5%	46.4%	*1.10*
Polsat Sport	46.5%	47.7%	*(1.20)*	47.2%	48.2%	*(1.00)*
Polsat JimJam	45.2%	45.3%	*(0.10)*	45.6%	44.5%	*1.10*
Polsat Music HD[4]	46.5%	41.7%	*4.80*	44.4%	40.8%	*3.60*
Polsat Viasat Nature	43.3%	42.5%	*0.80*	43.7%	36.5%	*7.20*
Polsat Viasat Explore	43.0%	44.3%	*(1.30)*	43.6%	39.0%	*4.60*
CI Polsat	40.5%	39.9%	*0.60*	40.6%	39.3%	*1.30*
Polsat Sport Extra	35.6%	36.2%	*(0.60)*	36.0%	35.9%	*0.10*
Vox Music TV[2]	35.6%	36.1%	*(0.50)*	34.8%	35.3%	*(0.50)*
Polsat Sport News HD[5]	28.3%	n/a	*n/a*	27.8%	n/a	*n/a*
Polsat Sport News[5]	28.3%	95.5%	*(67.20)*	27.8%	94.8%	*(67.00)*
Eska Rock TV[2]	26.2%	n/a	*n/a*	25.4%	n/a	*n/a*
Polsat Doku[6]	24.0%	n/a	*n/a*	23.1%	n/a	*n/a*
Polsat Sport Fight[7]	12.1%	10.2%	*1.90*	11.9%	10.2%	*1.70*
Polsat 1[8]	n/a	n/a	*n/a*	n/a	n/a	*n/a*

1) Nielsen Audience Measurement, percentage of TV households able to receive a given channel; arithmetical average of monthly technical reach.
2) Channel included in Polsat Group's portfolio from December 4, 2017.
3) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News
4) Channel broadcast since May 26, 2017, replaced MUZO.TV.
5) Channel available only in cable and satellite networks since January 2, 2017 under the name "Polsat Sport News HD".
6) Channel broadcast since February 10, 2017, data for the broadcasting period.
7) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.
8) Channel broadcast outside of Poland, not included in the telemetric survey.

Thematic channels of Polsat Group are currently available on all significant cable and satellite platforms. The systematically increasing availability of our channels is clearly visible. Comparing data for both the fourth quarter and of the entire 2017 with corresponding periods of 2016, the highest growth dynamics in technical reach were recorded by Polsat Viasat Nature, Polsat Viasat History and Polsat Viasat Explore, which was connected with intensive marketing actions, such as "open windows" and other promotions offered be selected pay TV operators. The music channels (Polsat Music HD and Disco Polo Music) also systematically improve their respective technical reach.

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

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

(vi) activation fees;

(vii) penalties; and

(viii) fees for additional services.

The total revenue from pay digital television and telecommunication subscription fees depends on the number of customers and the number of services provided to them, as well as on the amount of monthly subscription fees paid for our programming and telecommunication packages and the amount of additional services provided to our customers in the given period. Revenues from prepaid mobile telephone services are recognized in the profit or loss statement once the prepaid credit is utilized or forfeited. Activation fees are collected at the moment of activation and amortized over the life of the contract.

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;

(ii) revenue from cable and satellite operator fees;

(iii) revenue from the lease of infrastructure;

(iv) interconnect revenue;

(v) revenue from roaming;

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

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

(viii) revenue from premium rate services.

Sale of equipment

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

Other revenue

Other revenue sources consist among others of revenue from the lease of premises and facilities, revenue from interest on installment plan purchases, revenue from the sale of electric energy and other sales revenue.

Operating costs

Operating costs consist of:

(i) content costs;

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

(iii) depreciation, amortization, impairment and liquidation;

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

(v) salaries and employee-related costs;

(vi) cost of equipment sold;

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

(viii) other costs.

Content costs

Content costs consist of:

(i) programming license costs;

(ii) amortization of purchased film licenses;

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

(iv) other content costs.

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

(i) commissions due to authorized retail points of sale as remuneration for concluded agreements with our customers for pay television and telecommunication services;

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

(iii) costs of warranty service; and

(iv) costs of maintenance of points of sales.

Marketing expenses consist of expenses on TV and radio commercials, press, online and outdoor advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition.

Customer relation management and retention costs consist of mailing costs, call center costs and other customer relation management costs.

Depreciation, amortization, impairment and liquidation

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

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

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

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

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

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

(vi) non-current assets impairment allowance; and

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;

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

(iii) telecommunication network maintenance costs and fees;

(iv) IT systems maintenance costs;

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

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

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

(viii) Interconnection and roaming charges; and

(ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

(i) bad debt recovery fees;

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

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

Other costs

Key items of other costs include:

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

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

(iii) legal, advisory and consulting costs;

(iv) property maintenance costs;

(v) taxes and other charges;

(vi) trademark license costs;

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

(viii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

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

Gains and losses on investment activities, net

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

Finance costs

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

4.6. Review of our financial situation

The following review of results for the three and twelve month periods ended December 31, 2017 was prepared based on the consolidated financial statements for the twelve month period ended December 31, 2017 prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analyses.

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

We emphasize that the financial data for the three and twelve month periods ended December 31, 2017 are not fully comparable to data for the corresponding periods of 2016 due to the acquisition of 100% of shares in Litenite Limited, the direct parent of Aero2 Group on February 29, 2016, the acquisition of 100% of shares in IT Polpager S.A. on September 30, 2016, the disposal of LTE Holdings Limited on June 19, 2017, the acquisition of 51% of shares in Paszport Korzyści Sp. z o.o. (currently Plus Flota Sp. z o.o.) on September 7, 2017, the acquisition of 100% of shares in Eska TV S.A. and Lemon Records Sp. z o.o. on December 4, 2017, the acquisition of 34.02% of shares in TV Spektrum Sp. z o.o. on December 4, 2017, the acquisition of 31.76%shares of Netia S.A. on December 5, 2017 and the disposal of shares in New Media Ventures Sp. z o.o. on December 8, 2017.

It should be noted that we do not eliminate the effect of consolidation of Aero2 Group on the results of Polsat Group for 2017, however we indicated the positions significantly influenced by the consolidation of Aero2 Group in the twelve-month period ended December 31, 2017. Concurrently, due to the fact that the results of the remaining companies mentioned do not have a material impact on the results of the Group in the fourth quarter, nor the entire year 2017, they will not be subject to elimination in the analysis of the Group's financial situation.

4.6.1. Income statement analysis

4.6.1.1. Review of financial results for the fourth quarter of 2017 and 2016

[mPLN]	for the 3-month period ended December 31		change	
	2017	2016	[mPLN]	[%]
Revenue	2,579.2	2,535.1	44.1	1.7%
Operating costs	(2,139.2)	(2,140.6)	1.4	(0.1%)
Other operating income, net	(2.1)	(4.6)	2.5	(54.3%)
Profit from operating activities	**437.9**	**389.9**	**48.0**	**12.3%**
Gain/(loss) on investment activities, net	19.1	(26.3)	45.4	(172.6%)
Financial costs	(105.4)	(122.9)	17.5	(14.2%)
Share of the profit of associates accounted for using the equity method	2.8	-	2.8	n/a
Gross profit for the period	**354.4**	**240.7**	**113.7**	**47.2%**
Income tax	(197.2)	101.1	(298.3)	(295.1%)
Net profit for the period	**157.2**	**341.8**	**(184.6)**	**(54.0%)**
EBITDA	***872.7***	***902.3***	***(29.6)***	***(3.3%)***
EBITDA margin	***33.8%***	***35.6%***	***-***	***(1.8 p.p.)***

Revenue

Our total revenue increased by PLN 44.1 million, or 1.7%, to PLN 2,579.2 million in the fourth quarter of 2017 from PLN 2,535.1 million in the fourth quarter of 2016.

[mPLN]	for the 3-month period ended December 31		change	
	2017	2016	[mPLN]	[%]
Retail revenue	1,497.9	1,589.0	(91.1)	(5.7%)
Wholesale revenue	735.8	658.4	77.4	11.8%
Sale of equipment	298.8	265.6	33.2	12.5%
Other revenue	46.7	22.1	24.6	111.3%
Revenue	**2,579.2**	**2,535.1**	**44.1**	**1.7%**

Retail revenue

Retail revenue decreased by PLN 91.1 million, or 5.7%, to PLN 1,497.9 million in the fourth quarter of 2017, from PLN 1,589.0 million in the fourth quarter of 2016. This decrease was primarily due to lower revenue from voice services. Several factors contributed to the erosion of revenue from voice services, in particular the full implementation of the *Roam Like at Home* regulation, imposing the levelling of retail roaming charges with domestic charges (as of June 15, 2017), the change in the model of offering equipment to retail customers (payment for equipment, previously included in subscription fees, is currently recognized as revenue from sales of equipment under the installment plan model), a lower number of prepaid activations, which is related to the statutory obligation of prepaid SIM registration. The decrease in retail revenue was partially compensated by higher revenue from pay TV.

Wholesale revenue

Wholesale revenue increased by PLN 77.4 million, or 11.8%, to PLN 735.8 million in the fourth quarter of 2017 from PLN 658.4 million in the fourth quarter of 2016. The increase of wholesale revenue was triggered primarily by higher revenue from interconnection services, which in turn was the result of the increasing volume of traffic exchanged with other networks, higher advertising revenue as well as higher revenue from the wholesale sale of traffic in domestic and international roaming.

Sale of equipment

Revenue from the sale of equipment increased by PLN 33.2 million, or 12.5%, to PLN 298.8 million in the fourth quarter of 2017 from PLN 265.6 million in the fourth quarter of 2016, which was due primarily due to higher revenue from installment plan sales of equipment related to the increasing share of this model in equipment sales, as well as to our customers' increased demand for more advanced and expensive devices.

Other revenue

Other revenue increased by PLN 24.6 million, or 111.3%, to PLN 46.7 million in the fourth quarter of 2017 from PLN 22.1 million in the fourth quarter of 2016. This increase was due, among other things, to growing revenue from interest on installment plan sales of equipment to residential customers.

Operating costs

Our total operating costs amounted to PLN 2,139.2 million in the fourth quarter of 2017 and remained at a stable level compared to PLN 2,140.6 million in the fourth quarter of 2016.

[mPLN]	for the 3-month period ended December 31		change	
	2017	2016	[mPLN]	[%]
Technical costs and cost of settlements with network operators	533.8	472.6	61.2	12.9%
Depreciation, amortization, impairment and liquidation	434.8	512.4	(77.6)	(15.1%)
Cost of equipment sold	357.9	380.1	(22.2)	(5.8%)
Content costs	321.2	297.3	23.9	8.0%
Distribution, marketing, customer relation management and retention costs	243.3	222.5	20.8	9.3%
Salaries and employee-related costs	164.2	163.9	0.3	0.2%
Cost of debt collection services and bad debt allowance and receivables written off	10.5	15.3	(4.8)	(31.4%)
Other costs	73.5	76.5	(3.0)	(3.9%)
Operating costs	**2,139.2**	**2,140.6**	**(1.4)**	**(0.1%)**

Technical costs and cost of settlements with network operators

Technical costs and cost of settlements with network operators increased by PLN 61.2 million, or 12.9%, to PLN 533.8 million in the fourth quarter 2017 from PLN 472.6 million in the fourth quarter 2016. This increase resulted from higher costs related to a significant increase in the volume of traffic generated by Poles in international roaming (effect of the *Roam Like at Home* regulation), as well as higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 77.6 million, or 15.1%, to PLN 434.8 million in the fourth quarter of 2017 from PLN 512.4 million in the fourth quarter of 2016, among others due to the termination of the amortization period of certain intangible assets, acquired alongside Polkomtel in 2014 (relates to the item "Relations with customers" on the balance sheet), as well as lower costs of depreciation of the telecommunication infrastructure which is connected with the termination of the depreciation period of selected elements of this infrastructure.

Cost of equipment sold

Cost of equipment sold decreased by PLN 22.2 million, or 5.8%, to PLN 357.9 million in the fourth quarter of 2017 from PLN 380.1 million in the fourth quarter of 2016, as a consequence of a lower volume of sales of end-user devices.

Content costs

Content costs increased by PLN 23.9 million, or 8.0%, to PLN 321.2 million in the fourth quarter of 2017 from PLN 297.3 million in the fourth quarter of 2016, mainly as a result of higher in-house production costs connected with expanding our programming offer.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 20.8 million, or 9.3%, to PLN 243.3 million in the fourth quarter of 2017 from PLN 222.5 million in the fourth quarter of 2016, among others due to the intensification of marketing campaigns and the recognition of higher costs of customer service and retention, associated, among others, with an increase in per hour rates resulting from an upward pressure on wages on the Polish labor market.

Salaries and employee-related costs

Salaries and employee-related costs amounted to PLN 164.2 million in the fourth quarter of 2017 and remained at a stable level compared to PLN 163.9 million in the fourth quarter of 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 4.8 million, or 31.4%, to PLN 10.5 million in the fourth quarter of 2017 from PLN 15.3 million in the fourth quarter of 2016, among others due to lower costs of write-offs on receivables.

Other costs

Other costs amounted to PLN 73.5 million in the fourth quarter of 2017 and remained at a stable level compared to PLN 76.5 million in the fourth quarter of 2016.

Other operating income and costs, net

Other operating costs, net decreased by PLN 2.5 million, or 54.3%, to PLN 2.1 million in the fourth quarter of 2017 from PLN 4.6 million in the fourth quarter of 2016.

Gains/losses on investment activities, net

Net gains on investment activities amounted to PLN 19.1 million in the fourth quarter of 2017 compared to net losses on investment activities in the amount PLN 26.3 million in the fourth quarter of 2016. This was, among other things, the effect of lower foreign exchange costs related to the valuation of UMTS license liabilities, caused by the appreciation of the PLN versus the EUR in the fourth quarter of 2017, while the PLN depreciated versus the EUR in the comparative period.

Finance costs

Finance costs amounted to PLN 105.4 million in the fourth quarter of 2017 and decreased by PLN 17.5 million, or 14.2%, compared to PLN 122.9 million in the fourth quarter of 2016. This decrease was caused primarily by a decline in costs of interest on bonds following the early redemption of the Litenite Notes in April 2017.

Income tax

In the fourth quarter of 2017 the recognized cost related to income tax amounted to PLN 197.2 million and was higher by PLN 298.3 million compared to the corresponding period of 2016, when a positive value of cost related to income tax was recognized in the amount of PLN 101.1 million. In the fourth quarter of 2016 the one-off recognition of an asset related to deferred income tax relating to transactions that are subject to elimination during the process of consolidation had a positive effect on the consolidated net profit of Polsat Group in the amount of PLN 104.0 million. In the fourth quarter of 2017 this item was under the negative, one-off, non-cash influence of a change in the balance of deferred income tax liabilities, resulting from enacted limitations on tax-deductible expenses in the following years but relating to assets recognized in the consolidated balance sheet as at December 31, 2017. The above change decreased the consolidated net profit of Polsat Group for the fourth quarter of 2017 by PLN 144.0 million.

Net profit

As a consequence of the changes described above, net profit decreased by PLN 184.6 million, or 54.0%, to PLN 157.2 million in the fourth quarter of 2017 from PLN 341.8 million in the fourth quarter of 2016.

EBITDA & EBITDA margin

EBITDA decreased by PLN 29.6 million, or 3.3%, to PLN 872.7 million in the fourth quarter of 2017 from PLN 902.3 million in the fourth quarter of 2016. In the fourth quarter of 2017 EBITDA dynamics was driven primarily by the adverse effect of the *Roam Like at Home* regulation, which resulted in a decrease in the margin on provided international roaming services by ca. PLN 36 million YoY.

EBITDA margin decreased by 1.8 p.p., to 33.8%, in the fourth quarter of 2017 from 35.6% in the fourth quarter of 2016.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4,810 full-time equivalents (FTE) in the fourth quarter of 2017 and decreased by 138 FTE, or 2.8%, compared to 4,948 FTE in the corresponding period of 2016.

4.6.1.2. Comparison of financial results for 2017 and 2016

[mPLN]	for the 12-month period ended December 31		change	
	2017	2016(1)	[mPLN]	[%]
Revenue	9,828.6	9,729.8	98.8	1.0%
Operating cost	(8,015.9)	(8,069.3)	53.4	(0.7%)
Other operating income, net	21.3	8.8	12.5	142.0%
Profit from operating activities	**1,834.0**	**1,669.3**	**164.7**	**9.9%**
Gain/(loss) on investment activities, net	7.2	(69.8)	77.0	(110.3%)
Financial costs	(509.0)	(566.1)	57.1	(10.1%)
Share of the profit of associates accounted for using the equity method	2.8	-	2.8	n/a
Gross profit for the period	**1,335.0**	**1,033.4**	**301.6**	**29.2%**
Income tax	(389.8)	(12.4)	(377.4)	3,043.5%
Net profit for the period	**945.2**	**1,021.0**	**(75.8)**	**(7.4%)**
EBITDA	***3,617.0***	***3,640.8***	***(23.8)***	***(0.7%)***
EBITDA margin	***36.8%***	***37.4%***	***-***	***(0.6 p.p.)***

1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Revenue

Our total revenue increased by PLN 98.8 million, or 1.0%, to PLN 9,828.6 million in 2017 from PLN 9,729.8 million in 2016.

[mPLN]	for the 12-month period ended December 31		Change	
	2017	2016(1)	[mPLN]	[%]
Retail revenue	6,067.9	6,325.3	(257.4)	(4.1%)
Wholesale revenue	2,538.6	2,466.1	72.5	2.9%
Sale of equipment	1,055.2	850.8	204.4	24.0%
Other revenue	166.9	87.6	79.3	90.5%
Revenue	**9,828.6**	**9,729.8**	**98.8**	**1.0%**

(1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Retail revenue

Retail revenue decreased by PLN 257.4 million, or 4.1%, to PLN 6,067.9 million in 2017 from PLN 6,325.3 million in 2016. This decrease was primarily due to lower revenue from voice services. Several factors contributed to the erosion of revenue from voice services, in particular the full implementation of the *Roam Like at Home* regulation, imposing the levelling of retail roaming charges with domestic charges (as of June 15, 2017), the change in the model of offering equipment to retail customers (payment for equipment, previously included in subscription fees, is currently recognized as revenue from sales of equipment under the installment plan model), a lower number of prepaid activations, which is related to the statutory obligation of prepaid SIM registration. The decrease in retail revenue was partially compensated by higher revenue from pay TV and higher revenue from mobile Internet access services.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Wholesale revenue

Wholesale revenue increased by PLN 72.5 million, or 2.9%, to PLN 2,538.6 million in 2017 from PLN 2,466.1 million in 2016. The increase of wholesale revenue was triggered primarily by higher revenue from interconnection services, which in turn was the result of the increasing volume of traffic exchanged with other networks, higher revenue from the wholesale sale of traffic in domestic and international roaming as well as higher revenue from advertising and sponsorship. This increase of wholesale revenue was partially off-set by the fact, that in January and February of 2016 this item comprised revenue from the lease of telecommunication infrastructure to Aero2 Group, which is subject to elimination during consolidation in 2017 as a result of the acquisition of Aero2 Group on February 29, 2016. Moreover, in 2016 this item comprised additional revenue related to the multichannel monetization of sports rights to the EURO UEFA 2016 tournament.

Sale of equipment

Revenue from the sale of equipment increased by PLN 204.4 million, or 24.0%, to PLN 1,055.2 million in 2017 from PLN 850.8 million in 2016, which was due primarily to higher revenue from installment plan sales of equipment related to the increasing share of this model in equipment sales, as well as to the customers' increased demand for more advanced and expensive devices.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Other revenue

Other revenue increased by PLN 79.3 million, or 90.5%, to PLN 166.9 million in 2017 from PLN 87.6 million in 2016. This increase was the result, *inter alia*, of growing revenue from interest on installment plan sales of equipment to residential customers.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Operating costs

Our total operating costs decreased by PLN 53.4 million, or 0.7%, to PLN 8,015.9 million in 2017 from PLN 8,069.3 million in 2016.

[mPLN]	for the 12-month period ended December 31		change	
	2017	2016(1)	[mPLN]	[%]
Technical costs and cost of settlements with network operators	2,014.0	1,938.7	75.3	3.9%
Depreciation, amortization, impairment and liquidation	1,783.0	1,971.5	(188.5)	(9.6%)
Cost of equipment sold	1,323.6	1,354.7	(31.1)	(2.3%)
Content costs	1,153.6	1,114.2	39.4	3.5%
Distribution, marketing, customer relation management and retention costs	894.3	827.8	66.5	8.0%
Salaries and employee-related costs	553.1	570.5	(17.4)	(3.0%)
Cost of debt collection services and bad debt allowance and receivables written off	67.4	46.9	20.5	43.7%
Other costs	226.9	245.0	(18.1)	(7.4%)
Operating costs	**8,015.9**	**8,069.3**	**(53.4)**	**(0.7%)**

(1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Technical costs and cost of settlements with network operators

Technical costs and cost of settlements with network operators increased by PLN 75.3 million, or 3.9%, to PLN 2,014.0 million in 2017 from PLN 1,938.7 million in 2016. This increase was the effect of higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks, as well as higher costs related to the wholesale purchase of traffic in international roaming related to a significant increase in the volume of traffic generated in international roaming (an effect of the *Roam Like at Home* regulation). Concurrently, the factor negatively influencing the growth dynamics of technical costs and the costs of settlements with telecommunication operators was the elimination on consolidation of the costs of wholesale purchase of data traffic within our broadband Internet access service in connection with the acquisition of Aero2 Group on February 29, 2016 (in the comparative period the aforementioned costs were incurred in the months of January and February 2016).

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 188.5 million, or 9.6%, to PLN 1,783.0 million in 2017 from PLN 1,971.5 million in 2016, among others as the result of the termination of the amortization period of certain intangible assets, acquired alongside Polkomtel in 2014 (relates to the item "Relations with customers" on the balance sheet), as well as lower costs of depreciation of the telecommunications infrastructure which is connected with the termination of the depreciation period of selected elements of this infrastructure. This decrease was partially offset by the consolidation of depreciation costs of Aero2 Group for the full period, whereas in 2016 these costs were consolidated starting from February 29, 2016.

Cost of equipment sold

The cost of equipment sold decreased by PLN 31.1 million, or 2.3%, to PLN 1,323.6 million in 2017 from PLN 1,354.7 million in 2016 as a consequence of a lower volume of sales of end-user devices.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Content costs

Content costs increased by PLN 39.4 million, or 3.5%, to PLN 1,153.6 million in 2017 from PLN 1,114.2 million in 2016. This increase is due primarily to higher costs of programming licenses, which was connected with increasing popularity of our premium programming packages among our pay TV customers and higher in-house production costs connected with expanding our programming offer. This increase was partially off-set by the recognition of lower costs of sports licenses (in the comparative period higher costs of sports licenses were connected with the broadcasting of UEFA EURO 2016).

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 66.5 million, or 8.0%, to PLN 894.3 million in 2017 from PLN 827.8 million in 2016, among others due to the intensification of marketing campaigns and the recognition of higher costs of distribution, which was reflected in very good sales results, as well as due to the recognition of higher costs of customer service and retention, associated, among others, with an increase in per hour rates resulting from an upward pressure on wages on the Polish labor market.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 17.4 million, or 3.0%, to PLN 553.1 million in 2017 from PLN 570.5 million in 2016, among others as a result of a decrease in the average level employment in the Group.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

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

The cost of debt collection services and bad debt allowance and receivables written off increased by PLN 20.5 million, or 43.7%, to PLN 67.4 million in 2017 from PLN 46.9 million in 2016, primarily due to a change in the structure of sales and a higher share of sales of end-user devices in the installment plan model.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Other costs

Other costs decreased by PLN 18.1 million, or 7.4%, to PLN 226.9 million in 2017 from PLN 245.0 million in 2016, among others as a result of the recognition in the comparative period of the cost of sold licenses related to the UEFA EURO 2016 tournament, while no such costs were recognized in 2017.

The effect of consolidation of Aero2 Group was immaterial on this item of the profit and loss statement.

Other operating income/costs, net

Other operating income, net increased by PLN 12.5 million, or 142.0%, to PLN 21.3 million in 2017 from PLN 8.8 million in 2016.

The effect of consolidation of Aero2 Group was immaterial on this position of the profit and loss statement.

Gains/losses on investment activities, net

Net gains on investment activities amounted to PLN 7.2 million in 2017 compared to net losses on investment activities amounting to PLN 69.8 million in 2016. This was due, among other factors, to foreign exchange gains resulting from the decrease in the valuation of UMTS license liabilities, which was caused by an appreciation of the PLN versus the EUR in 2017, whereas a depreciation of the PLN versus the EUR was recorded in 2016.

Finance costs

Finance costs amounted to PLN 509.0 million in 2017 and decreased by PLN 57.1 million, or 10.1%, from PLN 566.1 million in 2016. This decrease was caused, among other factors, by lower interest costs on bank loans and bonds as a consequence of our consistent deleveraging policy: in 2017 we prematurely redeemed the Litenite Notes, whereas 2016 we prematurely redeemed the PLK Senior Notes and repaid bank loans and bonds of the then Midas Group (currently Aero2 Group). Concurrently, we emphasize that the dynamics of finance costs was affected by one-off events related to debt repayment. In 2017 this item comprised a one-off cost in the amount of ca. PLN 58.7 million related to the payment of a premium for the early redemption of the Litenite Notes executed on April 26, 2017, while in 2016 the early redemption of the PLN Senior Notes was associated with foreign currency valuation of these notes, as well as the valuation and realization of forward contracts hedging the repayment of the principal of the notes.

Income tax

In 2017 the recognized cost related to income tax amounted to PLN 389.8 million and was higher by PLN 377.4 million compared to 2016, when the cost related to income tax was recognized in the amount of PLN 12.4 million. In 2016, the one-off recognition of an asset related to deferred income tax relating to transactions that are subject to elimination during the process of consolidation had a positive effect on the consolidated net profit of Polsat Group in the amount of PLN 104.0 million. In 2017, this item was under the negative, one-off influence of a change in the balance of deferred income tax liabilities, resulting from enacted limitations on tax-deductible expenses in the following years but relating to assets recognized in the consolidated balance sheet as at December 31, 2017. The above change decreased the consolidated net profit of Polsat Group for 2017 by PLN 144.0 million.

Net profit

As a consequence of the changes described above, net profit decreased by PLN 75.8 million, or 7.4%, to PLN 945.2 million in 2017 from PLN 1,021.0 million in 2016.

EBITDA & EBITDA margin

EBITDA decreased by PLN 23.8 million, or 0.7%, to PLN 3,617.0 million in 2017 from PLN 3,640.8 million in 2016. In 2017, EBITDA dynamics was driven primarily by two factors: on the one hand by the strong adverse effect of the *Roam Like at Home* regulation, which resulted in a decrease in the margin on provided international roaming services by ca. PLN 98.0 million YoY in the second half of 2017, and on the other hand by a high base effect in the comparative period associated with a positive one-off event, that was the UEFA EURO 2016 tournament.

EBITDA margin amounted to 36.8% in 2017 and decreased by 0.6 p.p. compared to 37.4% in 2016.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4.802 full-time equivalents (FTE) in 2017 and decreased by 208 FTE, or 4.2%, compared to 5,010 FTE in 2016.

4.6.2. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

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

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the twelve months ended December 31, 2017:

the year ended December 31, 2017	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,562.5	1,266.1	-	9,828.6
Inter-segment revenues	42.5	167.7	(210.2)	-
Revenues	**8,605.0**	**1,433.8**	**(210.2)**	**9,828.6**
EBITDA (unaudited)	**3,112.5**	**504.5**	**-**	**3,617.0**
Depreciation, amortization, impairment and liquidation	1,746.3	36.7	-	1,783.0
Profit from operating activities	**1,366.2**	**467.8**	**-**	**1,834.0**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	852.8*	25.1	-	877.9
Balance as at December 31, 2017				
Assets, including:	23,191.6	4,621.5**	(57.1)	27,756.0
Investments in joint ventures	-	5.9	-	5.9

* This item also includes the acquisition of reception equipment for operating lease purposes.
** Includes non-current assets located outside of Poland in the amount of PLN 12.1 million.

All material revenues are generated in Poland.

It should be noted that the year ended December 31, 2017 is not comparable to the year ended December 31, 2016 as Litenite Ltd. was acquired on February 29, 2016 (allocated to the Services to individual and business customers segment), IT Polpager S.A. was acquired on September 30, 2016 (allocated to the Services to individual and business customers segment), LTE Holdings Limited was disposed on June 19, 2017 (allocated to the Services to individual and business customers segment), 51% shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) were acquired on September 7, 2017 (allocated to the Services to individual and business customers segment), Eska TV S.A. and Lemon Records Sp. z o.o. were acquired on December 4, 2017 (allocated to the Broadcasting and television production), 34.02% shares in TV Spektrum Sp. z o.o. were acquired on December 4, 2017 (allocated to the Broadcasting and television production), 31.76% shares in Netia S.A. were acquired on December 5, 2017 (allocated to the Services to individual and business customers segment) and shares in New Media Ventures Sp. z o.o. were disposed on December 8, 2017 (allocated to the Services to individual and business customers segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the twelve months ended December 31, 2016:

the year ended December 31, 2016	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,440.4	1,289.4	-	9,729.8
Inter-segment revenues	35.4	194.6	(230.0)	-
Revenues	**8,475.8**	**1,484.0**	**(230.0)**	**9,729.8**
EBITDA (unaudited)	**3,077.4**	**563.4**	**-**	**3,640.8**
Depreciation, amortization, impairment and liquidation	1,929.6	41.9	-	1,971.5
Profit from operating activities	**1,147.8**	**521.5**	**-**	**1,669.3**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	717.2*	27.7	-	744.9
Balance as at December 31, 2016				
Assets, including:	23,324.5	4,459.9**	(55.1)	**27,729.3**
Investments in joint ventures	-	5.9	-	5.9

* This item also includes the acquisition of reception equipment for operating lease purposes.
** Includes non-current assets located outside of Poland in the amount of PLN 14.5 million.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the 12 months ended	
	December 31, 2017	December 31, 2016
EBITDA (unaudited)	**3,617.0**	**3,640.8**
Depreciation, amortization, impairment and liquidation	(1,783.0)	(1,971.5)
Profit from operating activities	1,834.0	**1,669.3**
Other foreign exchange rate differences, net	49.6	(63.5)
Share of the profit of associates accounted for using the equity method	2.8	-
Interest costs, net	(415.7)	(495.8)
Early redemption costs	(58.7)	-
Valuation and realization of derivatives not used in hedge accounting – relating to principal	-	203.8
Foreign exchange differences on issued bonds	-	(244.8)
Other	(77.0)	(35.6)
Gross profit for the period	**1,335.0**	**1,033.4**
Income tax	(389.8)	(12.4)
Net profit for the period	**945.2**	**1,021.0**

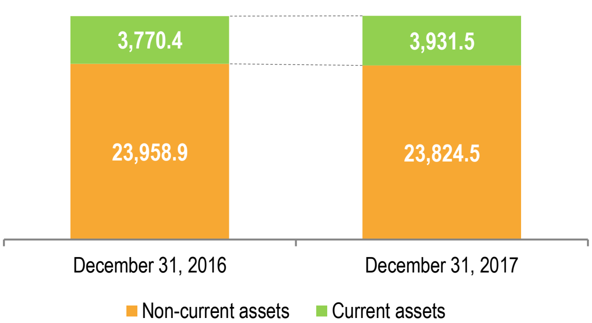
4.6.3. Balance sheet analysis

As at December 31, 2017 our balance sheet amounted to PLN 27,756.0 million and increased by PLN 26.7 million, or 0.1%, from PLN 27,729.3 million as at December 31, 2016.

Assets

[mPLN]	December 31, 2017	December 31, 2016	Change	
			[mPLN]	[%]
Reception equipment	325,3	350.9	(25.6)	(7.3%)
Other property, plant and equipment	2.867,1	2,964.3	(97.2)	(3.3%)
Goodwill	11.041,7	10,975.4	66.3	0.6%
Customer relationships	2.557,3	3,031.2	(473.9)	(15.6%)
Brands	2,037.1	2,056.5	(19.4)	(0.9%)
Other intangible assets	3,261.5	3,656.2	(394.7)	(10.8%)
Non-current programming assets	170.1	151.8	18.3	12.1%
Investment property	5.1	5.1	-	-
Non-current deferred distribution fees	91.4	82.8	8.6	10.4%
Other non-current assets, includes:	1,270.7	452.0	818.7	181.1%
shares in associates accounted for using the equity method	*665.2*	-	*665.2*	*(100.0%)*
derivative instruments	*1.9*	*9.5*	*(7.6)*	*(80.0%)*
Deferred tax assets	197.2	232.7	(35.5)	(15.3%)
Total non-current assets	**23,824.5**	**23,958.9**	**(134.4)**	**(0.6%)**
Current programming assets	251.7	192.0	59.7	31.1%
Inventories	283.7	278.7	5.0	1.8%
Trade and other receivables	1,983.2	1,688.0	295.2	17.5%
Income tax receivables	1.3	29.1	(27.8)	(95.5%)
Current deferred distribution fees	207.9	207.2	0.7	0.3%
Other current assets	31.7	38.7	(7.0)	(18.1%)
includes derivative instruments assets	*5.1*	*6.7*	*(1.6)*	*(23.9%)*
Cash and cash equivalents	1,161.5	1,326.0	(164.5)	(12.4%)
Restricted cash	10.5	10.7	(0.2)	(1.9%)
Total current assets	**3,931.5**	**3,770.4**	**161.1**	**4.3%**
Total assets	**27,756.0**	**27,729.3**	**26.7**	**0.1%**

Change in assets [mPLN]



As at December 31, 2017 and December 31, 2016, our non-current assets amounted to PLN 23,824.5 million and PLN 23,958.9 million, respectively, and accounted for 85.8% and 86.4% of total assets, respectively.

As at December 31, 2017 and December 31, 2016, our current assets amounted to PLN 3,931.5 million and PLN 3,770.4 million, respectively, and accounted for 14.2% and 13.6% of total assets, respectively.

The value of reception equipment amounted to PLN 325.3 million as at December 31, 2017 and decreased by PLN 25.6 million, or 7.3%, compared to PLN 350.9 million as at December 31, 2016.

The value of other property, plant and equipment decreased by PLN 97.2 million, or 3.3%, to PLN 2,867.1 million as at December 31, 2017 from PLN 2,964.3 million as at December 31, 2016, mainly due to the recognition of amortization of the technical infrastructure and telecommunications network equipment for 2017, which was partially compensated by capital spending on the roll-out of our telecommunications network and development of our IT systems.

The value of goodwill amounted to PLN 11,041.7 million as at December 31, 2017 and increased by PLN 66.3 million, or 0.6% from PLN 10,975.4 million as at December 31, 2016 as a result of the acquisition of 100% of shares in ESKA TV S.A. and Lemon Records Sp. z o.o.

The value of customer relationships decreased by PLN 473.9 million, or 15.6%, to PLN 2,557.3 million as at December 31, 2017 compared to PLN 3,031.2 million as at December 31, 2016, among others due to calculated amortization for 2017. We point out that the amortization period of certain intangible assets comprised in this item ended during 2017.

As at December 31, 2017, the value of brands was PLN 2,037.1 million, which constitutes a decrease by PLN 19.4 million, or 0.9%, compared to PLN 2,056.5 million as at December 31, 2016, among others due to recognition of the depreciation of the Plus trademark for the 12-month period ended December 31, 2017.

The value of other intangible assets amounted to PLN 3,261.5 million as at December 31, 2017 which constitutes a decrease by PLN 394.7 million, or 10.8%, compared to PLN 3,656.2 million as at December 31, 2016. The main reason behind this decrease is the recognition of depreciation of telecommunication licenses owned by the Group for the year 2017.

The value of non-current and current programming assets increased by PLN 78.0 million, or 22.7%, to PLN 421.8 million as at December 31, 2017, from PLN 343.8 million as at December 31, 2016. This increase was primarily the effect of the recognition of a higher value of sport rights and licenses, film licenses which is connected with the expansion of our programming offer.

Investment property amounted to PLN 5.1 million as at December 31, 2017 and remained at an unchanged level compared to the balance as at December 31, 2016.

The value of non-current and current deferred distribution fees increased by PLN 9.3 million , or 3.2%, to PLN 299.3 million as at December 31, 2017 from PLN 290.0 million as at December 31, 2016.

The value of other non-current assets amounted to PLN 1,270.7 million as at December 31, 2017 and increased by PLN 818.7 million, or 181.1%, compared to PLN 452.0 million as at December 31, 2016 as a result of the acquisition of ca. 32% of shares in Netia on December 5, 2017 and an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 197.2 million as at December 31, 2017, which constitutes a decrease by PLN 35.5 million, or 15.3%, compared to PLN 232.7 million as at December 31, 2016.

The value of inventories amounted to PLN 283.7 million as at December 31, 2017 and remained at a stable level compared to PLN 278.7 million as at December 31, 2016.

The value of trade and other receivables increased by PLN 295.2 million, or 17.5%, to PLN 1,983.2 million as at December 31, 2017 from PLN 1,688.0 million as at December 31, 2016, primarily due to higher receivables from installment plan sales of equipment to residential customers.

The value of income tax receivables amounted to PLN 1.3 million as at December 31, 2017 and decreased by PLN 27.8 million, or 95.5%, from PLN 29.1 million as at December 31, 2016.

The value of other current assets amounted to PLN 31.7 million as at December 31, 2017, which constitutes a decrease by PLN 7.0 million, or 18.1%, compared to PLN 38.7 million as at December 31, 2016, mainly as a result of a decrease in the value of prepayments and accruals.

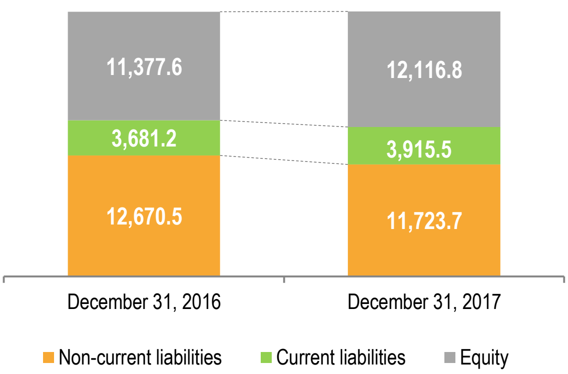
The value of cash and cash equivalents and restricted cash decreased by PLN 164.7 million, or 12.3%, to PLN 1,172.0 million as at December 31, 2017 from PLN 1,336.7 million as at December 31, 2016, i.a. as a result of successive repayments of our indebtedness, the payment of dividend from profit generated in 2016 and the financing to a significant extent of executed acquisitions from own cash resources of the Group.

Equity and liabilities

[mPLN]	December 31, 2017	December 31, 2016	change	
			[mPLN]	[%]
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Other reserves	3.2	4.5	(1.3)	(28.9%)
Retained earnings	4,871.4	4,095.5	775.9	18.9%
Equity attributable to equity holders of the Parent	**12,074.2**	**11,299.6**	**774.6**	**6.9%**
Non-controlling interests	42.6	78.0	(35.4)	(45.4%)
Total equity	**12,116.8**	**11,377.6**	**739.2**	**6.5%**
Loans and borrowings	9,291.4	9,302.7	(11.3)	(0.1%)
Issued bonds	975.7	1,835.7	(860.0)	(46.8%)
Finance lease liabilities	18.6	20.9	(2.3)	(11.0%)
UMTS license liabilities	440.8	574.0	(133.2)	(23.2%)
Deferred tax liabilities	879.8	786.9	92.9	11.8%
Deferred income	3.2	20.1	(16.9)	(84.1%)
Other non-current liabilities and provisions	114.2	130.2	(16.0)	(12.3%)
Total non-current liabilities	**11,723.7**	**12,670.5**	**(946.8)**	**(7.5%)**
Loans and borrowings	1,341.9	1,270.0	71.9	5.7%
Issued bonds	42.5	42.4	0.1	0.2%
Finance lease liabilities	9.7	5.0	4.7	94.0%
UMTS license liabilities	114.5	121.5	(7.0)	(5.8%)
Trade and other payables	1,727.3	1,569.5	157.8	10.1%
includes derivative instruments liabilities	*3.6*	-	*3.6*	*n/a*
Income tax liability	61.3	24.9	36.4	146.2%
Deferred income	618.3	647.9	(29.6)	(4.6%)
Total current liabilities	**3,915.5**	**3,681.2**	**234.3**	**6.4%**
Total liabilities	**15,639.2**	**16,351.7**	**(712.5)**	**(4.4%)**
Total equity and liabilities	**27,756.0**	**27,729.3**	**26.7**	**0.1%**

Equity increased by PLN 739.2 million, or by 6.5%, to PLN 12,116.8 million as at December 31, 2017 from PLN 11,377.6 million as at December 31, 2016, primarily as a result of the recognition of profit generated in the twelve-month period ended December 31, 2017 in the amount of PLN 945.2 million reduced by the value of dividend distributed in the third quarter of 2017 in the amount of PLN 204.7 million.

Change in liabilities [mPLN]



As at December 31, 2017 and December 31, 2016 the value of our non-current liabilities amounted to PLN 11,723.7 million and PLN 12,670.5 million, which constituted 75.0% and 77.5% of the Group's total liabilities, respectively.

As at December 31, 2017 and December 31, 2016 the value of our current liabilities amounted to PLN 3,915.5 million and PLN 3,681.2 million, which constituted 25.0% and 22.5% of the Group's total liabilities, respectively.

Loans and borrowings (long and short-term) increased by PLN 60.6 million, or 0.6%, to PLN 10,633.3 million as at December 31, 2017 from PLN 10,572.7 million as at December 31, 2016, which was the net effect of drawing

PLN 1.0 billion (net, accounting for repayments) under the Revolving Facility Loan and repayment of the capital of the Combined SFA according to schedule in the total amount of PLN 962.5 million in 2017.

Senior Notes liabilities (long and short-term) decreased by PLN 859.9 million or by 45.8%, to PLN 1,018.2 million as at December 31, 2017 from PLN 1,878.1 million as at December 31, 2016 following the early redemption of the Litenite Notes on April 26, 2017.

Finance lease liabilities (long- and short-term) amounted to PLN 28.3 million as at December 31, 2017 and remained at a similar level compared to PLN 25.9 million as at December 31, 2016.

UMTS license liabilities (long- and short-term) decreased by PLN 140.2 million, or 20.2%, to PLN 555.3 million as at December 31, 2017 from PLN 695.5 million as at December 31, 2016, due to the subsequent payment for the UMTS license executed in September 2017.

Deferred income tax liabilities increased by PLN 92.9 million, or 11.8%, to PLN 879.8 million as at December 31, 2017 from PLN 786.9 million as at December 31, 2016, which was connected among others with changes in legislation on corporate income tax, applicable from January 1, 2018 consisting, among others, in the introduction of limitations on tax-deductible expenses in the following years.

Non-current and current deferred income amounted to PLN 621.5 million as at December 31, 2017, and decreased by PLN 46.5 million, or 7.0%, from PLN 668.0 million as at December 31, 2016, due, among other things, to the recognition of lower deferred income in the area of prepaid services, which is related to the shrinking of the market following the entry into force of the provisions of the Anti-terrorist Act of July 10, 2016, enforcing mandatory registration of prepaid SIM cards.

The value of other non-current liabilities and provisions amounted to PLN 114.2 million as at December 31, 2017 and decreased by PLN 16.0 million, or 12.3%, compared to PLN 130.2 million as at December 31, 2016.

The value of trade and other payables amounted to PLN 1,727.3 million as at December 31, 2017 which constitutes an increase by PLN 157.8 million, or 10.1%, compared to PLN 1,569.5 million as at December 31, 2016. This increase was driven, among other factors, by a higher balance of trade.

Income tax liabilities amounted to PLN 61.3 million as at December 31, 2017 and increased by PLN 36.4 million, or 146.2%, from PLN 24.9 million as at December 31, 2016.

4.6.4. Group cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the twelve month periods ended December 31, 2017 and December 31, 2016.

[mPLN]	for 12 months ended December 31		change	
	2017	2016(1)	[mPLN]	[%]
Net profit	945.2	1,021.0	(75.8)	(7.4%)
Net cash from operating activities	2,941.4	2,884.7	56.7	2.0%
Net cash used in investing activities	(1,573.3)	(1,003.4)	(569.9)	56.8%
Capital expenditures	*(739.1)*	*(590.4)*	*(148.7)*	*25.2%*
Net cash used in financing activities	(1,527.7)	(2,070.8)	543.1	(26.2%)
Cash and cash equivalents at the beginning of the period	1,336.7	1,523.7	(187.0)	(12.3%)
Cash and cash equivalents at the end of the period	1,172.0	1,336.7	(164.7)	(12.3%)

(1) Consolidation of the results of Aero2 Group (formerly Midas Group) from February 29, 2016.

Net cash from operating activities

Net cash from operating activities amounted to PLN 2,941.4 million in 2017 and increased by PLN 56.7 million, or 2.0%, from PLN 2,884.7 million in 2016.

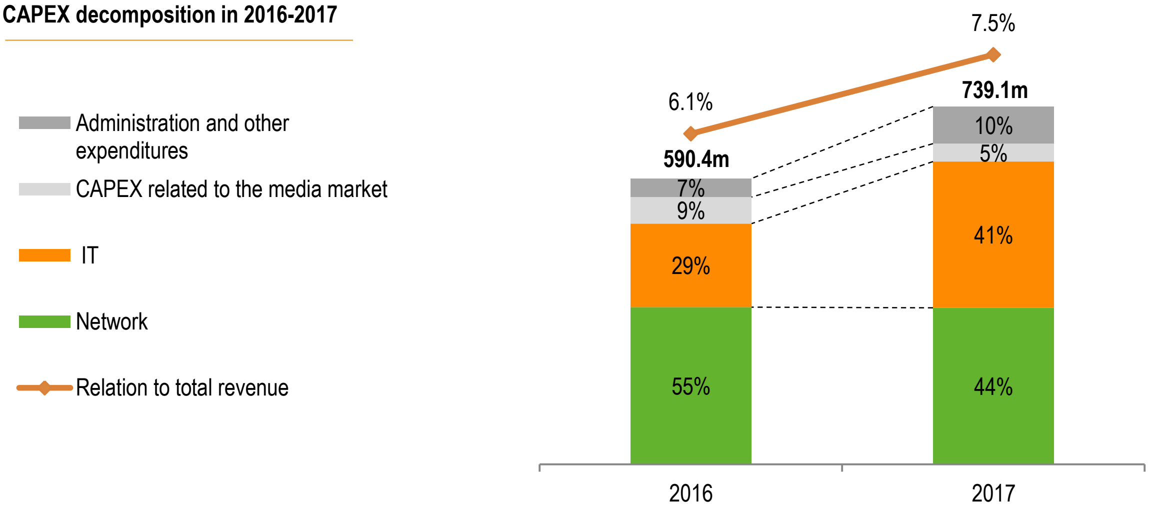
A higher stream of cash from operating activities generated in 2017 as compared to 2016 resulted from a positive change in the level of liabilities, provisions and deferred income, lower expenditures on reception equipment provided under operating lease and a lower level of income tax paid while the level of EBITDA was slightly lower than in the comparative period. Concurrently, in 2017 Polsat Group continued to record a significant, in terms of scale, level of working capital engaged in the financing of sales of end-user equipment in the installment plan model, which was related to very high popularity of this form of sales among our customers, as well as increasing demand for more advanced and consequently more expensive devices.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 1,573.3 million in 2017 which constitutes an increase by PLN 569.9 million, or 56.8%, from PLN 1,003.4 million in 2016. One-off factors behind the increase in the balance of cash used in investing activities in 2017 included expenditures on the acquisition of a minority stake in Netia in the amount of PLN 638.7 million, the acquisition of shares in ESKA TV S.A., Lemon Records Sp. z o.o., and TV Spektrum Sp. z o.o., while in the comparative period the balance of cash used in investing activities was primarily influenced by the acquisition of Litenite and payments for the reservation of the 2600 MHz frequency.

Moreover, the level of net cash used in investing activities was influenced by capital expenditures on the purchase of property, plant and equipment and intangible assets, which amounted to PLN 739.1 million in 2017 and were by PLN 148.7 million, or 25.2% higher compared to PLN 590.4 million expended in 2016. The table below presents a decomposition of the Group's capex expenditures in 2016 and 2017.

CAPEX decomposition in 2016-2017



In 2017, Polsat Group invested chiefly in further roll-out of its telecommunication network (44% of CAPEX) and in the development and modernization of its IT systems (41% of CAPEX). Expenditures related to operations on the media market, which include capital expenditures in both the broadcasting and TV production segment and the pay TV business, constituted ca. 5% of total CAPEX of the Group.

The most significant investments in 2017 included among others, the continuation of the roll-out of our access network based primarily on the 1800 and 2600 MHz bands, the development of network capacity in LTE and LTE-Advanced technologies, expenditures related to the preparation for the process of refarming the 900 MHz band, the development of microwave links and transmission nodes, the development of functionalities of the telecommunications network (including the propagation of the HD Voice service), as well as expenditures related to the ongoing project of a comprehensive upgrade and exchange of the IT environment within the Group. At the same time we also invested in the expansion of areas used for television production, the exchange of equipment used to execute TV recordings and in servers used to develop the IPLA service. In 2017, we also successively exchanged the interior design of our points of sales.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 1,527.7 million in 2017, which constitutes a decrease by PLN 543.1 million, or 26.2%, compared to PLN 2,070.8 million in 2016.

The amount of cash used in financing activities in 2017 was affected primarily by current repayments according to schedule and servicing of the Combined SFA, the payment of coupons on the Series A Notes, the drawing of PLN 1.0 billion (net, including repayments) under the Revolving Facility Loan, the early redemption of the Litenite Notes and the associated premium, as well as the payment of dividend to shareholders from profit generated in 2016. The amount of cash used in financing activities in 2016 was affected primarily by the refinancing of the PLK Senior Notes and the associated premium paid for early redemption, as well as the repayment of bank loans and bonds issued by the company Midas (currently Aero2).

4.6.5. Liquidity and capital resources

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

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

The table below presents a summary of the indebtedness of the Group as at December 31, 2017.

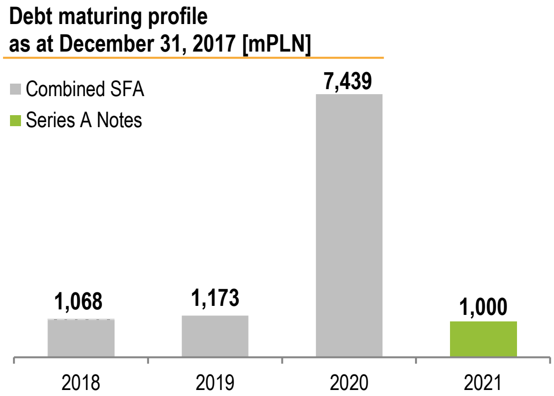
	Balance value as at December 31, 2017 [mPLN]	Coupon / interest	Maturity date
Combined SFA, incl.	10,633.3	WIBOR + margin	2022[1]
Revolving Facility Loan	*1,000.0*	*WIBOR + margin*	
Series A Notes	1,018.2	WIBOR + 2.5%	2021
Leasing and other	28.3	-	-
Gross debt	**11,679.8**	-	-
Cash and cash equivalents[2]	(1,172.0)	-	-
Net debt	**10,507.8**	-	-
EBITDA LTM	3,617.0	-	-
Total net debt / EBITDA LTM	**2.91**	**-**	**-**
Weighted average interest cost[3]	3.3%	-	-

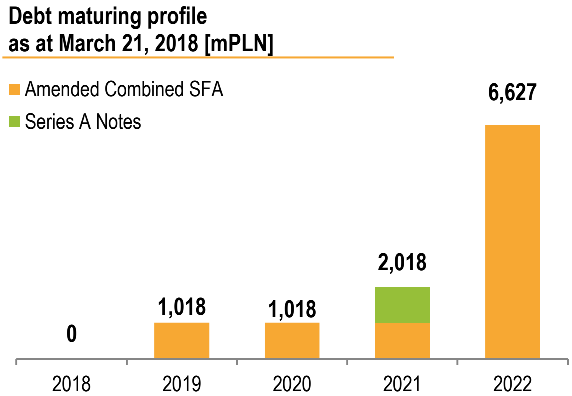
1) Accounting for the provisions of the second amendment and restatement deed to the Combined SFA dates March 2, 2018.
2) This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.
3) Prospective average weighted interest cost of the Combined SFA (including the Revolving Facility Loan) and the Series A Notes, excluding hedging instruments, as at December 31, 2017 assuming WIBOR 1M of 1.65% and WIBOR 6M of 1.81%.

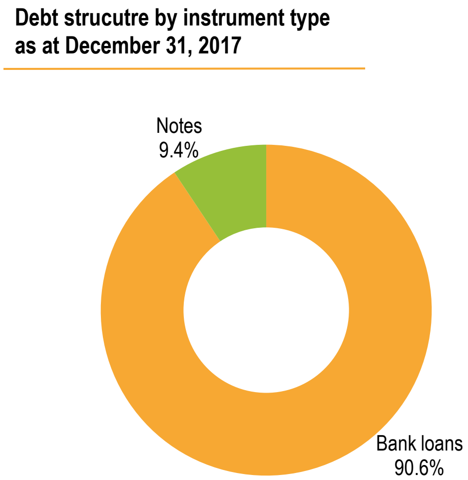
As at December 31, 2017 the total sum used under the Revolving Facility Loan amounted to PLN 1.0 billion. On February 8, 2018 the Group repaid part of the debt under the Revolving Facility Loan in the amount of PLN 400.0 million.

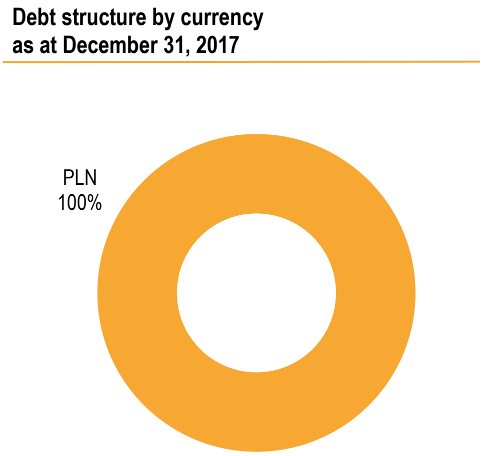
As a result of the conclusion on March 2, 2018 of the second amendment and restatement deed to the Combined SFA, the termination date of the Term Loan and consequently the repayment schedule have changed. The extended repayment schedule resulted, i.a. in the freezing of repayments of capital installments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

The graphs below present the aging balance of the Group's debt (expressed in nominal values and excluding the indebtedness under the revolving facility loans and leasing) as at December 31, 2017 and the date of approval of this Report, i.e. March 21, 2018, as well as its structure according to instrument type and currency as at December 31, 2017.









In order to reduce exposure to interest rate risk related to interest payments on the Combined SFA and amended Combined SFA based on a floating rate, we actively apply hedging strategies based on derivative instruments, interest rate swaps (IRS) in particular. As at December 31, 2017 transactions hedging the WIBOR interest rate changes, opened by companies from the Group, amounted to a maximum of PLN 3,875.0 million with maturity falling in different period in the 2018-2019. Additionally, companies from the Group concluded two transactions for the total amount of PLN 500.0 million beginning in September 2018 and terminating in March 2020.

Material financing agreements executed by the Group

Presented below is information on significant agreements executed by the Company and the Group companies, which remain in force as at the date of publication of this Report, as well as a brief description of those agreements, which have expired during 2017 due to the repayment of debt granted on their basis.

Combined Senior Facilities Agreement

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

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

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

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

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

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

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

The Term Facility and the Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the Term Facility and the Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin, with the maximum margin level applicable when the net consolidated indebtedness to consolidated EBITDA ratio exceeds 3.50:1, and the minimum margin level applicable when that ratio is no higher than 1.50:1, whereby the value of consolidated net debt used in the calculation of this ratio, pursuant to the definition set out in the Combined SFA, does not include debt instruments under which capital is repaid not sooner than 6 months after the term of repayment of the Term Facility and Revolving Facility and interest is not paid in cash on a current basis. Pursuant to the provisions of the amended SFA the final repayment date for the Term Facility and the Revolving Facility is September 30, 2022. The Term Facility is being repaid in quarterly installments of variable value according to an established schedule.

Pursuant to the Combined SFA the Company and its Group companies establish, in specified cases, certain collaterals for the credit facilities granted thereunder. In particular, these collaterals include registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of the Company and its selected subsidiaries, registered and financial pledges on shares in the Company's subsidiaries, registered and financial pledges on receivables related to bank accounts kept for the Company or its selected subsidiaries, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares or assets of the Company's subsidiaries, to be governed by foreign laws. A detailed description of established securities is presented in item 4.6.6. of this Report – *Operating and financial review of Polsat Group – Review of our financial situation - Information on guarantees granted by the Company or subsidiaries.*

Pursuant to the provisions of the Combined SFA when the net consolidated indebtedness to consolidated EBITDA ratio falls to or below 3.00:1, the Company will have a right to demand that the collaterals for the Combined Senior Facilities Agreement be released (save for guarantees granted on the basis of the Combined SFA). However, such released collateral will need to be re-established if the net consolidated indebtedness to consolidated EBITDA ratio again rises above 3.00:1. Additionally, if certain members of the Company's Group incur secured indebtedness, a pari passu collateral will need to be established in favor of the Security Agent (acting for, among others, the lenders under the Combined Senior Facilities Agreement).

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

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

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

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

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

The CP SFA, PLK SFA and the Amendment and Restatement Deed of September 21, 2015 provided for typical conditions precedent for the disbursement of the contemplated facilities and certain conditions subsequent for the disbursement of the contemplated facilities, also typical for this kind of transactions.

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, 2017 and July 21, 2018, the premium shall be equal to 1% of the nominal value of the Bonds subject to the early redemption;

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

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

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

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

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

Litenite Notes

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

On April 26, 2017 Litenite executed the early redemption of the Litenite Notes according to the value determined in the terms of issuance of the Litenite Notes at the total level of PLN 886,703,685.12 increased by a premium for early redemption in the amount of PLN 58,658,296.32.

Contractual obligations

Contractual commitments to purchase programming assets

As at December 31, 2017 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	December 31, 2017	December 31, 2016
within one year	229.6	139.4
between 1 to 5 years	541.7	83.3
more than 5 years	15.0	20.0
Total	**786.3**	**242.7**

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

[mPLN]	December 31, 2017	December 31, 2016
within one year	0.2	14.6
Total	**0.2**	**14.6**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 110.4 million as at December 31, 2017 (PLN 118.3 million as at December 31, 2016). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at December 31, 2017 was PLN 272.5 million (PLN 115.3 million as at December 31, 2016).

Ratings

The table below presents a summary of ratings assigned to Polsat Group in 2017.

Rating agency	Rating / perspective	Previous rating / perspective	Update
S&P Global Ratings	BB+ / positive	BB+ / stable	18.04.2017
Moody's Investor Service	Ba2 / positive	Ba2 / stable	08.08.2017
S&P Global Ratings	BB+ / stable	BB+ / positive	20.12.2017

On April 18, 2017 S&P Global Ratings (formerly Standard&Poor's Rating Services) ("S&P") revised the rating outlook for Polsat Group to positive from stable, affirming the BB+ corporate credit rating.

In its justification S&P stated that the upward revision of the rating outlook reflects in particular the Group's resilient performance and solid deleveraging capacity in 2017-2018, which has been demonstrated by the early redemption of the Litenite Notes on April 26, 2017.

On December 20, 2017, S&P affirmed the Group's rating at BB+ revising the outlook to stable from positive. In the rationale behind the decision S&P stated that the outlook revision was primarily influenced by the acquisitions announced by the Company on December 4, 2017, that is the acquisition of a ca. 32% stake in Netia and the intention to increase this stake to no more than 66%, and the acquisition of several television channels from ZPR Media Group. In the opinion of S&P, expenditures related to the above acquisitions will translate into a slower than previously anticipated by S&P pace of deleveraging, as they will be financed partially from own resources and partially from bank loans. The stable outlook reflects S&P's expectation that the net debt to EBITDA ratio will remain at 3.0-3.5x (applying S&P's calculation method) in 2017-2018 and decrease gradually thereafter. Concurrently, S&P assumes that the integration with Netia will be smooth and will generate synergies expected by the Group.

On August 8, 2017 Moody's Investors Service ("Moody's") revised the rating outlook for Cyfrowy Polsat Group to positive from stable, concurrently affirming the Ba2 corporate family rating.

In its justification Moody's stated that the upward revision of the rating outlook reflects in particular the Group's improved leverage metrics and strong cash flows, thanks to which the Group proactively reduced its indebtedness over the past year. The positive outlook reflects Moody's expectations with respect to further deleveraging and consistent improvement of indebtedness ratios over the next two years and it assumes that the Group will not implement significant changes to its dividend and leverage policies.

4.6.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

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

(i) registered pledges over variable collections of movable property and rights comprised in the enterprises of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy Spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Plus TM Management Sp. z o.o., Aero2, PL 2014 Sp. z o.o. and Plus Flota Sp. z o.o., governed by Polish law;

(ii) financial and registered pledges on shares in 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), Plus TM Management Sp. z o.o. (with a total nominal value of PLN 2,106,000), Aero2 (with a total nominal value of PLN 91,958,700) and PL 2014 Sp. z o.o. (with a total nominal value of PLN 29,494,600), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;

(iii) financial and registered pledges on shares in Netia S.A. (with a total nominal value of PLN 110,702,441), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company; the pledged shares represent 31.76% of the share capital of the company;

(iv) financial and registered pledges on shares in TV Spektrum Sp. z o.o. (with a total nominal value of PLN 4,850,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said company; the pledged shares represent 49.48% of the share capital of the company;

(v) financial and registered pledges on 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, Plus TM Management Sp. z o.o., Aero2 and PL 2014 Sp. z o.o., governed by Polish law;

(vi) 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, 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., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., Aero2, PL 2014 Sp. z o.o. and Plus Flota Sp. z o.o., governed by Polish law;

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

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

(ix) 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;

(x) 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;

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

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

(xiii) 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;

(xiv) 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;

(xv) pledge on shares in Litenite (with the total nominal value of EUR 1,800), governed by Cypriot law;

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

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

(xviii) pledge on bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by Cypriot law;

(xix) assignment for security of receivables and rights to and in bank accounts taken over by Cyfrowy Polsat following the merger with Metelem, governed by the Swiss law;

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

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

(xxii) statements of the Company, 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., Aero2 and PL 2014 Sp. z o.o. on the submission to enforcement on the basis of a notarial deed, governed by Polish law; and

(xxiii) statements of Litenite and Eileme 4 (the legal successor of which is Eileme 1) 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 2017 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 42 of the consolidated financial statements for the financial year ended December 31, 2017.

5.2. Information on loans granted

Information on loans granted is presented in Note 38 of the consolidated financial statements for the financial year ended December 31, 2017.

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

Cyfrowy Polsat Group did not publish any financial forecasts for 2017.

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, 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer (UOKiK)

On February 24, 2011 the President of UOKiK imposed a penalty on Polkomtel in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court (SOKiK). According to the management of the company, during the inspection the Company had fully and at all times cooperated with UOKiK within the scope provided by the law. On June 18, 2014 the decision of the President of UOKiK was changed by SOKiK, reducing the penalty to PLN 4 million (i.e. EUR 1 million). On October 20, 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. On April 28, 2017 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 1.3 million. Polkomtel and President of UOKiK appealed against the verdict.

On November 23, 2011, Polkomtel received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5 million. In the Management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the President of UOKiK regarding the penalty. Following SOKiK's verdict dated June 19, 2015 the penalty has been revoked in full. On March 15, 2017 the President of UOKiK's appeal has been rejected by the Court. The verdict is binding. The President of UOKiK filed for cassation against the verdict.

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

On December 23, 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8 million. The company appealed to SOKiK against the decision. On October 24, 2017 the appeal has been rejected by SOKiK. The company appealed against the SOKiK verdict.

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

On December 30, 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel 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 and Polkomtel were charged with a penalty in the amount of PLN 5.3 million and PLN 18.4 million, respectively. The Group appealed to SOKiK against the decision.

On December 30, 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel 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 and Polkomtel was charged with a penalty in the amount of PLN 4.4 million and PLN 12.3 million, respectively. The Group appealed to SOKiK against the decision.

Other proceedings

On December 15, 2014 Polkomtel received a claim from Orange for the total amount of PLN 21.0 million related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On January 13, 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0 million. On April 20, 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0 million. On 12 May 2017 Polkomtel made a payment in the amount of PLN 9.0 million. Polkomtel filed cassation appeal. In management's opinion the claim is groundless.

In September 2015, Polkomtel received a claim from P4, in which the company demands compensation of PLN 316.0 million (including interest of PLN 85.0 million), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Poland, Polkomtel and T-Mobile Poland. The Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4. In the Management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 indicates neither nature (premises liability) nor the amount.

On April 28, 2017, ZASP (Polish Actors Association) filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3 million. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On January 10, 2018, the Court issued a decision to refer the case to mediation proceedings.

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

5.5. Changes to the principle rules of management of our Company and the Capital Group

There were no changes to the principle rules of management of our Company and the Capital Group in the year 2017.

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

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

5.7. Trade unions

Two trade unions are active at Polkomtel Group: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). At December 31, 2017, 122 employees (expressed as full-time equivalents), or 3.5% of the total workforce of Polkomtel Group, were trade union members. At the date of preparation of this Report, we are not involved in, or aware of, any dispute with trade unions or any form of collective bargaining.

5.8. Disclosure of non-financial information

On March 22, 2018, the Company published, as a separate document, the "Social Report of Cyfrowy Polsat Group for 2017", which comprehensively addresses key non-financial issues for both the Group and Cyfrowy Polsat, and demonstrates how we aim to achieve our goals in a sustainable and responsible manner. The publication complies with the Global Initiative Reporting Standard, in the Core option, as well as the amended Accounting Act and contains detailed information relating to environmental matters, social and employee-related matters, respect for human rights, anti-corruption and bribery matters with respect to both Polsat Group and Cyfrowy Polsat as the dominant entity of the Group.

The "Report of Cyfrowy Polsat S.A. Capital Group and the company Cyfrowy Polsat S.A. on non-financial information for the years 2016-2017" is available on Polsat Group's corporate website at http://www.grupapolsat.pl/en/investor-relations in the tab Results centre/Non-financial reports.

6. KEY RISK AND THREAT FACTORS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We operate an organised and specialised Poland-wide sales network, which distributes products and services offered by our Group. Because of growing competition with other pay TV providers and telecommunications services providers, as well as rapid increase in wages observed on the domestic labor market we might have to raise fees paid to our distributors in order to expand the sales and distribution network, and change the channels we are using to distribute our services. Any potential increase 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

Our ability to grow our customer base depends on our ability to provide high-quality, reliable services and products. In offering products and services, we rely on a number of third-party providers of network, services, equipment and content over whom we have no control.

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

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

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

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

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

If such third-party providers do not perform their contractual obligations towards us or do not adjust to changes in requirements of the Group's companies, or are unable or refuse to provide services or deliver infrastructure or equipment, on which the possiblity of timely and economically justified provision of certain serivces and products to our customers depends, our customers may experience service interruptions, which could adversely affect the perceived quality of our services and products, therefore, adversely impact the brand and reputation of the Group's companies, thus affecting our business, financial condition, results of operations or prospects.

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

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

Compression, signal encoding and customer management systems vital to the correct functioning of our satellite centre, software of set-top boxes manufactured by us, as well as other software and technologies used by us and our suppliers, must be constantly updated and replaced to match the latest technological developments. Our inability to replace obsolete technological solutions 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 any chosen time, without commercials and to a custom schedule. Such technologies are growing in popularity and are becoming easier to use, yet the resulting fragmentation of TV viewers may cause a general decline in TV advertising revenues.

It is expected certain communications technologies that are currently under development, including LTE-Advanced or 5G, as well as fibre optics technology allowing for faster data transmission at lower unit costs, to become increasingly important in the markets in which we operate. Technological developments may also shorten product life cycles and facilitate convergence of various segments in the telecommunications industry. We cannot currently predict how emerging and future technological changes will affect the Group's operations, nor can we predict whether new technologies required to support our 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 advanced, less costly or otherwise more attractive to customers than those provided by us, we may be required to rapidly deploy new technologies, products or services. The rapid evolution of technology in the markets in which we operate and the complexity of our information technology systems, as well as a number of other factors, including economic ones, may affect our ability to timely launch new technologies, products or services. We cannot guarantee that we will correctly predict the development of new technologies, products or/and the demand for products and, therefore, that we will at an appropriate moment engage appropriate amounts of capital and resources to develop the necessary technologies, products or services that will satisfy existing customers and attract new customers. If we fail to implement new technologies, products or services or implement such new technologies, products or services too late, it may render our technologies, products or services less profitable or less attractive than those offered by its competitors. In addition, new or enhanced technologies, services or products we introduce may fail to achieve sufficient market acceptance or experience technical difficulties. We may also be unable to recover the investments it has made or may make to deploy these technologies, services and products and therefore no assurance can be given that we will be able to do so in a cost efficient manner, which would also reduce our profitability. Moreover, we may not be able to obtain funding, in sufficient amounts on reasonable terms, in order to finance capital expenditures necessary to keep pace with technological developments and with the competitors.

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

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

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

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

We are exposed to the risk of fraudulent activities by customers

Given the nature of the telecommunications market stemming from the manner of making interconnect settlements related to the exchange of domestic and international telecommunications traffic, incurring wholesale costs realted to traffic generated by our customers when using telecommunications networks of foreign operators (roaming) and fees for sold premium services, some of our customers use telecommunications services in a way that differs from the standard method of their use by the end user, e.g. by terminating mass traffic in the network of another operator while bypassing wholesale interconnect settlements. This phenomenon may intensify in particular as a byproduct of the implementation of roaming regulations (Roam like at home). We prevent such behaviour by analysing any abnormal traffic patterns on individual SIM cards. If such traffic patterns are identified, the card can be immediately deactivated, in accordance with the service provision regulations. However, there can be no assurance that we will be sufficiently effective in preventing this type of fraud. If we do not identify a fraud or identifies a fraud with a delay, we may be exposed to additional costs or lose some revenue due to us, which can have a material adverse effect on our business, financial condition or growth prospects.

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

The good name of the “Cyfrowy Polsat,” “Plus,” “Telewizja Polsat,” “IPLA,” “TV4” and “TV6” brands is a significant component of Group's value. Maintaining their good name is fundamental for acquiring new and retaining existing customers and advertisers. Our reputation may suffer if we are unable to provide existing products and services or implement new products and services due to technical faults, a lack of necessary equipment, or other circumstances. Also, the quality of our products and services depends on the quality of third-party infrastructure and services, over which we have little control. If our partners fail to observe relevant performance standards or supply faulty products or services, the quality of our products and services, as well as our good name may suffer. There can be no assurance that these or other risks, which would compromise the good name of our most important 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, Polkomtel, and Aero2 (the legal successor of the company Midas), we have carried considerable amounts of goodwill and intangible assets, representing brand value, on our balance sheet. We test the goodwill and brand value allocated to our business segments for impairment on an annual basis, by measuring the recoverable amounts of cash-generating units, based on value in use. Any adverse changes to the key assumptions we apply in impairment testing may have a material adverse effect on our business, financial condition, results of operations.

We may lose our management staff and key employees

Our performance, as well as successful implementation of our strategy, depend on the experience of our management staff and the commitment of our key employees. Whether we are successful in the future will depend partly on our ability to retain the Management Board members who have made considerable contributions to the development of our company, as well as to acquire and retain qualified employees who will ensure effective operation of our business segments. In the television and telecommunication sectors, both in Poland and worldwide, there is strong competition for highly qualified employees. Therefore, no assurance can be given that in the future we will be able to acquire or retain Management Board members or qualified employees. Loss of our key managers or our inability to acquire, properly train, motivate and retain key employees 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 or lease set-top boxes at lower prices, we are currently producing most of the set-top boxes we offer to our customers at our manufacturing plant in Mielec. Set-top boxes manufactured by us accounted for a majority of all the set-top boxes leased by us. Should any batch of the set-top boxes we have manufactured prove defective and need to be withdrawn from the market, we are under the obligation to replace the set-top boxes we have made available to our customers. Furthermore, the withdrawal of reception equipment due to a confirmed epidemic defect could be harmful to our reputation.

Any problems with production of set-top boxes would force us to acquire larger numbers of set-top boxes from third-party suppliers. There can be no assurance that we will be able to purchase a sufficient number of set-top boxes from third-party suppliers when required. Furthermore, the cost of acquiring from third-party suppliers of the vast majority of set-top box models we offer would be much higher than the cost of manufacturing them at our own plant. If we were unable to obtain set-top boxes from third-party suppliers on satisfactory pricing terms, we might have to raise the prices for our customers to cover our increased expenses. Moreover, if the deliveries of set-top boxes we managed to procure were insufficient to meet the demand, our reputation among our current and potential customers would suffer. As our production of set-top boxes is based on components purchased from third-party contractors, there is a risk that we lose access to such components, for instance due to discontinuation of their production or changes in technologies or products. Losing access to certain components would force us to redesign our set-top boxes, which could affect continuity of their production and supplies to our customers.

Any difficulties in the production of most of our set-top boxes at our own production plant could lead to a loss of our current customers or adversely affect our ability to acquire new customers for our pay TV services. Any disruption to our set-top box production and subsequent necessity to procure more set-top boxes from third-party suppliers could adversely affect our reputation and lead to erosion of our brand value, which could have a material adverse effect on our business, financial condition, results of operations or prospects.

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

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

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

Part of the Group's network infrastructure is located on the premises of third parties. Disputes between these third parties and Group companies, failure of third parties to properly perform their contractual obligations, as well as a number of other factors and events may cause part of our network infrastructure to be inaccessible, which could adversely affect our ability to efficiently operate, maintain and upgrade its network infrastructure.

In addition, we could experience interruptions of our services due to, among other things, software bugs, computer virus attacks, or unauthorised access. Any interruptions in our ability to provide services could seriously harm our reputation and reduce customer confidence, which could materially impair our ability to attract and retain customers in both the retail and wholesale segments. Such interruptions could also result in an obligation to pay contractual penalties or cause our customers to terminate their agreements or the imposition of regulatory penalties due to violations of the terms of frequency allocation. They might also result in a need to incur significant expenditure to restore the functionality of the telecommunications network and guarantee reliable services to customers.

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

Such events may have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

Two trade unions are active at Polkomtel: Niezależny Samorządny Związek Zawodowy Solidarność (the Solidarity Independent Self-Governing Trade Union) and Ogólnopolskie Porozumienie Związków Zawodowych (All-Poland Alliance of Trade Unions). As at December 31, 2017, 122 employees (expressed as full-time equivalents), or ca. 3.5% of the total workforce of Polkomtel Group were trade union members. At the date of approval of this Report, we had no knowledge of any disputes with trade unions or any other collective disputes at Polkomtel. However, involvement in lengthy negotiations with the trade unions or in collective disputes cannot be ruled out; strikes, work interruptions or other industrial action (triggered, for example, by an attempt to optimise the employment level or labour costs or the need to restructure the workforce), as well as employees' pay rise demands may also be experienced. The occurrence of strikes, significant disputes with the trade unions active at Polkomtel or increase in employment costs may disrupt Polkomtel's operations, preventing it from timely or cost-effective provision of services to its customers, which can have a material adverse effect on our business, financial condition, results of operations and prospects.

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. We are in turn a party to administrative and court proceedings, including the ones which have been initiated by regulators, competition and consumer protection office, tax authorities as well as disputes and court proceedings involving third party entities.

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

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

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

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

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

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

Our broadcasting licences may be revoked or may not be renewed

Our business operations in the broadcasting and television production segment require that we obtain licences issued by the National Broadcasting Council (KRRiT). These licences may be revoked or may not be renewed. In our segment of services to individual and business customers, broadcasting of TV programmes by DTH service providers requires no licence, only registration by the Chairperson of KRRiT.

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

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

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

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

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

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

In particular, Group companies currently hold frequency allocations in the 800 MHz, 900 MHz, 1800 MHz, 2100 MHz and 2600 MHz bandwidths. These allocations are fundamental for the roll-out of our mobile telecommunications network. Our competitors have taken a number of steps, some of which may still lead to various consequences; among others in respect of rights of disposal of frequencies granted to companies belonging to Aero2 Group, including the 800 MHz and 1800 MHz band frequency allocations, which are currently integral to the offering of LTE services.

No assurance can be given that as a result of the pending proceedings or proceedings the instigation of which cannot be excluded, as events lying outside the control of beneficiaries of 1800 MHz spectrum reservation decisions, our reservation decisions could be contested, which could have a material effect on our ability to provide LTE services. Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile, Orange and Inquam Broadband GmbH. Supreme Administrative Court (NSA), in its ruling dated May 8, 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on September 23, 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that “the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA’s rulings and the Court’s guidelines regarding further procedure as well as upon analysis of the legal situation.” UKE also stated that the “reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies.” In correspondence dated December 23, 2016, the President of UKE informed the parties involved that proceedings to invalidate the tender for the 1800 MHz frequency band have been opened. The instigation of the abovementioned proceedings by UKE remains without direct effect on the final and legally binding character of the reservation decision, which constitutes the basis for Polsat Group to use capacity in the 1800 MHz spectrum. On August 4, 2017, the President of UKE issued a decision annulling the tender dated 2007. Polsat Group companies decided to exercise their rights and filed motions for reconsideration of the case. On January 31, 2018 the President of UKE issued a decision of second instance, upholding the decision of August 4, 2017, by which he annulled the

2007 tender. The decision of the President of UKE is subject to control by the court resulting from complaints, which authorized parties to the proceedings are entitle to file within 30 days of its reception. The issued decision does not affect reservation decisions issued in a procedure separate from the tender. In accordance with the press release published by the President of UKE, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions.

T-Mobile Polska, Orange Polska and P4, as well as the French Chamber of Commerce and Industry have undertaken a series of legal actions aimed at blocking the possibility of using frequencies from the 800 MHz spectrum by our subsidiary, Sferia. As at the date of preparation of this Report legal proceedings are in progress before the Regional Court in Warsaw and the Administrative Court in Warsaw. So far all the decisions of the courts have been favorable for Sferia, in particular the recent legally binding rulings of the Supreme Administrative Court issued on August 11, 2017 with respect to cases II GSK 3252/15 instigated by P4 and II GSK 3393/15 instigated by Orange. Nonetheless, until the legally binding termination of proceedings, it is not possible to exclude the possibility of an unfavorable, from the point of view of Sferia, modification of rulings in the currently ongoing proceedings, which may result in an unfavorable change of the reservation decision regarding the 800 MHz spectrum, or its withdrawal.

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

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

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

In May 2016 the European Union Council adopted a general approach regarding the draft decision on the development of broadband services in the European Union. In accordance with the proposal, access to the 700 MHz band (the so-called second digital dividend, i.e. the spectrum from 694-790 MHz frequency range) is to be provided to telecommunication operators for the purpose of wireless communications by 30 June 2020 at the latest. In justified cases it will be possible to postpone this deadline by two years. At the same time, TV broadcasters who will be forced to release the 694-790 MHz band as a result of the decision, and to use the 470-694 MHz band only, have been given the guarantee of maintaining the latter frequency band, i.e. 470-694 MHz, at least till the year 2030. As at the date of approval of this Report, details regarding the distribution of the 700 MHz spectrum in Poland remain unknown.

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

6.2. Risk factors associated with the Group's financial profile

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

Our Group uses large financial leverage. In the past, debt servicing and other cash requirements were financed with cash flows from operating activities and revolving credit facilities. Our debt servicing liabilities increased significantly following the acquisition of Telewizja Polsat, Polkomtel and Aero2 Group, and completion of the related financial transactions.

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

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

The Combined SFA and Series A Notes Indenture provide for a number of restrictions and obligations (including maintaining specified financial ratios), limiting the Group's ability to incur new debt for financing future operations or to pursue business opportunities and activities that may be in our interest.

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

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

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

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

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

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

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

6.3. Risks related to market environment and economic situation

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

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

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

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

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

The Polish mobile telecommunications industry is highly competitive

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

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

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

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

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

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

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

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

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

In 2017, ca. 82% of the revenue generated by our TV production and broadcasting segment came from sale of advertising time and sponsored time slots on our TV channels. The Polish advertising market sees television competing with other advertising media, such as the Internet, newspapers, magazines, radio, and outdoor advertising. There can be no guarantee that TV commercials will maintain their position on the Polish advertising market, or that changes in the regulatory regime will not favor other advertising media or other broadcasters. The growing competitive pressure among advertising media, driven by the increasing prominence of Internet advertising in Poland, significantly higher spending on thematic channels, and the development of new forms of advertising may have an adverse effect on advertising revenue generated by our TV production and broadcasting segment, and thus on our operations, financial condition, performance, and cash flows.

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

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

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

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

Following completion of the terrestrial television digital switchover process in Poland in July 2013, there are currently 27 TV channels broadcasted terrestrially. According to Nielsen Audience Measurement, in 2017 the audience shares of all DTT channels in the 16-49 age group reached 65.7% (compared to 67.2% in 2016). The aggregate audience share in this age group of the main four channels (POLSAT, TVN, TVP1 and TVP2) was 37.9% in 2017 compared to 40.6% in 2016. The aggregate audience share of the other DTT channels was 27.8 % in 2017 vs. 26.6% in 2016, which reflects the growing market fragmentation, to a large extent at the expense of the leading TV channels, including POLSAT. Our main competitors on the TV advertising markets are other broadcasters, such as TVN − a leading commercial broadcaster, and TVP − the broadcaster financed partly from public funds, which provides public service. Because TVP is the public broadcaster, it cannot interrupt programmes and films with commercial breaks. Any changes in this respect may contribute to the strengthening of TVP's competitive position, reducing our advertising revenue. Furthermore, we will be forced to compete with current and future market participants for terrestrial and satellite broadcasting licences in Poland. Such participants may include major broadcasters with greater resources and more recognisable brands. This is especially true in the case of foreign companies which may find the Polish TV market attractive for various reasons, including its current regulatory environment (which allows TV stations to broadcast more advertising during programmes and films than in other countries), as well as the increasing extent of other permitted advertising activities. And lastly, continued growth of cable TV, DTH and DDT providers in Poland may lead to further market and audience fragmentation, which may make advertisers reluctant to buy air-time on our channels. Losing customers and advertisers to our competitors may have a material adverse effect on our business, financial condition, results of operations or prospects.

6.4. Factors relating to market risks

The Group 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 Group 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 Company applies a consistent and step-by-step approach to market risk management. The primary technique for market risk management is the use in the Group 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 Group, 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 Group 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 Group relies on information obtained from particular market leading banks, brokers and information services.

It is permitted to use the following types of instruments:

- swaps,
- forwards and futures,
- options.

Currency risk

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

In respect of license fees and transponder capacity leases, the Group 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. Some currency risk, related to operational and interest payments, is hedged by forwards and cross-currency interest rate swaps.

The Group does not hold any significant assets held for trading denominated in foreign currencies.

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

in millions	December 31, 2017					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	7.8	1.9	-	-	-	0.5
Cash and cash equivalents	3.2	8.4	2.3	0.1	1.2	-
UMTS license liabilities	(133.1)	-	-	-	-	-
Trade payables	(13.1)	(14.5)	(0.1)	-	-	(0.8)
Gross balance sheet exposure	**(135.2)**	**(4.2)**	**2.2**	**0.1**	**1.2**	**(0.3)**
Forward transactions	44.0	-	-	-	-	-
Net exposure	**(91.2)**	**(4.2)**	**2.2**	**0.1**	**1.2**	**(0.3)**

in millions	December 31, 2016					
	EUR	USD	CHF	GBP	SEK	XDR
Trade receivables	5.8	4.5	-	0.5	-	0.4
Cash and cash equivalents	3.3	18.0	1.1	0.4	1.5	-
UMTS license liabilities	(157.2)	-	-	-	-	-
Trade payables	(5.1)	(16.6)	-	-	-	(0.6)
Gross balance sheet exposure	**(153.2)**	**5.9**	**1.1**	**0.9**	**1.5**	**(0.2)**
Forward transactions	-	-	-	-	-	-
Net exposure	**(153.2)**	**5.9**	**1.1**	**0.9**	**1.5**	**(0.2)**

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

PLN	Average rate		Rates at the reporting date	
	2017	2016	December 31, 2017	December 31,2016
1 EUR	4.2583	4.3625	4.1709	4.4240
1 USD	3.7782	3.9431	3.4813	4.1793
1 GBP	4.8595	5.3431	4.7001	5.1445
1 CHF	3.8364	4.0021	3.5672	4.1173
1 XDR	5.2368	5.4805	4.9653	5.6716
1 SEK	0.4422	0.4611	0.4243	0.4619
1 AUD	2.8949	2.9330	2.7199	3.0180

For the purposes of the exchange rate sensitivity analysis as at December 31, 2017 and December 31, 2016, exchange rate volatility in the +/-5% range was assumed as probable. This analysis assumes that all other variables, in particular interest rates, remain constant.

in millions	2017					2016				
	as at December 31, 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	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
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	7.8	32.7	5%	1.5	-	5.8	25.8	5%	1.3	-
USD	1.9	6.5	5%	0.4	-	4.5	18.8	5%	0.9	-
XDR	0.5	2.3	5%	0.3	-	0.4	2.3	5%	0.1	-
GBP	-	-	5%	-	-	0.5	2.6	5%	0.1	-
Cash and cash equivalents										
EUR	3.2	13.5	5%	0.5	-	3.3	14.6	5%	0.7	-
USD	8.4	29.1	5%	1.6	-	18.0	75.2	5%	3.8	-
CHF	2.3	8.2	5%	0.4	-	1.1	4.7	5%	0.2	-
GBP	0.1	0.3	5%	0.2	-	0.4	1.9	5%	0.1	-
SEK	1.2	0.5	5%	-	-	1.5	0.7	5%	-	-
UMTS license liabilities										
EUR	(133.1)	(555.3)	5%	(27.6)	-	(157.2)	(695.5)	5%	(34.8)	-
Trade payables										
EUR	(13.1)	(54.8)	5%	(2.6)	-	(5.1)	(22.6)	5%	(1.1)	-
USD	(14.5)	(50.6)	5%	(2.4)	-	(16.6)	(69.4)	5%	(3.5)	-
XDR	(0.8)	(3.9)	5%	(0.3)	-	(0.6)	(3.2)	5%	(0.2)	
CHF	(0.1)	(0.2)	5%	(0.2)	-	-	-	5%	-	-
Change in operating profit				**(28.2)**	**-**				**(32.4)**	**-**
Forwards transactions										
EUR	(44.0.)	(183.5.)	5%	(9.2.)	-	-	-	5%	-	-
Income tax				3.6	-				6.2	-
Change in net profit				**(15.4)**	**-**				**(26.2)**	**-**

in millions	2017					2016				
	as at December 31, 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	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
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	7.8	32.7	-5%	(1.5)	-	5.8	25.8	-5%	(1.3)	-
USD	1.9	6.5	-5%	(0.4)	-	4.5	18.8	-5%	(0.9)	-
XDR	0.5	2.3	-5%	(0.3)	-	0.4	2.3	-5%	(0.1)	-
GBP	-	-	-5%	-	-	0.5	2.6	-5%	(0.1)	-
Cash and cash equivalents										
EUR	3.2	13.5	-5%	(0.5)	-	3.3	14.6	-5%	(0.7)	-
USD	8.4	29.1	-5%	(1.6)	-	18.0	75.2	-5%	(3.8)	-
CHF	2.3	8.2	-5%	(0.4)	-	1.1	4.7	-5%	(0.2)	-
GBP	0.1	0.3	-5%	(0.2)	-	0.4	1.9	-5%	(0.1)	-
SEK	1.2	0.5	-5%	-	-	1.5	0.7	-5%	-	-
UMTS license liabilities										
EUR	(133.1)	(555.3)	-5%	27.6	-	(157.2)	(695.5)	-5%	34.8	-
Trade payables										
EUR	(13.1)	(54.8)	-5%	2.6	-	(5.1)	(22.6)	-5%	1.1	-
USD	(14.5)	(50.6)	-5%	2.4	-	(16.6)	(69.4)	-5%	3.5	-
XDR	(0.8)	(3.9)	-5%	0.3	-	(0.6)	(3.2)	-5%	0.2	
CHF	(0.1)	(0.2)	-5%	0.2	-	-	-	-5%	-	-
Change in operating profit				**28.2**	**-**				**32.4**	**-**
Forwards transactions										
EUR	(44.0)	(183.5)	-5%	(9.2)	-	-	-	-5%	-	-
Income tax				(3.6)	-				(6.2)	-
Change in net profit				**15.4**	**-**				**26.2**	**-**

In millions	2017		2016	
	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	(15.4)	-	(27.5)	-
USD	(0.4)	-	1.0	-
CHF	0.2	-	0.2	-
GBP	0.2	-	0.2	-
XDR	-	-	(0.1)	-
Estimated change in exchange rate by -5 %				
EUR	15.4		27.5	-
USD	0.4		(1.0)	-
CHF	(0.2)		(0.2)	-
GBP	(0.2)		(0.2)	-
XDR	-		0.1	-

Had Polish zloty strengthened 5% against the basket of currencies as at December 31, 2017 and December 31, 2016, the Group's net profit would have decreased by PLN 15.4 million and decreased by PLN 26.2 million, respectively and other comprehensive income would have been unchanged both in 2017 and 2016. Had the Polish zloty weakened by 5%, the Group's net profit would have correspondingly increased by PLN 15.4 million in 2017 and increased by PLN 26.2 million in 2016 and other comprehensive income would have been unchanged in 2017 and 2016, assuming that all other variables remain constant. Estimated future revenue and costs denominated in foreign currencies are not taken into consideration.

Interest rate risk

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

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

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

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

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted. In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group (currently Eileme 1 AB (publ)) interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

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

mPLN	Carrying amount	
	December 31, 2017	December 31, 2016
Fixed rate instruments		
Financial assets	242.5	472.3
Financial liabilities*	-	(860.3)
Variable rate instruments		
Financial assets	802.6	909.8
Financial liabilities*	(11,679.5)	(11,668.2)
Net interest exposure	**(10,876.9)**	**(11,146.4)**

*Nominal debt

The Group 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, 2017						
Variable rate instruments*	(77.4)	77.4	3.1	(3.1)	(74.3)	74.3
Cash flow sensitivity (net)	**(77.4)**	**77.4**	**3.1**	**(3.1)**	**(74.3)**	**74.3**
December 31, 2016						
Variable rate instruments*	(107.6)	107.6	3.7	(3.7)	(103.9)	103.9
Cash flow sensitivity (net)	(107.6)	107.6	3.7	(3.7)	(103.9)	103.9

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

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

are described in Note 38 of the consolidated financial statements for the financial year ended December 31, 2017.

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. On July 15, 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax ordinance, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

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

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

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

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

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

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

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

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

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

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

Property tax laws give rise to numerous interpretation uncertainties

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

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

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

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

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

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

There can be no assurance that in the future the President of the Polish Office of Competition and Consumer Protection (UOKiK) will not deem – 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 be adversely affected by changes in Polish and European Union regulation of the levels of MTR

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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, 2017:

Series	Number of shares	Type of shares	Number of votes at the General Meeting	Face value /PLN
A	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.0
B	2,500,000	Preference shares (2 voting rights)	5,000,000	100,000.0
C	7,500,000	Preference shares (2 voting rights)	15,000,000	300,000.0
D	166,917,501	Preference shares (2 voting rights)	333,835,002	6,676,700.0
D	8,082,499	Ordinary bearer shares	8,082,499	323,300.0
E	75,000,000	Ordinary bearer shares	75,000,000	3,000,000.0
F	5,825,000	Ordinary bearer shares	5,825,000	233,000.0
H	80,027,836	Ordinary bearer shares	80,027,836	3,201,113.4
I	47,260,690	Ordinary bearer shares	47,260,690	1,890,427.6
J	243,932,490	Ordinary bearer shares	243,932,490	9,757,299.6
Total	**639,546,016**		**818,963,517**	**25,581,840.6**
including:	179,417,501	registered	358,835,002	7,176,700.0
	460,128,515	floating	460,128,515	18,405,140,6

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

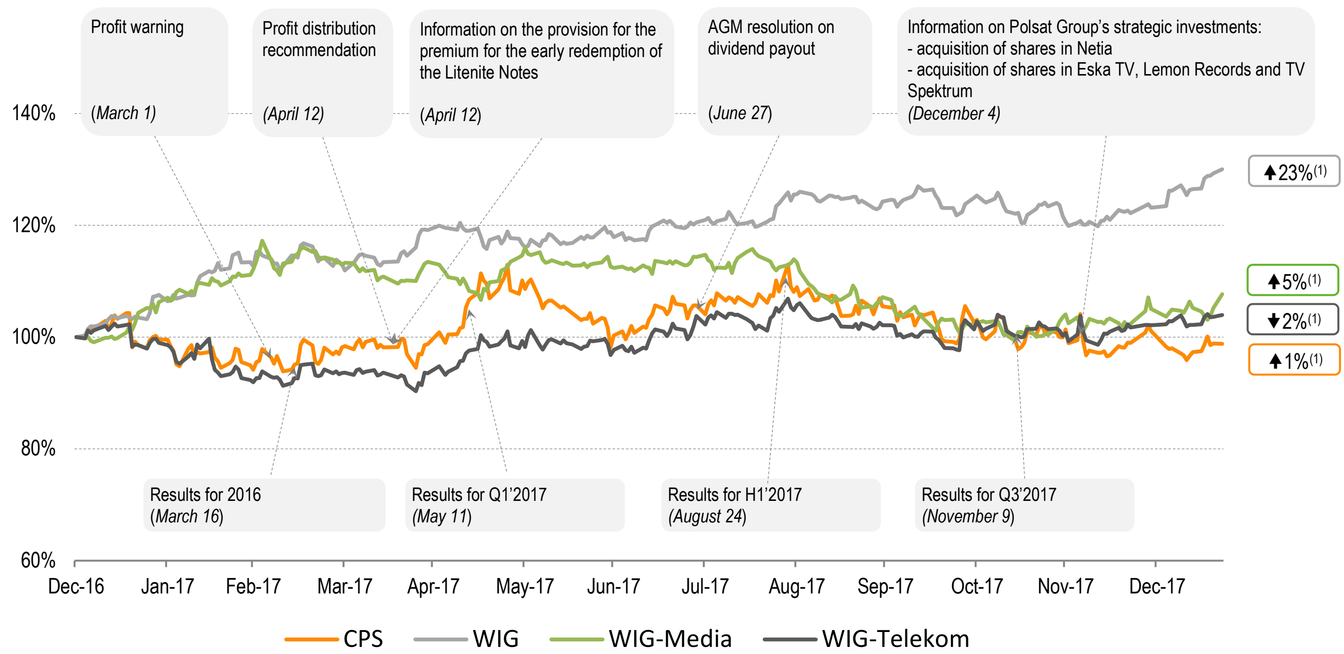
The shareholding structure as at the date of approval of this Report together with a description of changes in the structure of ownership of significant number of shares of the Company in the period since the publication of the last periodic report are set forth in detail in item 8.4 –*Corporate Governance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

Basic data on the Cyfrowy Polsat shares in trading

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

7.2. Shares quotes

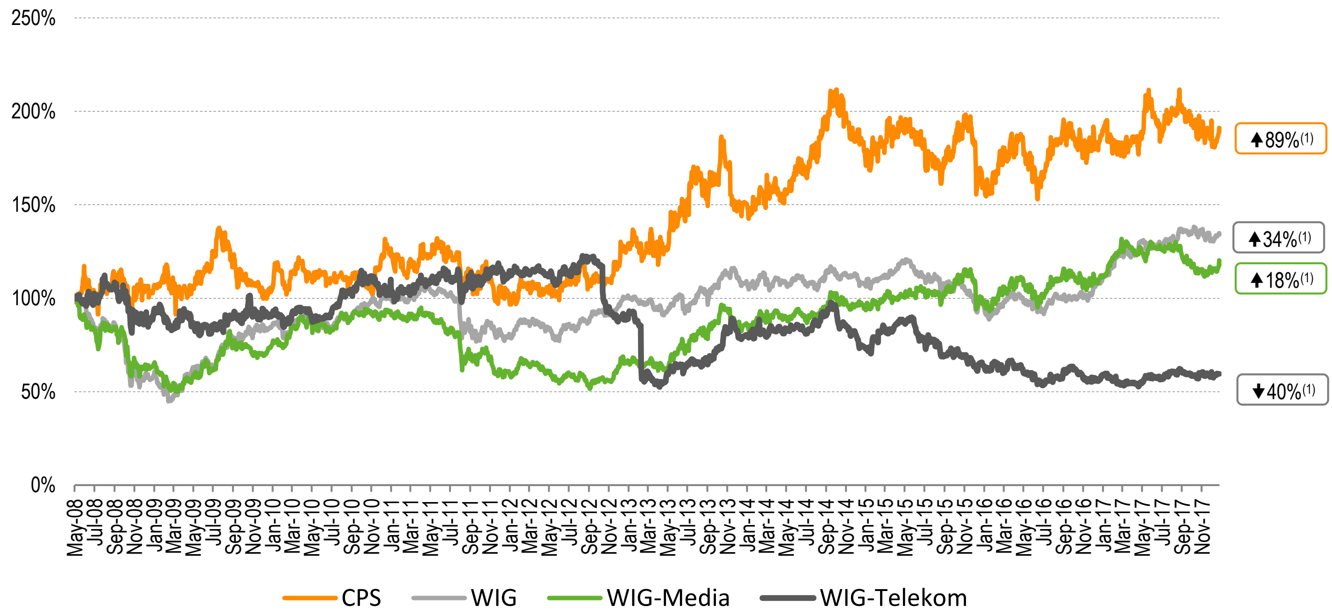
(indexed; 100 = closing price on December 30, 2016)



(1) change December 30, 2016 vs December 29, 2017

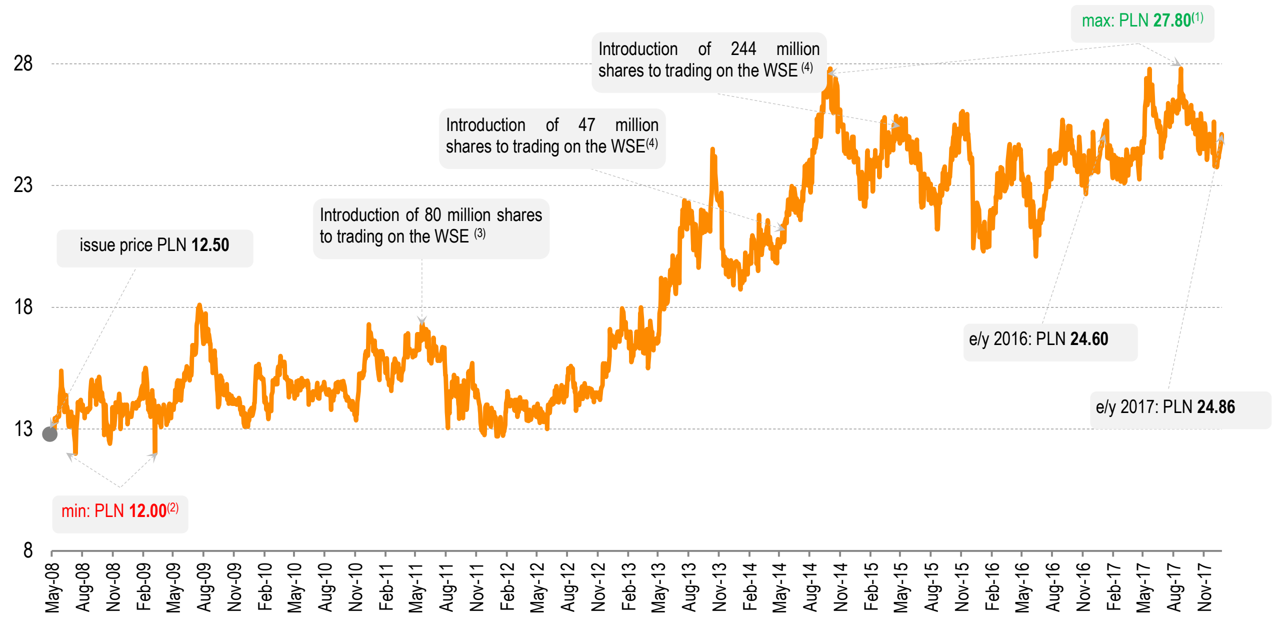
Performance of Cyfrowy Polsat shares since the debut on the WSE in May 2008 until the end of 2017 compared to WSE indexes

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



(1) change December 29, 2017 vs. May 6, 2008

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



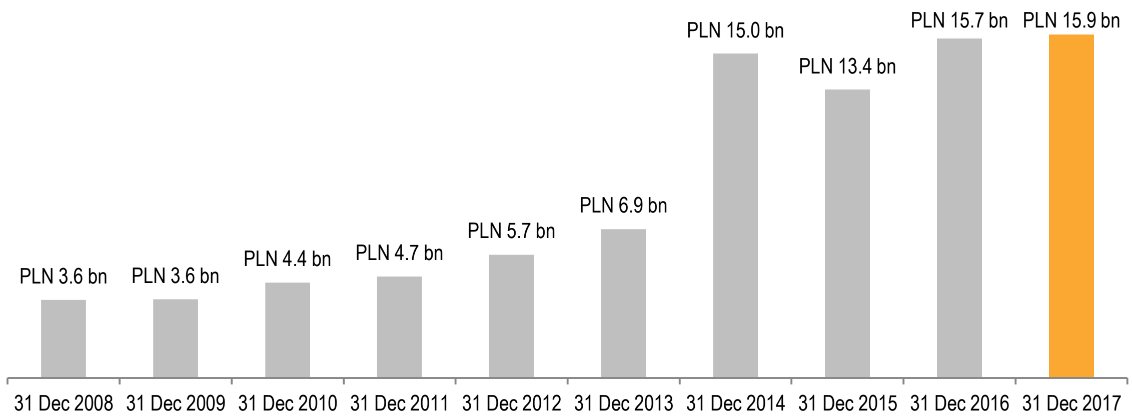
(1) Share price on October 6-7, 2014 and August 28, 2017.
(2) Share price on July 15-16, 2008, March 12, 2009.
(3) On April 20, 2011, the Company issued 80,027,836 ordinary bearer H Series shares with a nominal value of PLN 0.04 each. These shares were registered on May 30, 2011 in the Central Securities Depository of Poland under ISIN code PLCFRPT00013, and were admitted to trading on the main market of the stock exchange pursuant to the resolution of the Management Board of Warsaw Stock Exchange of May 30, 2011. The proceeds from the issue of H Series shares were used as part of financing the acquisition of Telewizja Polsat. All H Series shares were taken up by the shareholders of Telewizja Polsat.
(4) On May 7, 2014 the Company issued 47,260,690 Series I shares and 243,932,490 Series J shares with the nominal value of PLN 0.04 each. On May 14, 2014 these shares were registered in the Central Securities Depository of Poland with ISIN codes PLCFRPT00013 and PLCFRPT00021, respectively. Series I shares were admitted to trading on May 12, 2014 and Series J shares – on April 20, 2015, pursuant to the resolutions of the Management of the Warsaw Stock Exchange in Warsaw. The issue of Series I and J shares provided the source of financing of the transaction of acquisition of Metelem Holding Company Limited. The issued shares were acquired by shareholders of Metelem Holding Company Limited.

Cyfrowy Polsat shares on the stock exchange in 2017

		2017	2016
Year-end price	PLN	24.86	24.60
High for the year	PLN	27.80	25.69
Low for the year	PLN	23.09	20.09
Average for the year	PLN	25.08	23.25
Average daily turnover	PLN '000	13,218	9,210
Average daily trading volume	shares	527,587	398,461
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	15,899,144	15,732,832

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 15.9 billion as of the end of 2017, media and telecommunications company quoted on the Warsaw Stock Exchange and one of the largest in Middle and Eastern Europe.



7.3. Analysts' recommendations

Brokers covering the Company:

Local

- Dom Maklerski 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 2017

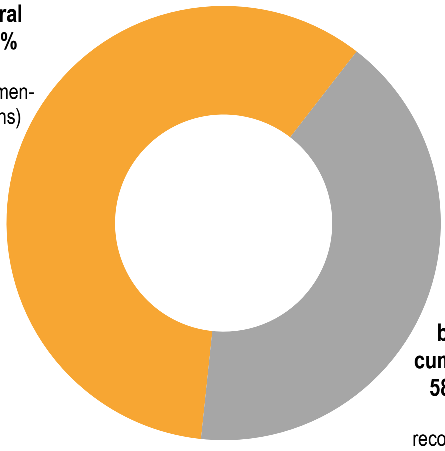
Date	Institution	Recommendation	Target price [PLN]
December 18	Haitong Bank S.A.	↑ Buy	27.50
December 10	Dom Maklerski BOŚ S.A	↑ Buy	27.00
December 5	Goldman Sachs	– Neutral	26.60
November 17	UBS Investment Bank	↑ Buy	30.00
October 23	Raiffeisen CENTROBANK	↑ Buy	28.60
October 5	ERSTE Group Research	↑ Cumulate	31.00
September 22	Trigon Dom Maklerski S.A.	↑ Buy	29.10
September 11	Raiffeisen CENTROBANK	↑ Buy	29.50
September 5	Haitong Bank S.A.	↑ Buy	30.40

Date	Institution	Recommendation		Target price [PLN]
September 1	ERSTE Group Research	↑	Cumulate	31.00
August 29	DM mBanku S.A.	↓	Reduce	24.40
August 23	DM PKO BP S.A	↑	Buy	29.20
July 26	Citigroup Global Markets Inc.	–	Neutral	27.00
July 26	IPOPEMA Securities S.A.	–	Hold	26.00
July 25	Deutsche Bank Securities S.A.	–	Hold	28.00
July 18	Dom Maklerski BOŚ S.A	–	Hold	26.20
July 11	Haitong Bank S.A.	↑	Buy	30.00
June 30	Pekao Investment Banking S.A.	–	Hold	24.34
June 7	Wood&Co	–	Hold	28.90
May 17	Dom Maklerski BOŚ S.A	↓	Sell	25.50
May 16	Goldman Sachs	–	Neutral	26.80
May 15	Dom Maklerski BDM S.A.	↑	Cumulate	28.49
May 8	Raiffeisen CENTROBANK	↑	Buy	28.00
April 26	Wood&Co	↑	Buy	28.60
April 17	Goldman Sachs	–	Neutral	25.60
March 23	Berenberg	↑	Buy	27.50
March 23	Trigon Dom Maklerski S.A.	↑	Buy	29.40
March 14	Citigroup Global Markets Inc.	–	Neutral	25.00
March 3	ERSTE Group Research	↑	Cumulate	26.00
February 17	Dom Maklerski BZ WBK S.A.	↑	Buy	28.50
January 30	IPOPEMA Securities S.A.	–	Hold	25.00
January 27	DM mBanku S.A.	↓	Reduce	22.30

Recommendations released in 2018 after the reporting period

Date	Institution	Recommendation		Target price [PLN]
March 19	Citi	–	Neutral	26.70
March 5	DM mBanku S.A.	↑	Cumulate	24.90
February 13	Raiffeisen CENTROBANK	↑	Buy	27.30
February 8	Goldman Sachs	–	Neutral	27.80
February 2	Berenberg	–	Hold	27.50
January 31	DM mBanku S.A.	–	Hold	25.70

Structure of recommendations as at March 21, 2018



Target price as at March 21, 2018 [PLN]

minimum	24.3
maximum	31.0
average	**27.7**

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 2017, we attended meetings with approximately 300 representatives of the capital market during 18 conferences and roadshows outside of Poland.

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

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

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

Numerous distinctions presented to Cyfrowy Polsat in the field of investor relations are the confirmation of our efforts which are aimed at guaranteeing high quality and top standards of the Group's communication with the capital markets in Poland and around the world. Several times in the past years we were ranked at the top spots of the Best Listed Company of the Year ranking organized by *Puls Biznesu* daily. In 2017, we were once again named "Best IR Department in a Listed Company" in Poland, with the award presented to us during the third edition of the CEE Capital Markets Awards. Moreover, in 2017, Cyfrowy Polsat was also a finalist in the ranking "Transparent Company 2016", organized by the daily *Parkiet* in cooperation with the Institute of Accountancy and Taxes. In March 2018, Cyfrowy Polsat was announced the winner of the investor relations survey among WIG30 companies, organized by the daily *Parkiet* and the Chamber of Brokerage Houses in the poll of representatives of financial institutions.

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.

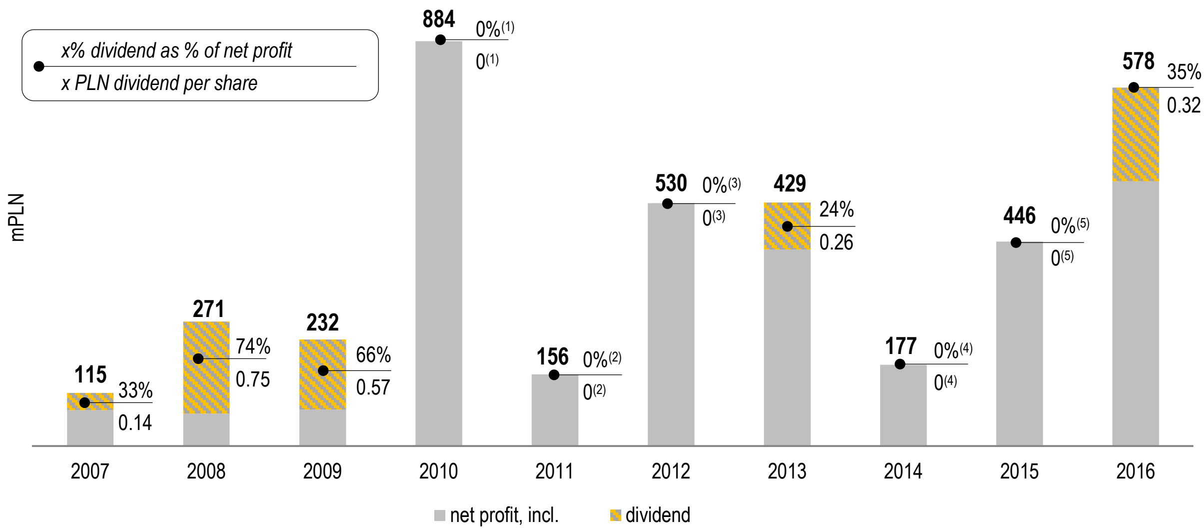
The dividend policy will be subject to regular verification by the Company's Management Board. In particular, the Management Board provides for a modification of the dividend policy following the refinancing of Polsat Group's debt which is expected in 2020.

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."

Distribution of net profit of Cyfrowy Polsat for 2016

Acting in accordance with resolution no. 35 of the Ordinary General Meeting, held on June 27, 2017, regarding profit distribution, the Company's total standalone net profit for the financial year ended December 31, 2016 in the amount of PLN 578.0 million was distributed in such a way that PLN 204.7 million was allocated to dividend for shareholders and PLN 373.3 million was allocated to the reserve capital.

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

Application of principles of corporate governance

Following the entry into force of the Best Practices 2016 on January 1, 2016, the Management Board of the Company has adopted the recommendations and principles specified in the aforementioned document, except for the recommendations included in items III.R.1., IV.R.2., VI.R.1., VI.R.2., VI.R.3. and the detailed principles included in items I.Z.1.3., II.Z.1., II.Z.7., III.Z.2., III.Z.4., III.Z.5., IV.Z.2., V.Z.6., VI.Z.4. At the same time, the Management Board decided that the recommendations and detailed principles, marked as items 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:

- **Principle II.Z.1.** stating that the internal division of responsibilities for individual areas of the company's activity among management board members should be clear and transparent. As a consequence the Company also does not apply the **principle marked as I.Z.1.3.**, requiring the publication of a chart describing that division on the company's website. The Commercial Companies Code provides that in a joint stock company matters are managed by the Management Board in a collective manner, while a formal division of duties can be introduced optionally. Due to the broad scope of responsibilities of each Management Board Member, it is impossible, both within the entire capital group, as well as in individual companies, to define and allocate specific tasks and responsibilities to respective Board Members.

- **Principle II.Z.7.** regarding the application of the provisions of Annex I to the Commission Recommendation 2005/162/EC of February 15, 2005 with respect to the tasks and the operation of the committees of the Supervisory Board. The Company does not fulfill all the detailed requirements regarding the functioning of supervisory board committees as indicated in the above mentioned Annex I to the Commission Recommendation.

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

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

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

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

Numerous internal procedures and processes are in place in the Company with regard to operational and financial risk management, including the process of drafting of financial statements. These procedures ensure effective identification and monitoring of various types of risks at the level of respective organizational units and they also provide for actions to be taken in the event a given risk materializes. High level managers, 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. An efficient course of proceedings of general meetings as well as cost optimization are priorities for the Management Board. The Management Board makes every effort to ensure that the documentation, as well as the proceedings of general meetings ensure transparency and protect the rights of all shareholders. Information regarding draft resolutions and adopted resolutions, as well as additional materials, is disclosed in the form of current reports and published on the Company's website, thus enabling equal access to information on the matters addressed at general meetings for all stakeholders. In view of the above, the Management Board is of the opinion that ensuring real-time coverage of general meetings would not be economically justified. At present the Management Board plans no changes to the manner in which general meetings are organized.

- **Principle V.Z.6.** stating that in its internal regulations, the company should define the criteria and circumstances under which a conflict of interest may arise in the company. The Company's internal regulations related to prevention, identification and solving of conflicts of interests do not meet the requirements of principle V.Z.6. In particular, they do not include a list of criteria and circumstances under which a conflict of interest may arise in the Company. In accordance with § 3 item 4 of the Supervisory Board By-laws and § 3 item 3 of the Management Board Bylaws, a Supervisory Board Member or a Management Board Member should inform the Supervisory Board, or both the Management Board and the Supervisory Board - in the case of a Management Board Member - of any existing conflict of interests, or the possibility of its emergence, and such an individual should refrain from participation in discussions or voting on resolutions related to a matter in which there exists a conflict of interests. In the opinion of the Company's Management Board, current internal regulations properly address the principles of conduct in a situation of conflict of interests.

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

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

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

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

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

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

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

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

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

  Nonetheless, it should be underscored that in accordance with the regulations related to information disclosure, the Company presents, in its annual report, general information regarding the remuneration principles valid in the Company as well as the information regarding the remuneration obtained in a given financial year by Management Board Members and Supervisory Board Members, while indicating the fixed and the variable components. The presented information also indicates the rules of payment of severance pay and other payments on account of termination of employment.

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

The Management Board is responsible for our internal control system and its effectiveness in the process of preparing financial statements and interim reports prepared and published in accordance with the provisions of the Ordinance of the Minister of Finance of 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 and the Group is verification carried out by independent auditors. An auditor is chosen from a group of reputable firms, which guarantee a high standard of service and independence. The Supervisory Board of the Company chooses the Company's auditor. In the subsidiaries, the auditor is chosen by either the Supervisory Board, the General Meeting or the Meeting of Shareholders. The tasks of the independent auditor include, in particular: a review of semi-annual standalone and consolidated financial statements and audit of annual standalone and consolidated financial statements. Auditor's independence is fundamental to ensure the accuracy of the audit.

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

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

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

On June 20, 2017, the Company entered into an agreement with PricewaterhouseCoopers Sp. z o.o., with registered office in Warsaw at 14 ul. Lecha Kaczyńskiego, for the performance of an audit of standalone financial statements for the financial year ended December 31, 2017 of Cyfrowy Polsat S.A. and the consolidated financial statements of Cyfrowy Polsat Group for the financial year ended December 31, 2017.

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, 2017 and December 31, 2016.

[mPLN]	For the year ended December 31	
	2017	2016
Review of interim financial statements	0.1	0.1
Audit of financial statements for the year and other certifying services	1.7	1.8
Business and tax consulting (provision of services terminated by December 31, 2017)	2.3	0.5
Total	**4.1**	**2.4**

8.4. Share capital and shareholding structure of Cyfrowy Polsat

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

The tables below present Shareholders of Cyfrowy Polsat S.A. possessing material bundles of shares at as the balance date, i.e. December 31, 2017 and as at the date of approval of this Report, i.e. March 21, 2018. Data 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.

Shareholding structure as at December 31, 2017:

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	0.26%	1,699,420	0.21%
Embud2 Sp. z o.o. Sp. K-A (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:	**55,092,796**	**8.61%**	**82,005,421**	**10.01%**
- privileged registered shares	26,912,625	4.21%	53,825,250	6.57%
- ordinary bearer shares	28,180,171	4.40%	28,180,171	3.44%
Others	**214,196,708**	**33.50%**	**214,196,708**	**26.16%**
Total	**639,546,016**	**100.00%**	**818,963,517**	**100.00%**

(1) Reddev Investments Limited is an indirect subsidiary Mr. Zygmunt Solorz.
(2) Formerly Embud Sp. z o.o., entity controlled by Mr. Zygmunt Solorz.
(3) Entity controlled by EVO Foundation with its registered seat in Vadus, Liechtenstein.

Shareholding structure as at March 21, 2018:

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Zygmunt Solorz, through:	**366.720.780**	**57,34%**	**540,267,031**	**65.97%**
Reddev Investments Limited	*175.245.671*	*27,40%*	*348,791,922*	*42.59%*
Karswell Limited	*133.411.161*	*20,86%*	*133,411,161*	*16.29%*
Embud2 Sp. z o.o. Sp. K.A.	*58.000.000*	*9,07%*	*58,000,000*	*7.08%*
Argumenol Investment Company Limited	*63.948*	*0,01%*	*63,948*	*0.01%*
Others	**272.825.236**	**42,66%**	**278,696,486**	**34.03%**
Total	**639.546.016**	**100,00%**	**818,963,517**	**100.00%**

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, 2017 (interim report for the third quarter of 2017) until the date of approval of this Report, i.e. March 21, 2018, the Company has received notifications issued pursuant to Article 69 of the Act of July 29, 2005 on public offering and the conditions of introducing financial instruments to an organized system of trading and on public companies from Karswell Limited, Sensor Overseas Limited, EVO Holding Limited, EVO Foundation, Reddev Investments Limited, TiVi Foundation and Mr. Zygmunt Solorz.

Karswell Limited

According to the notification received on January 30, 2018, the Company was informed of a disposal transaction executed on January 26, 2018 by Karswell Limited consisting in the disposal of 16,577,107 ordinary bearer shares of Cyfrowy Polsat, constituting 2.59% of the share capital of the Company and carrying the right to 16,577,107 votes at the General Meeting of the Company, representing 2.02% of the total number of votes at the General Meeting of the Company.

Prior to the disposal of shares described above, Karswell held directly 149,988,268 ordinary bearer shares of Cyfrowy Polsat, constituting 23.45% of the share capital of the Company and carrying the right to 149,988,268 votes at the General Meeting of the Company, representing 18.31% of the total number of votes at the General Meeting of the Company.

Following the disposal of shares described above Karswell holds directly 133,411,161 ordinary bearer shares of Cyfrowy Polsat, constituting 20.86% of the share capital of the Company and carrying the right to 133,411,161 votes at the General Meeting of the Company, representing 16.29% of the total number of votes at the General Meeting of the Company.

Sensor Overseas Limited, EVO Holding Limited and EVO Foundation

According to notifications received on January 30 and 31, 2018, the Company was informed that on January 29, 2018, Sensor Overseas Limited disposed of and Reddev Investments Limited acquired 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat constituting 3.29% of the share capital of the Company and carrying the right to 42,082,750 votes at the General Meeting of the Company, representing 5.14% of the total number of votes at the General Meeting of the Company. EVO Foundation is the direct parent of EVO Holding, and EVO Holding controls directly Sensor.

Prior to the disposal of shares by Sensor, EVO Foundation and EVO Holding held indirectly and Sensor held directly 55,092,796 shares of Cyfrowy Polsat, constituting 8.61% of the share capital of the Company and carrying the right to 82,005,421 votes at the General Meeting of the Company, representing 10.01% of the total number of votes at the General Meeting of the Company The above shares consisted of:

(i) 26,912,625 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 4.21% of the share capital of the Company and carrying the right to 53,825,250 votes at the General Meeting of the Company, representing 6.57% of the total number of votes at the General Meeting of the Company, and

(ii) 28,180,171 ordinary bearer shares of Cyfrowy Polsat, constituting 4.40% of the share capital of the Company and carrying the right to 28,180,171 votes at the General Meeting of the Company, representing 3.44% of the total number of votes at the General Meeting of the Company.

Following the disposal of shares by Sensor, EVO Foundation and EVO Holding hold indirectly and Sensor holds directly 34,051,421 shares of Cyfrowy Polsat, constituting 5.32% of the share capital of the Company and carrying the right to 39,922,671 votes at the General Meeting of the Company, representing 4.87% of the total number of votes at the General Meeting of the Company. The above shares consist of:

(i) 5,871,250 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 0.92% of the share capital of the Company and carrying the right to 11.742.500 votes at the General Meeting of the Company, representing 1.43% of the total number of votes at the General Meeting of the Company, and

(ii) 28,180,171 ordinary bearer shares of Cyfrowy Polsat, constituting 4.40% of the share capital of the Company and carrying the right to 28,180,171 votes at the General Meeting of the Company, representing 3.44% of the total number of votes at the General Meeting of the Company.

Reddev Investments Limited and TiVi Foundation

According to notifications received on January 30, 2018, the Company was informed that on January 29, 2018, Reddev Investments Limited acquired 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat constituting 3.29% of the share capital of the Company and carrying the right to 42,082,750 votes at the General Meeting of the Company, representing 5.14% of the total number of votes at the General Meeting of the Company. Reddev is a direct subsidiary of TiVi Foundation.

Prior to the Acquisition of Shares, TiVi Foundation held indirectly and Reddev held directly 154,204,296 shares of Cyfrowy Polsat, constituting 24.11% of the share capital of the Company and carrying the right to 306,709,172 votes at the General Meeting of the Company, representing 37.45% of the total number of votes at the General Meeting of the Company The above shares consisted of:

(i) 152,504,876 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 23.84% of the share capital of the Company and carrying the right to 305,009,752 votes at the General Meeting of the Company, representing 37.24% of the total number of votes at the General Meeting of the Company, and

(ii) 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company.

Following the Acquisition of Shares, TiVi Foundation holds indirectly and Reddev holds directly 175,245,671 shares of Cyfrowy Polsat, constituting 27.40% of the share capital of the Company and carrying the right to 348,791,922 votes at the General Meeting of the Company, representing 42.59% of the total number of votes at the General Meeting of the Company. The above shares consist of:

(i) 173,546,251 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 27.13% of the share capital of the Company and carrying the right to 347,092,502 votes at the General Meeting of the Company, representing 42.38% of the total number of votes at the General Meeting of the Company, and

(ii) 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company.

Mr. Zygmunt Solorz

According to the received notification, the share in the total number of votes at the General Meeting of the Company held indirectly by Mr. Solorz, through entities controlled by him, changed as a result of concluding two transactions mentioned above, that is the disposal of 16,577,107 ordinary bearer shares of the Company by Karswell on January 26, 2018 and the disposal by Sensor Overseas Limited to the benefit of Reddev Investments Limited of 21,041,375 registered, privileged with respect to votes shares of Cyfrowy Polsat on January 29, 2018.

Prior to the transactions Mr. Solorz held indirectly, through entities controlled indirectly and directly by him, that is Reddev, Karswell, Embud2 Sp. z o.o. Sp. k.a. and Argumenol Investment Company Limited 362,256,512 shares of Cyfrowy Polsat, constituting 56.64% of the share capital of the Company and carrying the right to 514.761.388 votes at the General Meeting of the Company, representing 62.85% of the total number of votes at the General Meeting of the Company The above shares consisted of:

(i) 152,504,876 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 23.84% of the share capital of the Company and carrying the right to 305,009,752 votes at the General Meeting of the Company, representing 37.24% of the total number of votes at the General Meeting of the Company held through Reddev, and

(ii) 209,751,636 ordinary bearer shares of Cyfrowy Polsat, constituting 32.80% of the share capital of the Company and carrying the right to 209,751,636 votes at the General Meeting of the Company, representing 25.61% of the total number of votes at the General Meeting of the Company, held through the following entities:

a. through Reddev - 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 ordinary votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company;

b. through Karswell - 149,988,268 ordinary bearer shares of Cyfrowy Polsat, constituting 23.45% of the share capital of the Company and carrying the right to 149,988,268 votes at the General Meeting of the Company, representing 18.31% of the total number of votes at the General Meeting of the Company;

c. through Embud2 – 58,000,000 ordinary bearer shares of Cyfrowy Polsat, constituting 9.07% of the share capital of the Company and carrying the right to 58,000,000 votes at the General Meeting of the Company, representing 7.08% of the total number of votes at the General Meeting of the Company;

d. through Argumenol – 63,948 ordinary bearer shares of Cyfrowy Polsat, constituting 0.01% of the share capital of the Company and carrying the right to 63,948 votes at the General Meeting of the Company, representing 0.01% of the total number of votes at the General Meeting of the Company.

Following the transactions Mr. Solorz currently holds indirectly, through entities controlled indirectly and directly by him, that is Reddev, Karswell, Embud2 and Argumenol 366,720,780 shares of Cyfrowy Polsat, constituting 57.34% of the share capital of the Company and carrying the right to 540,267,031 votes at the General Meeting of the Company, representing 65.97% of the total number of votes at the General Meeting of the Company. The above shares consist of:

(i) 173,546,251 registered, privileged with respect to votes shares of Cyfrowy Polsat, constituting 27.13% of the share capital of the Company and carrying the right to 347,092,502 votes at the General Meeting of the Company, representing 42.38% of the total number of votes at the General Meeting of the Company held through Reddev, and

(ii) 193,174,529 ordinary bearer shares of Cyfrowy Polsat, constituting 30.21% of the share capital of the Company and carrying the right to 193,174,529 votes at the General Meeting of the Company, representing 23.59% of the total number of votes at the General Meeting of the Company held through the following entities:

a. through Reddev - 1,699,420 ordinary bearer shares of Cyfrowy Polsat, constituting 0.27% of the share capital of the Company and carrying the right to 1,699,420 ordinary votes at the General Meeting of the Company, representing 0.21% of the total number of votes at the General Meeting of the Company;

b. through Karswell - 133,411,161 ordinary bearer shares of Cyfrowy Polsat, constituting 20.86% of the share capital of the Company and carrying the right to 133,411,161 votes at the General Meeting of the Company, representing 16.29% of the total number of votes at the General Meeting of the Company;

c. through Embud2 - 58,000,000 ordinary bearer shares of Cyfrowy Polsat, constituting 9.07% of the share capital of the Company and carrying the right to 58,000,000 votes at the General Meeting of the Company, representing 7.08% of the total number of votes at the General Meeting of the Company;

d. through Argumenol – 63,948 ordinary bearer shares of Cyfrowy Polsat, constituting 0.01% of the share capital of the Company and carrying the right to 63,948 votes at the General Meeting of the Company, representing 0.01% of the total number of votes at the General Meeting of the Company.

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 21, 2018, the Company did not have any knowledge of any agreements that could 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 21, 2018 as well as at the date of publication of the interim report, i.e. November 9, 2017 (interim report for the third quarter of 2017).

As at the date of approval of this Report, i.e. March 21, 2018, 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 21, 2018.

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, 2017 the shares of the A through D series are shares preferential as to the voting rights in the way that:

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

The holders of shares with special controlling rights are:

- Reddev Investments Ltd. (173,546,251 shares carrying 347,092,502 voting rights on General Meeting),
- Sensor Overseas Ltd. (5,871,250 shares carrying 11,742,500 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 in the Company.

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

8.5. Articles of Association of the Company

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

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

8.6. General Shareholders' Meeting

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

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

a) discussion and approval of Reports on the Management Board's activity and the Supervisory Board's activity, and the financial statements for the previous year,

b) decision about distribution of profits, or covering losses,

c) signing off for the Supervisory Board's and the Management Board's performance of duties,

d) appointment and dismissal of members of the Supervisory Board and determination of their compensation,

e) amendments to the Articles of Association of the Company,

f) amendments to the business activity of the Company,

g) increase or decrease in the share capital,

h) merger or transformation of the Company,

i) dissolution or liquidation of the Company,

j) issuance of convertible bonds or seniority bonds,

k) sale or lease of the Company and establishment of a right of use or sale of the Company's plant,

l) purchase of real estate or equipment for the Company, serving for permanent usufruct for a price exceeding by 1/5 (one fifth) the paid-up share capital if the purchase takes place within two years of the Company's registration,

m) all decisions regarding claims for damages upon establishment of the Company, or activities of management or supervision,

n) other issues set out by the provisions of the commercial companies code.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

8.7. Management Board of the Company

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

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

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

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

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

8.7.2. Composition of the Management Board and changes in 2017

At the date of approval of this Report, i.e. March 21, 2018, the Management Board consisted of seven Members. In 2017 there were no changed in the composition of the Management Board.

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular Members of the Management Board as at December 31, 2017.

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 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.

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

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 a Member of Management Boards of INFO-TV-FM Sp. z o.o., and Polski Operator Telewizyjny Sp. z o.o. Since July 2017 he also holds the function of Member of Management Boards of Telewizja Polsat Sp. z o.o.

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

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

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

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

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

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., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o., Plus TM Management Sp. z o.o. and Polkomtel.

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

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

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

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

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

From the beginning his professional career Mr. Stec was connected with television market. From 1998 he worked among others for OMD Poland Sp. z o.o. media house, owned by Omnicom Group, where in the years 1998-2003 held a position of Managing Director of Brand&Media OMD. From February 2003 until May 2007 he was Managing Director of Telewizja Polsat's advertisement office - Polsat Media Sp. z o.o. (currently Polsat Media Biuro Reklamy Sp. z o.o. Sp.k.).

Mr. Stec graduated from the Management and Marketing Faculty of the Leon Kozminski Academy of Entrepreneurship and Management in Warsaw.

Katarzyna Ostap-Tomann has been connected with Cyfrowy Polsat Group since 2009, where she assumed the position of deputy CFO of the Capital Group in 2015, and she has been a Member of the Management Board responsible for the finances of the Group since October 2016. She also holds the position of Member of the Management Board of Telewizja Polsat Sp. z o.o., Polkomtel Sp. z o.o., INFO-TV-FM Sp. z o.o., CPSPV1 Sp. z o.o., CPSPV2 Sp. z o.o., Plus TM Management Sp. z o.o. and Polsat License Ltd.

In the years 1996–2004 she was employed at various positions at Philip Morris in Poland and in the regional headquarters of the company in Switzerland, where she gained considerable experience in the fields of corporate finance, financial reporting, management accounting and internal audit. In the years 2004-2009 she worked for TVN Group as financial controller of the capital group. She was responsible for the preparation of financial statements at the capital group level and internal management reporting. In 2009 she took the position of Director of Controlling at Cyfrowy Polsat, where she became Financial Director in 2012. Since 2011 she has also held the function of Financial Director at Telewizja Polsat, where she was appointed as Member of the Management Board in 2014. She has been a member of the ACCA since 2001. In 2013-2017 she was a member of the ACCA Council in Poland.

Ms. Ostap-Tomann is a graduate of the Warsaw School of Economics with a major in International Economic and Political Relations and also holds the title of MBA from Oxford Brookes University.

8.7.3. Competences and bylaws of the Management Board

Our Management Board acts pursuant to the provisions of the commercial companies code, the Company's Articles of Association and the Bylaws of Management Board approved by the Supervisory Board on 29 November 2007.

The Management Board runs our matters in a transparent and efficient way pursuant to the provisions of the law, our internal provisions and the Best Practices 2016. Upon taking decisions related to our matters, the Members of the Management Board act within justified limits of business risk.

The following are entitled to submit statements on our behalf

(i) in the case of one person Management Board – the President of the Management Board acting independently, and

(ii) in the case of a more numerous Management Board – the President of the Management Board acting independently, the Vice-president of the Management Board acting jointly with a Member of the Management Board or another Vice-president, two Members of Management Board acting jointly, the Vice-president of the Management Board acting jointly with a proxy, or a Member of the Management Board acting jointly with a proxy.

All issues related to our management, not restricted by the provisions of the law or the Articles of Association to the competence of the Supervisory Board or the General Meeting, are within the scope of competence of the Management Board.

Members of the Management Board participate in sessions of the General Meeting and provide substantive answers to questions asked during the General Meeting. Members of the Management Board invited to a meeting of the Supervisory Board by the Chairman of the Supervisory Board participate in the meeting with the right to take the floor regarding issues on the agenda. Members of the Management Board shall, within their scope of competence and the scope necessary to settle issues discussed by the Supervisory Board, submit explanation and information regarding Company affairs to the participants in the meeting of the Supervisory Board.

The Board adopts resolutions provided that at least a half of the Members of the Board are present in the meeting and all Members of the Board have been notified of the meeting. Resolutions are adopted by an absolute majority of votes of the Members of the Board present in the meeting or participating in the voting. The establishment of a proxy requires consent of all the Members of the Management Board. Each Member of the Management Board may revoke the power of proxy. In the case of equality of votes upon adoption of resolutions by the Management Board the vote of the President of the Management Board shall prevail.

Resolutions are adopted in a meeting or in a manner set out below. The President of the Management Board or an authorized Member of the Board calls meetings of the Management Board. The meetings of the Management Board are held in our offices or another place indicated by the person calling the meeting.

The voting is open. A secret voting shall be administered upon a request of just one Member of the Board present in the meeting.

Moreover, according to the Bylaws of the Management Board, the Management Board may adopt resolutions in writing, or in a manner enabling instantaneous communication of the Members of the Management Board by means of audio-video communication (e.g. teleconferencing, videoconferencing).

8.7.4. Remuneration of the Members of the Management Board

Information regarding remuneration of Members of the Management Board in 2017 is included in Note 44 of the consolidated financial statements for the financial year ended December 31, 2017.

8.7.5. Managerial contracts with Members of the management board setting out severance packages payout as a result of their resignation or dismissal from the position without a material cause

The Company has concluded managerial contracts with the following Members of the Management Board: Dariusz Działkowski, Tomasz Gillner-Gorywoda, Aneta Jaskólska, Agnieszka Odorowicz and Katarzyna Ostap-Tomann. These contracts do not provide for the payment of severance packages as a result of the resignation of the mentioned above Members of the Management Board or their dismissal from the position without a material cause, or in the case when their resignation or dismissal results from a merger by acquisition of the Company.

8.8. Supervisory Board

The Supervisory Board consists of five to nine Members including the Chairman of the Supervisory Board, appointed by the General Shareholders' Meeting. The General Shareholders' Meeting, prior to appointment of Members of the Supervisory Board for a new term, determines the number of Members of the Supervisory Board. The term of office of the Supervisory Board is three years and is a joint one.

The Supervisory Board consists of two Members meeting the criteria of an independent Member of the Supervisory Board as set out in article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016.A Supervisory Board Member is required to submit a statement to the Management and Supervisory Boards of the Company on his or her compliance with independence criteria.

8.8.1. Composition of the Supervisory Board

As at January 1, 2017 the Supervisory Board comprised the following Members:

- Marek Kapuściński – Chairman of the Supervisory Board,
- Józef Birka – Member of the Supervisory Board
- Robert Gwiazdowski – Independent Member of the Supervisory Board,
- Aleksander Myszka - Member of the Supervisory Board,
- Leszek Reksa – Independent Member of the Supervisory Board,
- Heronim Ruta - Member of the Supervisory Board,
- Tomasz Szeląg - Member of the Supervisory Board.

On November 15, 2017 Mr. Heronim Ruta resigned from the membership of the Company's Supervisory Board effective from November 30, 2017

The following table presents names, surnames, functions, dates of appointment and dates of expiry of the current term of particular Members of the Supervisory Board as at December 31, 2017.

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	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
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 article 129 item 3 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight and in principle II.Z.4 of the Best Practices 2016.

Marek Kapuściński joined the Company's Supervisory Board on 1 October 2016, and has performed the function of Chairman since 25 October 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 Boards of Telewizja Polsat, Polkomtel 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 Chairman of the CAS Program Committee, Chairman of the Warsaw Enterprise Institute Board, Chairman of the Supervisory Board of ZPP (Union of Entrepreneurs and Employers) and Chairman of the Supervisory Board of KIGS (the Polish Institute of Silver Economy).

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. In 1976, he commenced his career as a solicitor in a Law Firm in Oleśnica, and then he worked for Law Office No. 4 in Wrocław where he also held a position of a Director for two terms of office. In particular, he focused in his practice on civil law and since the mid-eighties he has specialized in commercial law and developed legal services for business entities. He was honored by the Polish Bar Council with a medal "Commendable Service to the Advocates Bar." His career has been connected with Telewizja Polsat since its establishing, as Mr. Myszka is one of its co-founders. For 12 years – in the period from 1995 to 2007 – he held the position of the President of the Management Board of Telewizja Polsat.

Since April 2007 Mr. Aleksander Myszka has been a Member of the Supervisory Board of Telewizja Polsat and since November 2011 - a Member of the Supervisory Board of Polkomtel. He is also 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. In 2016-2017 he was 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.

Tomasz Szeląg has been a Member of the Company's Supervisory Board since October 2016, where he is also 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. In Telefonia Dialog S.A. 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 2009 until September 2016 he held the position of Member of the Management Board and Chief Financial Officer in Cyfrowy Polsat S.A. and was responsible for broadly understood finances in the entire capital group. In the years 2010-2016 Mr. Szeląg was a Member of the Management Boards of numerous companies from Polsat Group, including Telewizja Polsat (October 2011-October 2014), INFO-TV-FM Sp. z o.o. (July 2012-November 2016), Plus TM Management (April 2014-December 2016) and Polkomtel (September 2014-December 2016). He was also a President of the Management Board of Cyfrowy Polsat Trade Marks Sp. z o.o. (2010-2016) and Telewizja Polsat Holdings Sp. z o.o. (2012-2016).

8.8.2. Competences and Bylaws of the Supervisory Board

The Supervisory Board acts pursuant to the commercial companies code and also pursuant to the Articles of Association of the Company and the Bylaws of the Supervisory Board of 3 December 2007.

Pursuant to the Articles of Association of the Company the Supervisory Board performs constant supervision over activities of the enterprise. Within the scope of supervision performance the Supervisory Board may demand any information and documents regarding our business from the Management Board.

Members of the Supervisory Board shall take necessary steps to receive regular and full information from the Management Board regarding material matters concerning our business and risks involved in the business and the strategies of risk management. The Supervisory Board may - not infringing the competencies of other bodies of the Company - express their opinion on all the issues related to our proceedings, including forwarding motions and proposals to the Board.

The competencies of the Supervisory Board also include matters restricted by the Commercial Companies Code, in particular:

a) audit of the financial statements both as to their compliance with the books and documents and also the factual state, audit of the interim and annual reports of the Management Board, or Management Board's motions regarding allocation of profit or covering debts and presenting written reports with results of the audits to the General Shareholders Meeting,

b) creating, once a year, and presenting before the Annual General Meeting a concise evaluation of the situation of the Company, considering the evaluation of the internal control system, and the system for managing risks relevant for the Company,

c) appointment of Members of the Management Board,

d) delegation of Members of the Supervisory Board to temporary performance of duties of Members of the Management Board who are unable to perform their duties,

e) suspending particular or all Members of the Management Board for material reasons,

f) approval of the Bylaws of the Management Board,

g) determination of remuneration of the Members of the Management Board,

h) appointment of a certified auditor to examine financial statements of the Company,

i) granting consent for disbursement of a down payment toward the anticipated dividend.

Moreover, the competencies of the Supervisory Board include:

a) creation and presentation of an evaluation of the work of the Management Board to the General Shareholders' Meeting,

b) analysis and issuing of an opinion on matters that may be the subject of a resolution of the General Meeting,

c) approval of one-year and long-term programs for the Company developed by the Management Board,

d) determination of the remuneration level of the Supervisory Board delegated to temporary performance of duties of a Member of the Management Board,

e) granting consent for participation in other companies,

f) granting consent for appointing, dismissing and suspending members of authorities of the subsidiaries,

g) granting consent for entering into a material agreement with a related entity,

h) granting consent for performance of activities resulting in the Company incurring a liability, with the exception of:

   - activities projected or set out in the annual program for the Company approved by the Supervisory Board, or

   - activities resulting in incurring a liability of the value up to PLN 10.0 million, including guarantees or issuing or guaranteeing bills of exchange done in the scope of daily business, in particular the business of pay digital television, Internet service or the business of MVNO.

i) issuing, upon the Management Board's request, opinion on all issues material for the Company.

Meetings of the Supervisory Board take place at least once a quarter. The venue for meetings is the seat of the Company or any other place indicated by the person calling the meeting.

The Chairman of the Supervisory Board, or a Member of the Supervisory Board appointed by the Chairman calls a meeting of the Supervisory Board. Meetings of the Supervisory Board are chaired by the Chairman, and in the case of his absence by a Member of the Supervisory Board indicated by the Chairman in writing, or another Member of the Supervisory Board elected by the Members present in the meeting.

The Chairman calls a meeting of the Supervisory Board also upon request of a Member of the Management Board, or a Member of the Supervisory Board, or upon a motion of a shareholder representing at least one tenth of the share capital. A Meeting of the Supervisory Board shall take place at least within 14 days of the date of filing a written application to the Chairman.

Resolutions of the Supervisory Board are passed by majority of votes cast. In the case of equality the vote of the Chairman prevails. A resolution of the Supervisory Board requires inviting all the Members of the Supervisory Board and presence of at least half of the Members of the Supervisory Board to be valid.

The Supervisory Board may pass resolutions via means of direct, remote communication and also a Member of the Supervisory Board may cast their vote in writing via other Member of the Supervisory Board.

Members of the Supervisory Board execute their rights and perform their duties in person. Members of the Supervisory Board participate in General Meetings.

Moreover, within the performance of their duties, the Supervisory Board shall:

a) once a year prepare and present before the General Meeting a report on its activities and the evaluation of the situation of the Company in the scope provisioned for by corporate governance principle adopted by the Company,

b) investigate and issue opinions about matters to be subjects of resolutions of the General Meeting.

8.8.3. Committees of the Supervisory Board

Pursuant to the Bylaws of the Supervisory Board the Supervisory Board may appoint permanent committees, in particular an Audit Committee, a Remuneration Committee, or a Strategic Committee, as well as ad hoc committees to investigate certain issues remaining in the competence of the Supervisory Board or acting as advisory and opinion bodies of the Supervisory Board.

Pursuant to article 128 item 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight, an Audit Committee functions in the Company. As at December 31, 2017, the Audit Committee comprised the following Members of the Supervisory Board:

- Robert Gwiazdowski, an independent Member of the Supervisory Board and Chairman of the Audit Committee,
- Leszek Reksa, an independent Member of the Supervisory Board,
- Tomasz Szeląg.

On November 15, 2017 Mr. Heronim Ruta resigned from the membership of the Company's Supervisory Board effective November 30, 2017, thus also resigning from the Audit Committee.

The composition of the Audit Committee meets the requirements article 128 item 1 of the Act of May 11, 2017 on Statutory Auditors, Audit Firms and Public Oversight.

As at December 31, 2017, Mr. Tomasz Szeląg was a Member of the Remuneration Committee. On November 15, 2017 Mr. Heronim Ruta resigned from the membership of the Company's Supervisory Board effective November 30, 2017, thus also resigning from the Remuneration Committee.

The provisions of the Bylaws of the Supervisory Board apply to meetings, resolutions, and minutes of the committees of the Supervisory Board, and in the case of the Audit Committee provisions of the Bylaws of the Audit Committee are also applicable, with reservation of the following information.

A committee is appointed by the Supervisory Board from among its Members by means of a resolution. The committee appoints, by means of a resolution, the Chairman of the particular committee from among its Members. The mandate of a member of a particular committee expires upon expiry of the mandate of the Member of the Supervisory Board. The Supervisory Board may, by means of a resolution, resolve to dismiss a Member from the composition of a particular committee before the expiry of the mandate of the Member of the Supervisory Board. Dismissal from membership in a committee is not tantamount to dismissal from the Supervisory Board.

The first meeting of a committee is convened by the Chairman of the Supervisory Board or other Member of the Supervisory Board they indicate. Meetings of the committees are convened as needs arise, ensuring thorough delivery of duties assigned with a particular committee. Minutes of committee's meetings and adopted resolutions are made available to the Members of the Supervisory Board not being Members of the committee. The Chairman of a given committee chairs its proceedings. The Chairman also performs supervision over preparation of the agenda, distribution of documents, and preparation of minutes of the meetings of the committee.

Audit Committee

Regulations of the Audit Committee apply to the meetings, resolutions and minutes of meetings of the Audit Committee.

Meetings of the Audit Committee are convened by the Chairman of the Audit Committee or a Member of the Audit Committee authorized by the Chairman and are held at least once a quarter, at dates determined by the Chairman of the Audit Committee. Additional meetings of the Audit Committee may be convened by the Chairman of the Audit Committee at the request of the Member of the Audit Committee, Chairman of the Supervisory Board or another Supervisory Board Member, as well as at the request of the Management Board.

The Audit Committee passes resolutions if at least half of its Members is present at the Meeting and all Members were properly invited. Resolutions are passed by an absolute majority of votes and in the case of equal number of votes, the Chairman of the Audit Committee shall have a casting vote. Members of the Audit Committee may participate in the Committee’s meetings and vote in person, or by means of direct remote communications.

The work of the Audit Committee is managed by its Chairman who is responsible for preparing an agenda of each meeting or may appoint a Secretary of the Audit Committee whose tasks include in particular preparation of an agenda of each meeting and organization of the distribution of documents for Committee’s meetings. A notification about the meeting, including its agenda together with all required materials, must be delivered to the Members of the Audit Committee at least 7 days before the meeting and in extraordinary circumstances a Committee’s meeting may be convened at a shorter notice than the above mentioned deadline.

The Chairman of the Audit Committee may ask a relevant Management Board Member to prepare appropriate materials.

Minutes are taken of every meeting of the Audit Committee and are then signed by all Members who participated in a given meeting. Minutes of the Audit Committee meetings, including conclusions, instructions, opinions and recommendations are presented to the Supervisory Board at its next meeting as well as to the Management Board.

Members of the Supervisory Board who are not part of the Audit Committee may, at their own initiative, participate in the Committee’s meeting, however without a voting right. Chairman of the Audit Committee may invite Members of the Supervisory Board, auditors, employees of the Company and other persons as experts.

The tasks of the Audit Committee include in particular monitoring of the financial reporting process, efficiency of internal control systems and risk management systems as well as internal audit and performing financial revision activities, in particular carrying out audits by an audit company.

The Audit Committee evaluates, controls and monitors independence of a certified auditor and audit company, in particular in the case when the audit company provides the Company with services other than auditing of financial documents in the Company and grants consent to provision of such services by the audit company. The Audit Committee notifies the Company’s Supervisory Board about the results of audit and the role of the Committee in the auditing process as well as explains how this audit contributed to the reliability of financial reporting in the Company.

The tasks of the Audit Committee also include developing a policy of selection of an audit company to carry out the audit as well as developing a policy of provision by the selected audit company of permitted services which are not part of the audit. The Audit Committee provides the Supervisory Board with recommendation regarding the selection of audit company.

Additionally, the Audit Committee presents recommendations to the Company's Management Board aimed at ensuring the reliability of financial reporting in the Company.

8.8.4. Remuneration of the Members of the Supervisory Board

Information regarding remuneration of Members of the Supervisory Board in 2017 is included in Note 45 of the consolidated financial statements for the financial year ended December 31, 2017.

8.9. Diversity policy applicable to administrative, managing and supervising bodies of the Company

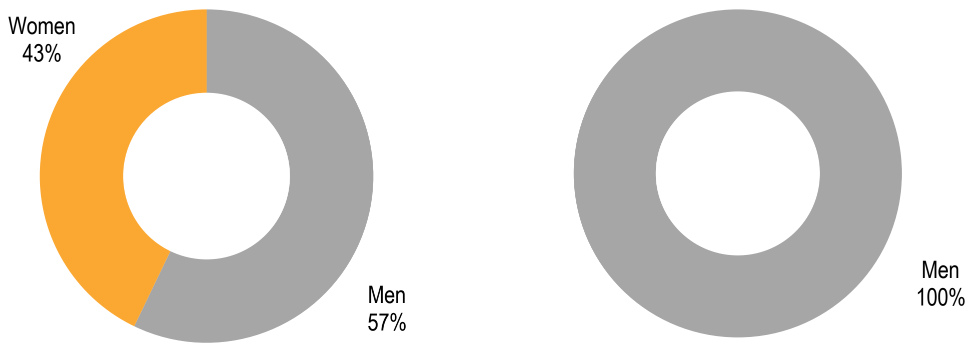
Polsat Group adopted the *Diversity and Human Rights Respect Policy of Cyfrowy Polsat Group* (the "Diversity Policy") which has the purpose of supporting the pursuit of the Group's business goals. The policy enables the Group to respond in a better way to the employees' expectations, make full use of their potential and at the same time help the companies who are part of the Group to adjust to the changes occurring on the labor market. We trust that diversity is one of the sources of our competitive advantage, and competing views, opinions, work styles, skills and experience generate new quality and enable companies to achieve better business results.

The basic principles of Polsat Group's Diversity Policy include respect for human rights and prohibition of any discrimination due to gender, age, sexual orientation, competence, experience, potential degree of disability, nationality, ethnic and social origin, color of skin, language, parental status, religion, confession or lack of any confession, political views, or any other dimensions of diversity which are defined by valid law.

The principles and the goals of Polsat Group's Diversity Policy are regulated in the Group's corporate documents, especially in the Code of Ethics, HR Policy, Work Regulations, Regulations of Anti-Mobbing Committee. The Diversity Policy is implemented, among others, by including diversity-related issues in HR processes and tools, such as organization of training and staff development sessions, recruitment and rewarding processes. An Ethics Ombudsman has been appointed in the Group whose tasks include, among others, the prevention of discrimination and mobbing.

The provisions of Polsat Group's Diversity Policy apply to all employees, including Management Board Members and Supervisory Board Members. The diagrams below present the gender and age structures of the Members of the Management and Supervisory Boards of Cyfrowy Polsat.

Structure of the Management Board and the Supervisory Board with respect to gender

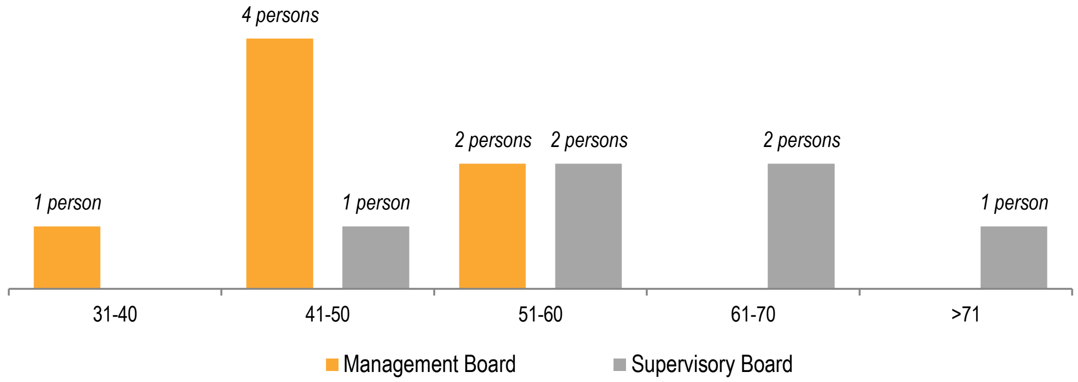


Management Board **Supervisory Board**

As at December 31, 2017 four men and three women sat on Cyfrowy Polsat's Management Board while the Supervisory Board included six men.

Members of the Management Board and the Supervisory Board have education in such fields as management and marketing, law, economy, finance, or technical education as well as rich and diverse professional experience.

Structure of the Management Board and Supervisory Board with respect to age



Tobias Solorz
President of the Management Board

Katarzyna Ostap-Tomann
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, March 21, 2018

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.
Aero2 Group	Aero2 and its indirect and direct subsidiaries - Sferia and Altalog.
AltaLog	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Aero2.
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
B2B	Business to Business, a transaction between businesses.
B2C	Business to Consumer, a transaction between a business and a consumer.
Bonds, Series A Bonds	Dematerialized, interest-bearing, senior and unsecured Series A bearer bonds with the total nominal value of PLN 1 billion and the nominal value of PLN 1,000 each, issued pursuant to the Resolution of the Management Board of the Company No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement.
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
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.
EEA, European Economic Area	Internal Market guaranteeing free move of goods, services, capital and persons, comprising EU Member States and Island, Norway and Lichtenstein.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676. Merged with Eileme 1 on November 24, 2017.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692. Merged with Eileme 1 on November 24, 2017.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684. Merged with Eileme 1 on November 24, 2017.
Embud2	Embud2 spółka z ograniczoną odpowiedzialnością spółka komandytowo-akcyjna (Limited Liability Company Limited Joint-Stock Partnership) entered in the register of entrepreneurs of the National Court Register under entry No. 0000676753, legal successor of Embud spółka z ograniczoną odpowiedzialnością.

Term	Definition
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.
IFRS	The International Accounting Standards, International Financial Reporting Standards and the related Interpretations by the Standing Interpretations Committee and International Financial Reporting Interpretations Committee, adopted pursuant to Commission Regulation (EC) No. 1126/2008 of November 3, 2008, adopting certain international accounting standards in accordance with Regulation (EC) No. 1606/2002 of the European Parliament and of the Council (OJ L 320/1 of November 29, 2008, as amended), as defined in Art. 2 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards (OJ L 243/1 of September 11, 2002, as amended).
Karswell	Karswell Limited, a company under Cypriot law with its registered office in Nicosia, Cyprus.
KRRiT	Krajowa Rada Radiofonii i Telewizji, National Broadcasting Council.
Litenite	Litenite Limited, a company under Cypriot law, registered under No. 240249.
Litenite Notes	Zero-coupon unsecured loan notes 2022 with the total nominal value of PLN 1,524.4 million and the issue price of PLN 782.0 million issued pursuant to the resolution of the management board of Litenite of December 31, 2015. Redeemed in full on April 26, 2017.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel. Merged with Cyfrowy Polsat on April 7, 2017.
Midas	Midas Spółka Akcyjna previously entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704. On November 30, 2016 Midas merged with Aero2.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
NDS	National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych, KDPW*).
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207, operator of mobile network Play.
Play Communications	Play Communications S.A. (*société anonyme*), with its registered office in Grand Duchy of Luxembourg and registered with the Luxembourg Trade and Companies under number B183803, owner of P4.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes Indenture	PLK Senior Notes Indenture of January 26, 2012 between Eileme 2, Eileme 3, Eileme 4, Spartan, Ortholuck, Citibank, N.A., London Branch, Citibank, N.A., New York Branch, and Citigroup Global Markets Deutschland.
PLK Senior Notes	Unsubordinated senior notes with a total nominal value of EUR 542.5 million and USD 500.0 million, maturity date in 2020, issued by Eileme 2. Redeemed in full on February 1, 2016.
PLK Term Facility Loan	The term facility loan of up to PLN 10,300 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Plus Bank	Plus Bank Spółka Akcyjna entered in the register of entrepreneurs of the National Court Register under entry No. 0000096937.
Plus TM Management	Plus TM Management spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000378997.
Polkomtel	Polkomtel spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. 0000419430. The company was established following the transformation of Polkomtel Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000020908.
Polkomtel Business Development	Polkomtel Business Development spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000377416.

Term	Definition
Polkomtel Group	Polkomtel jointly with its indirect and direct subsidiaries.
Polsat Media Biuro Reklamy	Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k. entered in the register of entrepreneurs of the National Court Register under entry No. 0000467579.
Sensor	Sensor Overseas Limited, a company under Cypriot law, with its registered office in Nicosia, Cyprus.
Sferia	Sferia Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000246663.
SOKiK	The District Court in Warsaw, 17th Department for Competition and Consumer Protection.
Telecommunications Law	Telecommunications Law of July 16, 2004 (Dz. U. of 2004, No. 171, item 1800, as amended).
Telewizja Polsat, TV Polsat	Telewizja Polsat spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000388899. The company was established following the transformation of Telewizja Polsat Spółka Akcyjna, which was entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000046163.
Telewizja Polsat Group, TV Polsat Group	Telewizja Polsat together with its direct and indirect subsidiaries.
T-Mobile, T-Mobile Polska	T-Mobile Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000391193, previously operating under the name of Polska Telefonia Cyfrowa Spółka Akcyjna.
TM Rental	TM Rental spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000567976.
UKE	The Office of Electronic Communications (Urząd Komunikacji Elektronicznej).
UOKiK	The Office of Competition and Consumer Protection (Urząd Ochrony Konkurencji i Konsumentów).

Technical terms

Term	Definition
2G	Second-generation cellular telecommunications networks commercially launched on the GSM standard in Europe.
3G	Third-generation cellular telecommunications networks that allow simultaneous use of voice and data services.
4G	Fourth-generation cellular telecommunications networks.
Add-on sales	Sales technique combining cross-selling and up-selling.
Advertising market share	The Group's revenue from advertising and sponsoring in the overall revenue from TV advertising in Poland (market data according to SMG Poland (previously SMG).
Audience share	Percentage of TV viewers watching a channel at a given time, expressed as the percentage of all TV viewers at a given time (based on Nielsen Audience Measurement (NAM), in the "from 16 to 49 years old" demographics throughout the day).
CAGR	Compounded Annual Growth Rate – the average annual growth rate calculated for a given value using the following formula: $$\mathrm{CAGR} = \left(\frac{W_{rk}}{W_{rp}}\right)^{\left(\frac{1}{rk-rp}\right)} - 1$$ where: rp – start year, rk – end year, Wrp – value in start year, Wrk – value in end year.
Catch-up TV	Services providing access to view selected programming content for a certain period after it was broadcast. Cyfrowy Polsat provides such services from 2011.

Term	Definition
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).
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
commercial group	Viewership group comprising viewers aged 16-49, including time-shifted viewership Live+2, i.e. for two consecutive days after the original airing date).
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to online video content belonging to Polsat Group.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).
LTE	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 8x8 antennas).
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
MIMO	Multiple Input Multiple Output, a method for multiplying the capacity of a wireless network using multiple transmit and receive antennas.
Mobile TV	Our pay mobile TV service rendered in DVB-T technology.
MTR	A wholesale charge for call termination in another operator's mobile telecommunications network (Mobile Termination Rate).
Multiroom	Our service providing access to the same range of TV channels on several television sets in one household for a single subscription fee.
MUX, Multiplex	A package of TV and radio channels and additional services, simultaneously transmitted digitally to the user over a single frequency channel.
MVNO	Mobile Virtual Network Operator.
Node B	A device for wireless connection between a mobile terminal and a fixed part of the third-generation telecommunications network.
ODU-IDU	Outdoor Unit Indoor Unit, a proprietary solution of Polsat Group based on a set comprising an external LTE modem (ODU) and an indoor WiFi router (IDU), which increases effective coverage and improve the quality of the LTE signal.
PPV	Services providing paid access to selected TV content (pay-per-view).
Prepaid ARPU	Average monthly revenue per prepaid RGU generated in a given settlement period (including interconnect revenue).
PVR	Electronic commodity hardware for digital recording of TV programs on its hard drive (Personal Video Recorder).
real users	An estimated number of persons who visit a website or open an Internet application at least once in a given month (Real Users).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
TSV (Time Shifted Viewing)	Shifting in time of the consumption of content broadcast on TV in real time by recording it on a storage medium (e.g. digital video recorder) and replaying it at a later time.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.

Term	Definition
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services.
VoLTE	Technology which ensures immediate call set-up, high quality of voice and the possibility to provide advanced communication services with the guarantee of quality, such as e.g. HD video streaming based on the standard phone number (*Voice over LTE*).
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

Management Board's representations

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

Tobias Solorz, President of the Management Board,
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 consolidated financial statements and the comparative information were prepared in accordance with the current effective accounting principles, and they truly and fairly present the financial position of the Group as well as its financial performance, and the Management Board's report on activities contains a true image of the Group's development, achievements, and standing, including description of basic risks and threats;

- the entity authorised to audit the financial statements, which has audited the annual consolidated 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 consolidated 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, 21 March 2018

Independent auditor's report

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the consolidated financial position of Cyfrowy Polsat S.A. (the 'Company') and its subsidiaries (the 'Group') as at December 31, 2017, and its consolidated financial performance and its consolidated 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 Group's consolidated financial statements comprise:

- the consolidated balance sheet as at December 31, 2017;
- the consolidated income statement and the statement of consolidated comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated 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 Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

RJ

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Our audit approach

Overview

- The overall materiality for the engagement was amounting to PLN 90.4 million, i.e. 2.5% of EBITDA.

- We have audited the Company, 4 subsidiaries in Poland and performed selected audit procedures for the remaining entities within the Group.
- The engagement team visited and performed selected audit procedures for 20 subsidiaries that significantly impact consolidated financial statements.
- The scope of our work covered 95% of the Group revenues and 93% of the absolute value of the net profit (before consolidation adjustments).

- Recognizing sales revenue;
- Impairment of non-current assets;
- Calculation of amounts related to deferred taxes, in particular recoverability of deferred tax assets;
- Claims, disputes and contingent liabilities;
- Assessment of new IFRS standards impact.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, 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.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the consolidated 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 consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated 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, both individually and in aggregate on the financial statements as a whole.

Overall group materiality	PLN 90.4 million (PLN 91.0 million for 2016 audit)
How we determined it	2.5% of EBITDA. EBITDA is an alternative performance measure and was defined by the Company in note 14 of the consolidated financial statements. 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 Group for users of financial statements and generally accepted indicator of reference, especially for the entities with a significant external borrowing costs as well as depreciation and amortisation. The overall materiality was assumed at 2.5%, as based on our professional judgement it is in line with the acceptable quantitative thresholds for determining materiality levels.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above PLN 4,520 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 judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated 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 Group disclosed information related to revenues on sales of services, finished goods, goods for resale and materials in Note 9 to the consolidated financial statements. In the financial year ended 31 December 2017, the Group earned revenue: • from retail sales to individual and business customers (mainly in respect of subscription fees on programme packages of paid digital TV and subscription fees for telecommunication services provided to contract customers, and prepaid and mix users); • from wholesale (advertising and sponsoring, revenue from cable and satellite operators, lease of infrastructure, interconnect, roaming, signal transmission and broadcasting services, and licence and sublicence sales); • from sales of equipment; • other revenue. 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 accounting judgements, and is based on the use of computer data processing (in particular billing data).	Our audit procedures covered in particular: • understanding and assessing the internal control environment relating to the recognition, measurement and presentation of particular revenue streams; • 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; • testing IT General Controls and selected IT systems, including billing systems, used in the process of recognizing revenues by the Group to confirm their accuracy and completeness in the audited period; • assessing the Company's Management Board's assumptions and estimates related to recognizing revenues, mainly in respect of multi-component contracts and discounts granted; • in order to confirm the amounts of revenue recognized, testing material contracts concluded by Group companies, on a selected sample, by reconciling amounts of revenue recognized to contract terms for particular revenue streams; • testing internal controls, on a selected sample, 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, on a selected sample, consisting, among other things, of reconciling sales invoices

issued, respective contracts 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 consolidated financial statements.

Impairment of non-current assets

In Note 19 to the consolidated financial statements the Group 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, 2017 in the consolidated financial statements amounted to PLN 11,041.7 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 Group 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 consolidated 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 into cash generating units and determining the level on which goodwill impairment testing is performed, in compliance with the applicable 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:
  - a five-year projection period in respect of future cash flows and the respective assumed revenue level, operating margin and expenditures necessary to keep business operations unchanged;
  - the discount rate used (based on weighted average cost of capital);
  - marginal growth rate after the forecast period;
- assessment of the assumptions adopted in the sensitivity analysis performed by the Management Board on the valuation results that may have impact on the result of the test;
- assessment of the correctness and completeness of disclosures in respect of impairment tests in the consolidated 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. We have not identified any material adjustments to the consolidated financial statements. We assessed goodwill impairment testing disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the consolidated financial statements.

Calculation of amounts related to deferred taxes, in particular recoverability of deferred tax assets

The balance of deferred tax assets recognized as at December 31, 2017 in the consolidated financial statements is PLN 197.2 million.

In Note 13 to the consolidated financial statements, the Group presented disclosures relating to income tax. Additionally, as a result of a change of estimated tax base for some of the Group's assets, Group recognized additional cost in the amount of PLN 144.0 million, as disclosed in note 13 to the consolidated financial statements.

We focused in particular on the analysis of the correctness of recognizing the deferred tax assets by the Group due to the fact that it requires from the Management Board making material accounting assumptions and judgements. Those assumptions and judgements relate mainly to assessing the tax effects of business transactions, the probability of earning future taxable income which would make possible the deduction of tax losses from prior years and assessing the period and the manner of accounting for the tax value of particular assets and liabilities.

Our audit procedures covered in particular:

- understanding and assessing the identification process of temporary differences and calculating deferred tax assets;
- a critical assessment of the assumptions adopted by the Management Board of the Company and the estimates relating to the recoverability of the recognized deferred tax assets;
- an assessment of the tax effects of material transactions to which the Group companies were party in 2017 and their impact on the recognized deferred tax assets and liabilities.

As a result of the audit procedures performed, we have not identified any significant adjustments to the consolidated financial statements.

Claims, disputes and contingent liabilities

The Group presented the disclosures related to contingent liabilities and disputes in notes 35, 43, 46, 47 and 49 to the consolidated financial statements.

In its business operations the Group 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 Group'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 Group's legal advisors of selected (material) disputes, and existing and potential disputes and claims as well as consultations with PwC specialists related to ongoing tax proceedings;
- 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 consolidated 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 Group.

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. As a result of procedures performed, we have not identified any material adjustments to the consolidated financial statements. We assessed claims, disputes and contingent liabilities disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the consolidated financial statements.

Assessment of new IFRS standards impact

In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, the consolidated financial statements should disclose information required to assess the potential impact of new accounting standards that have been published, but are not in force, yet. European Securities and Markets Authority (ESMA), whose member is the Polish Financial Supervision Authority (*Komisja Nadzoru Finansowego*) expects that such disclosures would include both qualitative and detailed quantitative information explaining the impact of the first time adoption of the standards to enable users of the financial statements to understand the impact which the implementation of new standards will have on the financial situation of the Group.

The Group presented disclosures related to the assessment of the new standards IFRS 9 *Financial instruments*, IFRS 15 *Revenue from Contracts with Customers* and IFRS 16 *Leasing* in note 4 to the consolidated financial statements, which presents quantitative and qualitative information enabling users to understand the expected impact of the new standards and areas where the management made significant judgements and estimates related to the implementation of the new standards.

These disclosures were subject to our analysis due to the significant impact of new IFRS (in particular IFRS 15) on consolidated financial statements and the requirement of making significant judgements and estimates by the Company's Management, following the additional requirements related to these disclosures imposed on the public interest entities by the financial oversight bodies.

Our audit procedures covered in particular:

- understanding and assessing the process of identification and assessment of impact of new IFRS on the consolidated financial statements;
- critical assessment of the key assumptions and judgements made by the Company's Management;
- critical assessment of the completeness of analysis performed by the Company's Management;
- detailed testing, on sample basis, of - among other - the declared impact of the new IFRS on the consolidated financial statements;
- verification of accuracy and completeness of disclosures in relation to the requirements of the standards and expectations of the financial oversight bodies.

Our audit procedures did not identify any material adjustments of provisional impact of implementing new standards on equity as of January 1, 2018 disclosed in the consolidated financial statements. We assessed impact of implementation of new standards disclosures and communicated our comments related to their level of detail. We have not identified deficiencies having material impact on the consolidated financial statements.

How we tailored our group audit scope

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

In determining the scope of the Group's audit we specified the scope of the procedures which have been performed by us, i.e. the team auditing the Group's consolidated financial statements, and the scope of procedures performed by the other auditor that audited part of the Group according to our instructions.

The scope of the audit of the consolidated financial statements covered four material Group components, i.e. Cyfrowy Polsat S.A., the Polkomtel Sp. z o.o. Group, the Telewizja Polsat Sp. z o.o. Group and the Aero 2 Sp. z o.o. Group.

Other information

Management is responsible for the other information. The other information comprises the Report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group in the financial year ended December 31, 2017 (the 'Report on the Group's operations').

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the Report on the Group's operations and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 those charged with governance for the consolidated financial statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 Group'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, we determine those matters that were of most significance in the audit of the consolidated 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.

The Key Registered Auditor responsible for the audit resulting in this independent auditor's report is Paweł Wesołowski.

Paweł Wesołowski
Key Registered Auditor
No. 12150

PricewaterhouseCoopers Sp. z o.o.
Warsaw, Poland

March 21, 2018

CYFROWY POLSAT S.A. GROUP

Consolidated Financial Statements
for the year ended 31 December 2017

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

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APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

On 21 March 2018, the Management Board of Cyfrowy Polsat S.A. approved the consolidated financial statements of Cyfrowy Polsat S.A. Group prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which include:

Consolidated Income Statement for the period from 1 January 2017 to 31 December 2017 showing a net profit for the period of:	PLN 945.2
Consolidated Statement of Comprehensive Income for the period from 1 January 2017 to 31 December 2017 showing a total comprehensive income for the period of:	PLN 943.9
Consolidated Balance Sheet as at 31 December 2017 showing total assets and total equity and liabilities of:	PLN 27,756.0
Consolidated Cash Flow Statement for the period from 1 January 2017 to 31 December 2017 showing a net decrease in cash and cash equivalents amounting to:	PLN 159.6
Consolidated Statement of Changes in Equity for the period from 1 January 2017 to 31 December 2017 showing an increase in equity of:	PLN 739.2

Notes to the Consolidated Financial Statements

The consolidated financial statements have been prepared in million of Polish zloty ('PLN') except where 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	

Warsaw, 21 March 2018

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

Consolidated Income Statement

		for the year ended	
	Note	**31 December 2017**	**31 December 2016**
Continuing operations			
Revenue	9	9,828.6	9,729.8
Operating costs	10	(8,015.9)	(8,069.3)
Other operating income, net		21.3	8.8
Profit from operating activities		**1,834.0**	**1,669.3**
Gain/loss on investment activities, net	11	7.2	(69.8)
Finance costs	12	(509.0)	(566.1)
Share of the profit of associates accounted for using the equity method		2.8	-
Gross profit for the period		**1,335.0**	**1,033.4**
Income tax	13	(389.8)	(12.4)
Net profit for the period		**945.2**	**1,021.0**
Net profit attributable to equity holders of the Parent		980.6	1,041.3
Net loss attributable to non-controlling interest		(35.4)	(20.3)
Basic and diluted earnings per share (in PLN)	15	**1.48**	**1.60**

Consolidated Statement of Comprehensive Income

		for the year ended	
	Note	**31 December 2017**	**31 December 2016**
Net profit for the period		**945.2**	**1,021.0**
Items that may not be reclassified subsequently to profit or loss:		***(0.2)***	***0.3***
Actuarial (loss)/gain		(0.2)	0.3
Items that may be reclassified subsequently to profit or loss:		***(1.1)***	***7.9***
Valuation of hedging instruments	29	(1.3)	9.8
Income tax relating to hedge valuation	29	0.2	(1.9)
Other comprehensive income, net of tax		**(1.3)**	**8.2**
Total comprehensive income for the period		**943.9**	**1,029.2**
Total comprehensive income attributable to equity holders of the Parent		979.3	1,049.5
Total comprehensive income attributable to non-controlling interest		(35.4)	(20.3)

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

Consolidated Balance Sheet - Assets

	Note	31 December 2017	31 December 2016
Reception equipment	16	325.3	350.9
Other property, plant and equipment	16	2,867.1	2,964.3
Goodwill	17	11,041.7	10,975.4
Customer relationships	20	2,557.3	3,031.2
Brands	18	2,037.1	2,056.5
Other intangible assets	20	3,261.5	3,656.2
Non-current programming assets	21	170.1	151.8
Investment property		5.1	5.1
Non-current deferred distribution fees	22	91.4	82.8
Other non-current assets, includes:	23	1,270.7	452.0
shares in associates accounted for using the equity method		*665.2*	-
derivative instruments		*1.9*	*9.5*
Deferred tax assets	13	197.2	232.7
Total non-current assets		**23,824.5**	**23,958.9**
Current programming assets	21	251.7	192.0
Inventories	24	283.7	278.7
Trade and other receivables	25	1,983.2	1,688.0
Income tax receivable		1.3	29.1
Current deferred distribution fees	22	207.9	207.2
Other current assets	26	31.7	38.7
includes derivative instruments		*5.1*	*6.7*
Cash and cash equivalents	27	1,161.5	1,326.0
Restricted cash	27	10.5	10.7
Total current assets		**3,931.5**	**3,770.4**
Total assets		**27,756.0**	**27,729.3**

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

Consolidated Balance Sheet - Equity and Liabilities

	Note	31 December 2017	31 December 2016
Share capital	28	25.6	25.6
Share premium	28	7,174.0	7,174.0
Other reserves	29	3.2	4.5
Retained earnings		4,871.4	4,095.5
Equity attributable to equity holders of the Parent		**12,074.2**	**11,299.6**
Non-controlling interests		42.6	78.0
Total equity		**12,116.8**	**11,377.6**
Loans and borrowings	30	9,291.4	9,302.7
Issued bonds	31	975.7	1,835.7
Finance lease liabilities	32	18.6	20.9
UMTS license liabilities	33	440.8	574.0
Deferred tax liabilities	13	879.8	786.9
Deferred income	36	3.2	20.1
Other non-current liabilities and provisions	34	114.2	130.2
Total non-current liabilities		**11,723.7**	**12,670.5**
Loans and borrowings	30	1,341.9	1,270.0
Issued bonds	31	42.5	42.4
Finance lease liabilities	32	9.7	5.0
UMTS license liabilities	33	114.5	121.5
Trade and other payables	35	1,727.3	1,569.5
includes derivative instruments		*3.6*	-
Income tax liability		61.3	24.9
Deferred income	36	618.3	647.9
Total current liabilities		**3,915.5**	**3,681.2**
Total liabilities		**15,639.2**	**16,351.7**
Total equity and liabilities		**27,756.0**	**27,729.3**

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

Consolidated Cash Flow Statement

		for the year ended	
	Note	**31 December 2017**	**31 December 2016**
Net profit		**945.2**	**1,021.0**
Adjustments for:		**2,181.1**	**2,130.5**
Depreciation, amortization, impairment and liquidation	10	1,783.0	1,971.5
Payments for film licenses and sports rights		(305.1)	(246.5)
Amortization of film licenses and sports rights		228.6	230.7
Interest expense		432.3	541.9
Change in inventories		(5.0)	3.0
Change in receivables and other assets		(470.8)	(329.9)
Change in liabilities, provisions and deferred income		183.1	(33.3)
Change in internal production and advance payments		3.9	(6.1)
Foreign exchange (gains)/losses, net		(31.1)	270.9
Income tax	13	389.8	12.4
Net additions of reception equipment provided under operating lease		(137.5)	(153.0)
Net profit on derivatives		(1.5)	(164.9)
Early redemption costs	12,31	58.7	-
Share of the profit of associates accounted for using the equity method		(2.8)	-
Other adjustments		55.5	33.8
Cash from operating activities		**3,126.3**	**3,151.5**
Income tax paid		(216.2)	(292.7)
Interest received from operating activities		31.3	25.9
Net cash from operating activities		**2,941.4**	**2,884.7**
Acquisition of property, plant and equipment		(524.8)	(436.2)
Acquisition of intangible assets		(214.3)	(154.2)
Concessions payments		(120.7)	(268.5)
Acquisition of shares in associates	23	(662.5)	-
Acquisition of subsidiaries, net of cash acquired	37	(66.8)	(144.4)
Proceeds from sale of property, plant and equipment		19.3	9.5
Granted loans		(31.1)	(11.6)
Repayment of granted loans		30.5	0.1
Acquisition of bonds		(9.3)	-
Other inflows		6.4	1.9
Net cash used in investing activities		**(1,573.3)**	**(1,003.4)**

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

Repayment of loans and borrowings	30	(1,162.5)	(1,940.9)
Loans and borrowings inflows	30	1,200.0	5,500.0
Bonds redemption	31	(886.7)	(4,484.0)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(409.9)	(729.6)
Dividend payment	28	(204.7)	-
Acquisition of bonds issued by Midas		-	(323.6)
Early redemption fee	31	(58.7)	(262.1)
Hedging instrument effect – principal		-	175.4
Other outflows		(5.2)	(6.0)
Net cash used in financing activities		**(1,527.7)**	**(2,070.8)**
Net decrease in cash and cash equivalents		**(159.6)**	**(189.5)**
Cash and cash equivalents at the beginning of the period		**1,336.7*** **	**1,523.7** **
Effect of exchange rate fluctuations on cash and cash equivalents		(5.1)	2.5
Cash and cash equivalents at the end of the period		**1,172.0**** **	**1,336.7*** **

* includes impact of derivative instruments
** includes restricted cash amounting to PLN 11.7
*** includes restricted cash amounting to PLN 10.7
**** includes restricted cash amounting to PLN 10.5

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Note	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	**Equity attributable to equity holders of the Parent**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2017		**639,546,016**	**25.6**	**7,174.0**	**4.5**	**4,095.5**	**11,299.6**	**78.0**	**11,377.6**
Dividend declared and paid	28	-	-	-	-	(204.7)	(204.7)	-	**(204.7)**
Total comprehensive income		-	-	-	(1.3)	980.6	**979.3**	**(35.4)**	**943.9**
Hedge valuation reserve	*29*	-	-	-	*(1.1)*	-	***(1.1)***	-	***(1.1)***
Actuarial loss		-	-	-	*(0.2)*	-	***(0.2)***	-	***(0.2)***
Net profit for the period		-	-	-	-	*980.6*	***980.6***	***(35.4)***	***945.2***
Balance as at 31 December 2017		**639,546,016**	**25.6**	**7,174.0**	**3.2**	**4,871.4**	**12,074.2**	**42.6**	**12,116.8**

Consolidated Statement of Changes in Equity

for the year ended 31 December 2016

	Note	Number of shares	Share capital	Share premium	Other reserves	Retained earnings*	**Equity attributable to equity holders of the Parent**	**Non-controlling interests**	**Total equity**
Balance as at 1 January 2016		**639,546,016**	**25.6**	**7,174.0**	**(3.7)**	**3,054.2**	**10,250.1**	-	**10,250.1**
Acquisition of Litenite		-	-	-	-	-	-	**98.3**	**98.3**
Total comprehensive income		-	-	-	8.2	1,041.3	**1,049.5**	**(20.3)**	**1,029.2**
Hedge valuation reserve	*29*	-	-	-	*7.9*	-	***7.9***	-	***7.9***
Actuarial gain		-	-	-	*0.3*	-	***0.3***	-	***0.3***
Net profit for the period		-	-	-	-	*1,041.3*	***1,041.3***	***(20.3)***	***1,021.0***
Balance as at 31 December 2016		**639,546,016**	**25.6**	**7,174.0**	**4.5**	**4,095.5**	**11,299.6**	**78.0**	**11,377.6**

* As at 31 December 2017 and 31 December 2016 the capital excluded from distribution amounts to PLN 8.5. In accordance with the provisions of the Commercial Companies Code, joint-stock companies are required to transfer at least 8% of their annual net profits to reserve capital until its amount reaches one third of the amount of their share capital.

Notes to the Consolidated Financial Statements for the year ended 31 December 2017

General information

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

- Marek Kapuściński	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board (to 30 November 2017),
- Tomasz Szeląg	Member of the Supervisory Board.

4. Basis of preparation of the consolidated financial statements

Statement of compliance

These consolidated financial statements for the year ended 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards as adopted by the EU (IFRS EU). The Group applied the same accounting policies in the preparation of the financial data for the year ended 31 December 2017 and the consolidated financial statements for the year 2016, presented in the consolidated annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2017.

During the year ended 31 December 2017 the following became effective:

(i) amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
(ii) amendments to IAS 7 *Disclosure Initiative*
(iii) annual improvements – 2014-2016 reporting cycle

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

Standards published but not yet effective:

(i) amendments to IFRS 9 *Financial instruments*
(ii) IFRS 15 *Revenue from Contracts with Customers*
(iii) clarification to IFRS 15 *Revenue from Contracts with Customers*
(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 16 *Leasing*
(vii) annual improvements – 2014-2016 reporting cycle
(viii) IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
(ix) amendments to IAS 40 *Investment property*
(x) IFRIC 23 Uncertainty over income tax treatment
(xi) Amendments to IAS 28 *Long-term Interests in Associates and Joint Ventures*
(xii) Annual Improvements to IFRS Standards 2015-2017 Cycle
(xiii) Amendments to IAS 19 *Employee benefits*

A number of new standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted. However the Group has not early adopted the new or amended standards in preparing these consolidated financial statements.

The following standards are expected to have a material impact on the Group's consolidated financial statements in the period of initial application.

Estimated impact of the adoption of IFRS 9 and IFRS 15

The Group is required to adopt IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* from 1 January 2018. As at the date of publication of these consolidated financial statements the Group has not made its final decision whether to adopt IFRS 15 retrospectively without restatement of the comparative information or retrospectively with restatement of the comparative information. The Group has assessed the estimated impact that the initial application of IFRS

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9 and IFRS 15 will have on its consolidated financial statements. The estimated impact of the adoption of these standards on the Group's equity as at 1 January 2018 is based on assessments undertaken to date and is summarised below. The actual impact of adopting the standards at 1 January 2018 may change because the Group is still in the process of confirmation of final assumptions required to recognize revenue pursuant to the new standard.

	Estimated impact of adoption of IFRS 9 and IFRS 15			
	As reported at 31 December 2017	Estimated adjustments due to adoption of IFRS 9	Estimated adjustments due to adoption of IFRS 15	Estimated adjusted opening balance at 1 January 2018
Retained earnings	4,871.4	(2.2)	483.4	5,352.6

The total estimated adjustment (net of tax) to the opening balance of the Group's equity at 1 January 2018 is PLN 481.2. The principal components of estimated adjustment are as follows:

- an increase of PLN 483.4 in retained earnings due to earlier recognition of revenue (more details are presented in note *IFRS 15 Revenue from Contracts with Customers*),
- a decrease of PLN 2.2 in retained earnings due to impairment losses on non-due trade receivables.

IFRS 9 Financial Instruments

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

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, at fair value though other comprehensive income and at fair value through profit or loss. Based on its assessment, the Group does not expect that the new classification requirements will have material impact on its accounting for trade receivables, loans, investments in debt securities and investments in equity securities that are managed on a fair value basis.

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

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' ('ECL') model. This will require considerable judgement about how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The Group anticipates that the application of the expected credit loss model of IRFS 9 will result in earlier recognition of credit losses for the respective items.

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

IFRS 15 Revenue from Contracts with Customers

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

In the case of the Group, the biggest change caused by the implementation of the standard concerns the recognition of revenues from multi-element contracts (e.g. mobile contract plus handset), which includes sale of subsidized products delivered at date of the agreement: the cumulative amount of revenues over the contract term will not change, but there will be a change in the allocation between revenues from sale of equipment and revenues from the services rendered (a greater part of the total remuneration will be assigned to the equipment delivered in advance, requiring earlier recognition of revenue).

Earlier revenue recognition will result in the recognition of assets from contracts in the statement of financial position representing the Group's right to future remuneration for the products and serviced provided to the customer.

IFRS 16 Leases

IFRS 16 replaces existing leases guidance, including IAS 17 *Leases*. The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 at or before the date of initial application of IFRS 16. The Group did not early adopt IFRS 16.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are recognition exemptions for short-term leases and leases of low-value items.

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 Group assesses that the agreements for base transceiver stations and space rental which are currently presented as operational lease may result in recognition of right-of-use asset and finance liability. The Group is currently assessing the impact of IFRS 16 on the consolidated financial statements. Future minimum lease payments under operating lease pursuant to currently effective standards are presented in note 32.

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5. Group structure

These consolidated financial statements for the year ended 31 December 2017 include the following entities:

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2017	Share in voting rights (%) 31 December 2016
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries accounted for using full method:				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	television broadcasting and production	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o. Sp. k.	Ostrobramska 77, 04-175 Warsaw	advertising activities	100%	100%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licences	100%	100%
Telewizja Polsat Holdings Sp. z o.o. [(a)]	Ostrobramska 77, 04-175 Warsaw	holding activities	-	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	media	100%	100%
PL 2014 Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	telecommunication activities	100%	100%
Polsat Brands AG	Alte Landstrasse 17, 8863 Buttikon, Switzerland	intellectual property rights management	100%	100%
Polsat Ltd.	238A King Street, W6 0RF London, UK	television broadcasting	100%	100%
Muzo.fm Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
INFO-TV-FM Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	radio and TV activities	100%	100%
CPSPV1 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
CPSPV2 Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	technical services	100%	100%
Metelem Holding Company Limited [(b)]	Chrysanthou Mylona 3 Office no. 102, CY 3030 Limassol Cyprus	holding and financial activities	-	100%

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			Share in voting rights (%)	
	Entity's registered office	Activity	31 December 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
Eileme 1 AB (publ)	Stureplan 4C, 114 35 Stockholm Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ) (c)	Stureplan 4C, 114 35 Stockholm Sweden	holding and financial activities	-	100%
Eileme 3 AB (publ) (c)	Stureplan 4C, 114 35 Stockholm Sweden	holding and financial activities	-	100%
Eileme 4 AB (publ) (c)	Stureplan 4C, 114 35 Stockholm Sweden	holding and financial activities	-	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (in liquidation) (d)	Norrlandsgatan 18, 111 43 Stockholm Sweden	financial activities	-	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intelectual property rights management and rental	100%	100%
LTE Holdings Limited (e)	Kostaki Pantelidi 1, 1010, Nicosia Cyprus	holding activities	-	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intelectual property rights rental	100%	100%
IT Polpager S.A.(f)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	maintenance of telco network	-	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%

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

	Entity's registered office	Activity	Share in voting rights (%) 31 December 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. Sp. k.	Al. Jerozolimskie 81, 02-001 Warsaw	call center and premium rate services	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	*	*
Grab Sarl (g)	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	-	100%
Grab Investment SCSp (h)	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	-	100%
Litenite Ltd.	Kostaki Pantelidi 1 1010, Nicosia, Cyprus	holding activities	100%	100%
Aero 2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	51%
Altalog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	66%
Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.)(i)	Konstruktorska 4, 02-673 Warsaw	management and rental services	100%	49%**
Eska TV S.A. (j)	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	-
Lemon Records Sp. z o.o.(j)	Jubilerska 10, 04-190 Warsaw	television broadcasting and production	100%	-

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

** As at 31 December 2016 the shares in Paszport Korzyści Sp. z o.o. were accounted for under the equity method.

a) On 28 April 2017a merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o. was registered.

(b) On 7 April 2017 a cross-border merger of Cyfrowy Polsat with its subsidiary Metelem Holding Company Limited was registered.

(c) On 24 November 2017 a merger of Eileme 2 AB (publ), Eileme 3 AB (publ) and Eileme 4 AB (publ) with Eileme 1 AB (publ) was registered.

(d) On 29 June 2017 a liquidation of Polkomtel Finance AB (publ) was registered.

(e) LTE Holdings Limited was disposed on 19 June 2017.

(f) On 31 March 2017 a merger of Polkomtel Sp. z o.o. with IT Polpager S.A. was registered.

(g) On 20 July 2017 a liquidation of Grab Sarl was registered.

(h) On 8 June 2017 a liquidation of Grab Investment SCSp was registered.

(i) Company consolidated from 7 September 2017 following acquisition of 51% shares (see note 37).

(j) Company consolidated from 4 December 2017 following acquisition of 100% shares (see note 37).

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

Investments accounted for under the equity method:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 December 2017**	**31 December 2016**
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, 02-952 Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.[(a)]	Wołoska 18, 02-675 Warsaw	maintenance of loyalty programs	-	49.97%
TV Spektrum Sp. z o.o.[(b)]	Dęblińska 6, 04-187 Warsaw	television broadcasting and production	34.02%	-
Netia S.A.[(c)]	Poleczki 13, 02-822 Warsaw	telecommunication activities	31.76%	-

(a) The shares in New Media Ventures Sp. z o.o. were disposed on 8 December 2017.

(b) On 4 December 2017 Telewizja Polsat Sp. z o.o. acquired 34.02% shares in TV Spektrum Sp. z o.o. (see note 23).

(c) On 5 December 2017 the Company acquired 31.76% shares in Netia S.A. (see note 23).

Additionally, the following entities were included in these consolidated financial statements for the year ended 31 December 2017:

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 December 2017**	**31 December 2016**
Karpacka Telewizja Kablowa Sp. z o.o.*	Warszawska 220, 26-600 Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, 00-697 Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25E lok. 216, 10-686 Olsztyn	infrastructure projects advisory	1.5%**	1.5%**

* Investment accounted for at cost less any accumulated impairment losses.

** Altalog Sp. z o.o. holds 2.3% share in voting rights in InPlus Sp. z o.o.

Principles applied in the preparation of financial statements

6. Accounting and consolidation policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements by all entities within the Group.

a) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which are stated at fair value.

b) Going concern

These consolidated financial statements have been prepared assuming that the Group's entities will continue as a going concern in the foreseeable future, not shorter than 12 months from 31 December 2017.

c) Functional and presentation currency

These consolidated financial statements are presented in the Polish zloty, rounded to million, the Group's functional currency.

d) Use of estimates and judgments

The preparation of consolidated 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 judgments in applying accounting policies is included in note 49.

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 2017 is not comparable to the year ended 31 December 2016 as Litenite Ltd. was acquired on 29 February 2016, IT Polpager S.A. was acquired on 30 September 2016, LTE Holdings Limited was disposed on 19 June 2017, 51% shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) were acquired on 7 September 2017, Eska TV S.A. and Lemon Records Sp. z o.o. were acquired on 4 December 2017, 34.02% shares in TV Spektrum Sp. z o.o. were acquired on 4 December 2017, 31.76% shares in Netia S.A. were acquired on 5 December 2017 and shares in New Media Ventures Sp. z o.o. were disposed on 8 December 2017.

f) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Parent. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The financial statements of subsidiaries are prepared for the same period as the financial statements of the Company and using the accounting policies that are consistent with those of the Company for like transactions and events.

(ii) Associates and Joint arrangements

Associates are all entities over which the Group has significant influence but not control or joint control, over the financial and operating policies. This is generally the case where the Group hold between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method.

The Group applies IFRS 11 to all joint arrangements. Under IFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. When the Group's share of losses in an equity-accounted investment equals or exceeds its interests in the entity (which includes any long term interests that, in substance, form part of the Group's net investment), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains and losses or income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and joint ventures are eliminated against the investment to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(iv) Entities acquired under common control

Business combinations are governed by IFRS 3 "Business Combinations". However, this standard excludes from its scope transactions between entities under common control. According to IAS 8 par. 10-12, in the absence of an IFRS that specifically applies to a transaction, management shall use its judgment in developing and applying accounting policy that shall be consistently used for similar transactions.

Accordingly, the Group has chosen the acquisition method for entities acquired under common control in accordance with IFRS 3.

g) Foreign currency transactions

Foreign currency transactions

Transactions in foreign currencies are translated to the Polish zloty at exchange rates in effect one day prior to the recording of these transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Polish zloty at the average exchange rate quoted by the National Bank of Poland ("NBP") for that date. The foreign currency exchange differences arising on translation of transactions denominated in foreign currencies and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognized in profit and loss. Non-monetary assets and liabilities in a foreign currency that are measured in terms of historical cost are translated using the average NBP exchange rate in effect at the date of the initial recognition. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are translated at the average NBP foreign exchange rate in effect at the date the fair value was determined.

h) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other liabilities.

Non-derivative financial instruments, other than investments recognized at fair value through profit and loss, are recognized initially at fair value plus any directly attributable transaction costs (with certain exceptions as described below).

A financial instrument is recognized when the Group becomes a party to the contractual obligations of the instrument. The Group derecognises a financial asset when contractual rights to the cash flows from the financial assets expire, or it transfers the financial asset to another party in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Standardised transactions for sale or purchase of financial assets are recognized at the transaction date i.e. on the date the Group assumes an obligation to acquire or sell the asset. Financial liabilities are derecognized when the Group's obligations specified in the contract expire or are discharged or cancelled.

Principles for recognition of gains and losses on investment activities and costs are presented in note 6u.

Loans and receivables and other financial liabilities

Loans and receivables which are not derivative financial instruments are measured at amortized cost using the effective interest method, less any impairment losses. Other non-derivative financial liabilities are measured at amortized cost using the effective interest method.
Cash and cash equivalents comprise cash on hand and call deposits. The cash and cash equivalents balance presented in the consolidated cash flow statement comprises the above mentioned elements of cash and cash equivalents.

(ii) Derivative financial instruments

Hedge accounting

The Group 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.

For the purpose of hedge accounting, the Group'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 Group formally designates and documents the hedge relationship to which the Group 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 Group 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 costs 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 Group 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 Group intends to 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.

i) Equity

Ordinary shares

Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

Preference share capital

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 issue and public offering 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 the issue value over the nominal value of shares issued decreased by share issuance-related consulting costs.

Retained earnings

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.

j) Property, plant and equipment

(i) Property, plant and equipment owned by the Group

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 Group to earn rentals or for capital appreciation or both.

Investment property is measured initially at cost. Once recognized all investment property held by the Group 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 Group and the amount of the cost can be measured reliably. Replaced item is derecognized. Other property, plant and equipment related costs are recognized in profit and loss as incurred.

(iv) Depreciation

Depreciation expense 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 following are estimated useful lives of respective group of property, plant and equipment:

Reception equipment	2 or 3 or 5	years
Buildings and structures	2 - 61	years
Technical equipment and machinery	2 - 30	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 measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Set-top boxes, modems and routers that are provided to customers under operating lease agreements are recognized within property, plant and equipment (Reception equipment in the balance sheet).

Assets subject to the lease are depreciated in a manner that is consistent with the policies applied to similar Group-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 any indication that an asset may be impaired or there is uncertainty as to those assets' revenue generating potential or their future use in the Group's operations. The accounting policies relating to impairment are presented in note 6n.

k) 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) Customer relationships

Customer relationships acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives.

(iii) Brands

Brands acquired as a result of the acquisition of subsidiaries are amortized on a straight-line basis over their useful lives, except where an indefinite period of use is justified. Brands with an indefinite useful life are tested annually for impairment or more frequently if impairment indicators exist. The estimated useful lives for respective brands are as follows:

- Polsat, TV4, TV6, Ipla and Lemon Records brands: indefinite useful life
- Plus brand: 51 years (i.e. 2065).

(iv) Other intangible assets

The Group capitalises costs of IT software internally generated, including employee-related expenses, directly resulting from generation and preparing asset to be capable of operating, if the Group is able to measure reliably the expenditure attributable to such development and when it can reliably establish the commencement as well as the completion date of the software development activities.

Other intangible assets acquired by the Group are measured 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 expense 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 recoverable amounts of intangible assets which are not yet available for use are measured as at each balance sheet date.

The estimated useful lives for respective intangible assets groups are as follows:

- Computer software: 2-15 years,
- Customer relationships: 3-13 years,
- Concessions: period resulting from an administrative decision,
- Other: 2-7 years.

l) Programming assets

Programming assets comprise acquired formats, licences and copyrights for broadcasting feature films, series, news and shows, capitalized costs of commissioned external productions ordered by the Group, capitalized sports rights and advance payments made (including advance payments for sports rights).

(i) Initial recognition

Programming rights, other than sports rights, are recognized at cost as programming assets when the legally enforceable licence period begins and all of the following conditions have been met:

- the cost of each program is known or reasonably determinable,
- the program material has been accepted by the Group in accordance with the conditions of the licence agreement,
- the program is available for its first showing.

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

Capitalized costs of productions include costs of programs ordered by the Group, including productions made based on licences purchased from third parties. Capitalized costs of productions are measured individually for each program at their respective production or acquisition costs, not to exceed their recoverable amounts.

Sports rights are recognized at cost at broadcast date. The rights to broadcast seasonal sports events, acquired in long term contracts (often for multiple seasons), are capitalized at cost based on a relative value assigned to a given season of the sport event as estimated by Group's internal experts.

Advance payments for acquired programming assets, prior to licence begin date, are recognized as prepayments for programming assets.

Signed and binding contracts for purchase of programming, which do not meet recognition criteria for programming assets are not recognized in the balance sheet and are instead disclosed as contractual commitments in the amount of the outstanding contract liability at the reporting date.

Programming assets are classified as non-current or current based on the estimate timing of the broadcast. A programming asset is recognized as current when the expected broadcast falls within 1 year from the reporting date. Sport rights and prepayments for sport rights are classified as current or non-current based on dates of related sport events.

(ii) Amortization

Programming assets are amortized using the method reflecting the manner of consuming the economic benefits embodied in the licenses acquired within their estimated useful lives limited by the term of the respective license agreements.

- Feature films and series – amortization starts at the first broadcast. Consumption of the economic benefits is measured using a declining balance method according to a standardized rate matrix and depends on the number of showings permitted or planned, primarily as described below:

	Feature films			
Number of depreciable runs	**Rate per run**			
	I	II	III	IV
1	100%			
2	60%	40%		
3	40%	30%	30%	
4 and more	35%	25%	25%	15%

	TV series	
Number of depreciable runs	**Rate per run**	
	I	II
1	100%	
2	80%	20%

- Feature films and series broadcasted on thematic channels are mainly amortized in four or five runs using the rates of 25% and 20% respectively.

- Sport rights – 100% of the cost is recognized in profit or loss on the first broadcast or, where seasonal rights or rights for multiple seasons or competitions are acquired, such rights are principally amortized on a straight-line basis over the seasons or competitions.
- Commissioned external productions intended for only one run are fully amortized on their first broadcast.
- News programming is fully amortized at its first broadcast.
- General entertainment shows are fully amortized at their first broadcast.

Amortization of programming assets is presented in Content costs line in the operating costs of the income statement.

(iii) Impairment

Programming assets are reviewed for impairment at least annually and whenever there is any indication that the carrying amount may not be recoverable. Impairment losses are recognized on each license in case of withdrawal from broadcasting an item in the expected future (resulting from changes in strategic program scheduling, changing audience tastes, media law restrictions on the usability of films) and expected future losses anticipated on disposal of the rights.

Impairment write downs on programming assets are recognized as part of the cost of sales. Impairment of programming assets is reversed if the reason for the original impairment ceases to exist. The reversals are recorded as cost of sales reductions.

m) Inventories

Inventories are measured at the lower of cost and net realizable value. Cost of acquisition or production cost of inventories is determined by using the weighted average cost method.

The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in making them available for use or sale. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads determined based on normal operating capacity.

Net realisable value is the current market 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 Group are sold below cost, the loss on the sale is recorded when transferred to the customer.

The Group creates an allowance for slow-moving or obsolete inventories.

n) Impairment of assets

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized 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 each reporting 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 the 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 pattern for overdue receivables collection.

All impairment losses are recognized in profit or loss statement in Cost of debt collection services and bad debt allowance and receivables written off.

Impairment losses are reversed if a subsequent increase in the recoverable amount of a financial asset can be objectively attributed 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 reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated by the Group. The recoverable amount of intangible assets which are not yet available for use as well as of goodwill and brands with indefinite useful life is estimated at each reporting date.

An impairment loss is recognized when the carrying amount of an asset or its related cash-generating unit exceeds its estimated recoverable amount. A cash-generating unit represents the smallest identifiable group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of thereof. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of a cash-generating unit are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (group of units), and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

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 inflows, the value in use is estimated for the smallest identifiable cash-generating unit to which the asset belongs.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recorded in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss 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 plan

All Group entities that act as employers have an obligation, under applicable legislation, to collect and remit contributions to the state pension fund. According to IAS 19 *Employee Benefits* such benefits represent state plans that are classified as defined contribution plans. Therefore, the Group's obligations for a given period are estimated as the amount of contributions to be remitted for that period.

(ii) Defined benefit plan – retirement benefits

The Group entities have an obligation, under applicable legislation, to pay retirement benefits calculated in accordance with the relevant provisions of the Polish labor code. The minimum retirement benefit is as per the labor code provisions at the moment of payment.

The calculation is carried out using the Projected Unit Credit Method. Employee turnover is estimated based on historical experience and expected future employment levels.
Changes in the amount of the retirement benefits liability 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.

A liability is recognized for the amount expected to be paid under short-term bonus, if the Group has a present 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 if, as a result of past event, the Group has a present obligation, 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, provisions are determined by discounting the expected future cash flows at a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Certain disclosures may not be included in these consolidated financial statements as they relate to sensitive information.

(i) Warranties

A provision for warranties is recognized when the underlying products or goods are sold. The amount of the provision is based on historical warranty data and a weighting of all possible outflows against their associated probabilities.

(ii) Onerous contracts

A provision for onerous contracts is recognized when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of fulfilling the contract. Before a provision is established, the Group recognizes any impairment loss on the assets dedicated to that contract.

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 Group 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.

The Group does not recognize a contingent liability, except for contingent liability assumed in a business combination.

Unless the possibility of any outflow in settlement is remote, the Group 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 is measured at the fair value of the consideration received or receivable, representing the gross inflow of economic benefit from Group's operating activities, net of returns, trade discounts and volume rebates. Revenue is recognized when persuasive evidence exists that recovery of the consideration is probable, the associated costs can be estimated reliably and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then such discounts are recognized as a reduction of revenue when it is recognized.

The Group's main sources of revenue are recognized as follows:

(a) Retail revenue consists primarily of monthly subscription fees paid by our pay digital television contract customers for programming packages, subscription fees paid by our contract customers for telecommunication services, fees for telecommunication services provided to our contract customers, which are not included in the subscription fee, payments for telecommunication services paid by our prepaid and mix customers, fees for the lease of set-top boxes, activation fees, penalties, and fees for additional services.
Services revenues are recognized in profit and loss in the period when related services are rendered.
Revenues from prepaid mobile telephone services are recognized in profit or loss once the prepaid credit is utilized or forfeited.
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.

(b) Wholesale revenue comprises advertising and sponsorship revenue, revenue from cable and satellite operator fees, revenue from the lease of infrastructure, interconnect revenue, revenue from roaming, revenue from the sale of broadcasting and signal transmission services and revenue from the sale of licenses, sublicenses and property rights and revenue from premium rate services.
Advertising and sponsorship revenue is derived primarily from broadcasting of advertising content and is recognized in the period when the advertising is broadcast. Revenue is recognized in profit or loss in the amount due from customers net of value added tax, taxes on revenue from advertising of alcohol beverages and any rebates granted. Advertising and sponsorship revenue also comprises revenue on commissions on sales of commercial airtime when the Group acts as an agent on behalf of third parties. The commissions are recognized at amounts due from the buyers of advertising airtime or sponsorship services, less of any amounts due to television broadcasters. Revenue from commissions on sales of commercial airtime and from sponsorship is recognized in the consolidated income statement when these services are rendered.

Revenue from charges made to cable and satellite operators includes fees from cable and satellite operators for reemission (rebroadcasting) of programs produced by the Group. Revenue is recognized when the related programs are broadcast.

Services revenues are recognized in profit and loss in the period when related services are rendered, net of any discount given.

(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.
Other revenue includes primarily revenue from the lease of premises and facilities, revenue from interest on installment plan purchases, revenue from the sale of electric energy and other sales revenue.

When the Group 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 recognized for items already received cannot be higher than cash already received.

s) Distribution fees

Commissions payable to distributors for registering new subscribers and for retention of existing subscribers are recognized over the minimum base period of the subscription agreement.

Commissions for distributors which will be settled within 12 months of the reporting date are classified as other current assets, while the commissions, which will be settled more than 12-months after the reporting date, are classified as non-current assets.

t) Barter revenue and cost

Barter revenue for dissimilar services or goods is recognized when the services are rendered or goods delivered. Programming licences, products and services received are expensed or capitalized when received or used. The Group recognizes barter transactions at the estimated fair value of the programming licences, products or services received. When products or services are received before related advertising is broadcast, a liability is recognized by the Group. Conversely, when advertising is broadcast before products or services are received, a receivable is recognized by the Group.

u) Gains and losses on investment activities and finance costs

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

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 Group’s right to receive payment is established.

Finance costs comprise interest expense on borrowings (including bank loans and bonds), foreign exchange gains/losses on bonds, realization and valuation costs of hedging instruments and instruments not under hedge accounting related to finance activities, bank and other charges on borrowings 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 made under operating leases 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 made under finance leases 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) Income tax

Income tax expense/benefit comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income.

Current tax is the tax payable on the taxable income for the year, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized using the balance sheet approach, 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 recovery or settlement of the carrying amounts of assets and liabilities, respectively, using tax rates that are enacted or substantively enacted at the reporting 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 utilized. An amount of deferred tax assets is reduced to the extent that it is no longer probable that the related tax benefit will be partly or wholly realized. When not recognized deferred tax asset becomes recoverable, it is recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are offset by the Group companies.

x) Earnings per share

The Group 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 continuing operations attributable to ordinary and preference shareholders by the weighted average number of ordinary and preference shares, adjusted by the effects of all dilutive potential ordinary and preference shares.

y) Segment reporting

An operating segment is a component of the Group that is engaged in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components.

The Group presents operating segments according to its internal management accounting principles applied in the preparation of periodical management reports which are regularly analysed by the Management Board of Cyfrowy Polsat S.A. These reports are analyzed on regular basis by management which was identified as the chief operating decision maker.

z) Cash flows statement

Cash and cash equivalents in the cash flow statement are equal to cash and cash equivalents presented in the consolidated balance sheet.

Purchases of set-top boxes to be provided to customers under operating lease contracts are classified in the cash flows statement within operating activities. The purchases and disposals of these set-top boxes are classified in the cash flows statement within operating activities and presented as "Net disposals/(additions) in reception equipment provided under operating lease".

Acquisition of items of property, plant and equipment or intangible assets are presented in their net amount (net of related value added tax).

Payments for film licences and sport rights are presented on a net basis (net of related value added tax) within operating activities. Expenditures on the acquisition of programming assets also include the amount of withholding tax paid to the relevant tax authorities.

7. Determination of fair values

A number of accounting policies 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. When applicable further information about the assumptions made in determining fair values is disclosed in the 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 the market rate of interest rate as at the balance sheet date.

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

(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 Group's credit risk. A market interest rate for a finance lease contract is estimated based on interest rates for similar lease contracts.

8. Approval of the Consolidated Financial Statements

These consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 21 March 2018.

Explanatory notes

9. Revenue

	for the year ended	
	31 December 2017	**31 December 2016**
Retail revenue	6,067.9	6,325.3
Wholesale revenue	2,538.6	2,466.1
Sale of equipment	1,055.2	850.8
Other revenue	166.9	87.6
Total	**9,828.6**	**9,729.8**

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

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

Other revenue mainly consists of revenue from interest on installment plan purchases, revenue from the lease of premises and facilities and revenue from the sale of electric energy.

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

10. Operating costs

		for the year ended	
	Note	31 December 2017	31 December 2016
Technical costs and cost of settlements with telecommunication operators		2,014.0	1,938.7
Depreciation, amortization, impairment and liquidation		1,783.0	1,971.5
Cost of equipment sold		1,323.6	1,354.7
Content costs		1,153.6	1,114.2
Distribution, marketing, customer relation management and retention costs		894.3	827.8
Salaries and employee-related costs	a	553.1	570.5
Cost of debt collection services and bad debt allowance and receivables written off		67.4	46.9
Other costs		226.9	245.0
Total		**8,015.9**	**8,069.3**

a) Salaries and employee-related costs

	for the year ended	
	31 December 2017	31 December 2016
Salaries	465.0	481.4
Social security contributions	71.0	73.4
Other employee-related costs	17.1	15.7
Total	**553.1**	**570.5**

Average headcount of non-production employees*

	for the year ended	
	31 December 2017	31 December 2016
Employment contracts (full-time equivalents)	4,802	5,010

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

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

	for the year ended	
	31 December 2017	31 December 2016
Interest, net	29.8	30.1
Other foreign exchange gains/(losses), net	49.6	(63.5)
Other costs	(72.2)	(36.4)
Total	**7.2**	**(69.8)**

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

12. Finance costs

	for the year ended	
	31 December 2017	31 December 2016
Interest expense on loans and borrowings	369.6	401.7
Interest expense on issued bonds	69.8	141.7
Early redemption costs	58.7	-
Foreign exchange differences on issued bonds	-	244.8
Valuation and realization of hedging instruments	(0.2)	7.3
Valuation and realization of derivatives not used in hedge accounting – relating to interest	6.3	(24.8)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	-	(203.8)
Other	4.8	(0.8)
Total	**509.0**	**566.1**

13. Income tax

(i) Income tax expense

	for the year ended	
	31 December 2017	31 December 2016
Current tax expense	263.5	126.4
Change in deferred tax	133.1	(98.2)
Other	(6.8)	(15.8)
Income tax expense in the income statement	**389.8**	**12.4**

	for the year ended	
Change in deferred income tax	31 December 2017	31 December 2016
Tax losses carried forward	109.5	(157.5)
Receivables and other assets	(20.3)	(33.0)
Liabilities	78.2	215.1
Other property, plant and equipment and intangible assets	(29.5)	(136.2)
Other	(4.8)	13.4
Change in deferred tax recognized in income statement – total	**133.1**	**(98.2)**

(ii) Income tax recognized in the statement of other comprehensive income

	for the year ended	
	31 December 2017	31 December 2016
Change in deferred income tax on hedge valuation	(0.2)	1.9
Income tax expense recognized in other comprehensive income - total	**(0.2)**	**1.9**

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

(iii) Effective tax rate reconciliation

	for the year ended	
	31 December 2017	**31 December 2016**
Gross profit	1,335.0	1,033.4
Income tax at applicable statutory tax rate of 19%	**253.6**	**196.3**
Tax amortization of intangible assets	(17.1)	(17.2)
The difference related to enacted limitations on tax-deductible expenses in the following years relating to assets recognised in the consolidated balance sheet	144.0	-
Permanent differences on a transaction eliminated on consolidation	-	(104.3)
Other	9.3	(62.4)
Tax expense for the year	**389.8**	**12.4**
Effective tax rate	**29.2%**	**1.2%**

(iv) Deferred tax assets

	31 December 2017	31 December 2016
Tax losses carried forward	90.2	195.2
Liabilities	329.7	401.9
Tangible and intangible assets	109.2	114.7
Receivables and other assets	65.5	51.0
Other	5.9	2.7
Total deferred tax assets	**600.5**	**765.5**
Set off of deferred tax assets and liabilities	(403.3)	(532.8)
Deferred tax assets in the balance sheet	**197.2**	**232.7**

(v) Tax loss

	31 December 2017	31 December 2016
2017 tax loss carried forward	4.2	-
2016 tax loss carried forward	410.0	666.7
2015 tax loss carried forward	29.9	269.7
2014 tax loss carried forward	47.6	35.2
2013 tax loss carried forward	25.4	51.6
2012 tax loss carried forward	6.9	67.8
2011 tax loss carried forward	-	29.2
Tax losses carried forward – total	**524.0**	**1,120.2**

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

(vi) Tax losses recognized

	31 December 2017	31 December 2016
2017 tax loss carried forward	4.2	-
2016 tax loss carried forward	405.7	664.3
2015 tax loss carried forward	7.9	246.7
2014 tax loss carried forward	24.7	4.3
2013 tax loss carried forward	25.4	48.8
2012 tax loss carried forward	6.9	61.4
2011 tax loss carried forward	-	29.2
Tax losses carried forward – total	**474.8**	**1,054.7**

As at 31 December 2017 the Group recognized deferred tax asset on tax losses to the extent that it was probable that they would be utilized in the future.

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.

(vii) Deferred tax liabilities

	31 December 2017	31 December 2016
Receivables and other assets	67.8	73.6
Liabilities	18.5	12.5
Tangible and intangible assets	1,135.3	1,170.3
Other	61.5	63.3
Total deferred tax liabilities	**1,283.1**	**1,319.7**
Set off of deferred tax assets and liabilities	(403.3)	(532.8)
Deferred tax liabilities in the balance sheet	**879.8**	**786.9**

The tax authorities may at any time inspect the books and records within 5 years from the end of the year when a tax declaration was submitted, and may impose additional tax assessments with penalty interest and penalties. Furthermore, on 15 July 2016 provisions of General Anti-Avoidance Rule (GAAR) were introduced, which aim at preventing establishing and using artificial legal arrangements with tax savings as its principal purpose. Frequent amendments in the tax laws and contradicting legal interpretations among the tax authorities result in uncertainties and lack of consistency in the tax system, which in fact lead to difficulties in the judgement of the tax consequences in the foreseeable future.

14. EBITDA (unaudited)

EBITDA (earnings before interest, taxes, depreciation, amortization, impairment and liquidation) presents the Group's key measure of earnings performance. The level of EBITDA measures the Group's ability to generate cash from recurring operations, however it is neither a measure of liquidity nor cash level. The Group 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 2017	**31 December 2016**
Net profit for the period	945.2	1,021.0
Income tax	389.8	12.4
Gain/loss on investment activities, net	(7.2)	69.8
Finance costs	509.0	566.1
Share of the profit of associates accounted for using the equity method	(2.8)	-
Depreciation, amortization, impairment and liquidation*	1,783.0	1,971.5
EBITDA (unaudited)	**3,617.0**	**3,640.8**

* depreciation, amortisation, 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 (excluding amortization of programming assets)

15. Basic and diluted earnings per share

At the reporting date, the Company did not have any financial instruments that could have a dilutive effect, therefore the diluted earnings per share are equal to basic earnings per share.

	for the year ended	
	31 December 2017	**31 December 2016**
Net profit	945.2	1,021.0
Weighted average number of ordinary and preference shares in the period	639,546,016	639,546,016
Earnings per share in PLN (not in millions)	**1.48**	**1.60**

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

16. Property, plant and equipment

	Reception equipment	Land	Buildings and structures	Technical equipment and machinery	Vehicles	Other	Tangible assets under construction	**Other property, plant and equipment**
Cost as at 1 January 2017	**1,099.5**	**35.6**	**314.5**	**3,548.1**	**70.9**	**101.0**	**417.8**	**4,487.9**
Additions	**138.8**	-	12.8	198.4	17.9	5.0	256.3	**490.4**
Transfer between groups	**-**	0.1	7.5	144.2	-	3.1	(155.2)	**(0.3)**
Transfer from assets under construction		-	(60.7)	62.8	-	(0.6)	13.5	**15.0**
Disposals	**(55.2)**	-	(10.1)	(59.6)	(6.8)	(5.1)	(31.5)	**(113.1)**
Cost as at 31 December 2017	**1,183.1**	**35.7**	**264.0**	**3,893.9**	**82.0**	**103.4**	**500.9**	**4,879.9**
Accumulated impairment losses as at 1 January 2017	**6.6**	**-**	**-**	**2.7**	**-**	**0.1**	**8.0**	**10.8**
Recognition	**0.3**	-	-	5.3	-	0.2	10.6	**16.1**
Reversal	**-**	-	-	(1.6)	-	-	(2.9)	**(4.5)**
Utilisation	**(1.8)**	-	-	(3.4)	-	-	(0.2)	**(3.6)**
Accumulated impairment losses as at 31 December 2017	**5.1**	**-**	**-**	**3.0**	**-**	**0.3**	**15.5**	**18.8**
Accumulated depreciation as at 1 January 2017	**742.0**	**-**	**45.9**	**1,391.8**	**24.8**	**50.3**	**-**	**1,512.8**
Additions	**162.2**	-	17.8	467.6	11.9	18.1	-	**515.4**
Disposals	**(51.5)**	-	(0.1)	(23.4)	(6.2)	(5.1)	-	**(34.8)**
Transfer between groups	**-**	-	(12.3)	13.4	-	(0.5)	-	**0,6**
Accumulated depreciation as at 31 December 2017	**852.7**	**-**	**51.3**	**1,849.4**	**30.5**	**62.8**	**-**	**1,994.0**
Carrying amount as at 1 January 2017	**350.9**	**35.6**	**268.6**	**2,153.6**	**46.1**	**50.6**	**409.8**	**2,964.3**
Carrying amount as at 31 December 2017	**325.3**	**35.7**	**212.7**	**2,041.5**	**51.5**	**40.3**	**485.4**	**2,867.1**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. 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 as at 1 January 2016	**1,011.4**	**33.7**	**229.4**	**2,973.1**	**67.1**	**79.5**	**257.8**	**3,640.6**
Additions	**154.5**	1.9	20.2	198.9	11.1	21.6	238.6	**492.3**
Acquisition of subsidiary	**-**	-	86.8	266.2	-	0.1	189.2	**542.3**
Transfer from assets under construction	**-**	-	4.6	232.3	0.1	15.2	(252.2)	**-**
Disposals	**(66.4)**	-	(26.5)	(122.4)	(7.4)	(15.4)	(15.6)	**(187.3)**
Cost as at 31 December 2016	**1,099.5**	**35.6**	**314.5**	**3,548.1**	**70.9**	**101.0**	**417.8**	**4,487.9**
Accumulated impairment losses as at 1 January 2016	**9.6**	**-**	**-**	**0.7**	**-**	**0.1**	**9.9**	**10.7**
Recognition	**-**	-	-	6.5	-	-	1.8	**8.3**
Reversal	**-**	-	-	(2.4)	-	-	(3.7)	**(6.1)**
Utilisation	**(3.0)**	-	-	(2.1)	-	-	-	**(2.1)**
Accumulated impairment losses as at 31 December 2016	**6.6**	**-**	**-**	**2.7**	**-**	**0.1**	**8.0**	**10.8**
Accumulated depreciation as at 1 January 2016	**630.8**	**-**	**48.5**	**962.4**	**19.5**	**50.9**	**-**	**1,081.3**
Additions	**171.9**	-	16.8	525.3	11.4	14.6	-	**568.1**
Disposals	**(60.7)**	-	(19.4)	(95.9)	(6.1)	(15.2)	-	**(136.6)**
Accumulated depreciation as at 31 December 2016	**742.0**	**-**	**45.9**	**1,391.8**	**24.8**	**50.3**	**-**	**1,512.8**
Carrying amount as at 1 January 2016	**371.0**	**33.7**	**180.9**	**2,010.0**	**47.6**	**28.5**	**247.9**	**2,548.6**
Carrying amount as at 31 December 2016	**350.9**	**35.6**	**268.6**	**2,153.6**	**46.1**	**50.6**	**409.8**	**2,964.3**

The Group recognized an impairment loss on items of property, plant and equipment whose carrying amounts exceeded their recoverable amounts. 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)

17. Goodwill

	2017	2016
Balance as at 1 January	**10,975.4**	**10,606.4**
Acquisition of 100% shares of ESKA TV S.A. (see note 37)	34.9	-
Acquisition of 100% shares of Lemon Records Sp. z o.o. (see note 37)	31.4	-
Acquisition of 100% shares of Litenite Ltd.	-	368.8
Acquisition of 100% shares of IT Polpager S.A.	-	0.2
Balance as at 31 December	**11,041.7**	**10,975.4**

	31 December 2017	31 December 2016
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	7,982.5	7,982.5
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of Litenite Ltd.	368.8	368.8
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of ESKA TV S.A.	34.9	-
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Lemon Records Sp. z o.o.	31.4	-
Goodwill recognized on the acquisition of Orsen Holding Limited	16.3	16.3
Goodwill recognized on the acquisition of Info-TV-FM Sp. z o.o.	10.7	10.7
Goodwill recognized on the acquisition of Radio PIN S.A.	4.8	4.8
Goodwill recognized on the acquisition of IT Polpager S.A.	0.2	0.2
Total	**11,041.7**	**10,975.4**

Impairment tests performed on goodwill balances as at 31 December 2017 did not indicate impairment (see note 19 for impairment test assumptions).

18. Brands

	2017	2016
Balance as at 1 January	**2,056.5**	**2,080.6**
Increase due to acquisition of Lemon Records	4.7	-
Amortization of Plus brand	(24.1)	(24.1)
Balance as at 31 December	**2,037.1**	**2,056.5**

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

	31 December 2017	31 December 2016
Plus	1,141.6	1,165.7
Polsat	840.0	840.0
TV4	33.7	33.7
TV6	9.3	9.3
Ipla	7.8	7.8
Lemon Records	4.7	-
Total	**2,037.1**	**2,056.5**

Plus

Following the acquisition of Metelem Holding Company Ltd. in 2014, the Group recognized a value of the Plus brand. The brand is amortized over the useful life of 51 years (until the year 2065). The carrying amount of the brand was allocated to ”Services to individual and business customers” cash-generating unit.

Polsat

The value of the Polsat brand is recognized following the acquisition of Telewizja Polsat S.A. (currently Telewizja Polsat Sp. z o.o.) in 2011.

The Polsat brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Broadcasting and television production” cash-generating unit for the impairment testing purposes (see note 19).

Impairment test performed on Polsat brand balance as at 31 December 2017 did not indicate impairment (see note 19 for impairment test assumptions).

IPLA

In the consolidated financial statements, as a result of acquisition of entities comprising IPLA platform, the Group has recognized in 2012 among others goodwill and IPLA brand. Value of IPLA brand as at 31 December 2017 amounted to PLN 7.8. The IPLA brand is not amortized as it is considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Services to individual and business customers” cash-generating unit for the impairment testing purposes (see note 19).

Impairment test performed on Ipla brand balance as at 31 December 2017 did not indicate impairment (see note 19 for impairment test assumptions).

TV4 and TV6

In the consolidated financial statements, as a result of acquisition of Polskie Media S.A., the Group has recognized in 2013 among others goodwill and TV4 and TV6 brands. Value of TV4 and TV6 brands as at 31 December 2017 amounted to PLN 43.0.

The TV4 and TV6 brands are not amortized as they are considered to have an indefinite useful life. The carrying amount of the brand was allocated to ”Broadcasting and television production” cash-generating unit for the impairment testing purposes (see note 19).

Impairment test performed on TV4 and TV6 brands balance as at 31 December 2017 did not indicate impairment (see note 19 for impairment test assumptions).

Lemon Records

The preliminary value of the Lemon Records brand is recognized following the acquisition of Lemon Records Sp. z o.o. on 4 December 2017 (see note 37).

The Lemon Records brand is not amortized as it is considered to have an indefinite useful life. The preliminary carrying amount of the brand was allocated to ”Broadcasting and television production” cash-generating unit.

Impairment test performed on Lemon Records brand balance as at 31 December 2017 did not indicate impairment (see note 19 for impairment test assumptions).

19. Goodwill and intangible assets with indefinite useful life

The Group recognized goodwill and brands with indefinite useful life in the consolidated financial statements. Their carrying amounts were allocated to the cash generating units which also represent the Group’s operating segments.

Goodwill and brands with indefinite useful life are tested for impairment annually or more frequently if possible impairment is indicated. Goodwill and brands are allocated to the below cash-generating units for the purpose of testing for impairment. The allocation was 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 and the brands were identified.

The Group tests the total carrying amount of the cash-generating units 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 the brands and other assets of the cash-generating unit on a pro rata basis.

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

	2017	2016
“Services to individual and business customers” cash-generating unit	**8,583.4**	**8,583.4**
Goodwill recognized on the acquisition of Metelem Holding Company Ltd.	7,982.5	7,982.5
Goodwill recognized on the acquisition of Litenite Ltd.	368.8	368.8
Goodwill recognized on the acquisition of entities comprising Ipla platform	145.1	145.1
Goodwill recognized on the acquisition of M.Punkt Holdings Ltd.	52.0	52.0
Goodwill recognized on the acquisition of Orsen Holding Limited	16.3	16.3
Goodwill recognized on the acquisition of Info-TV-FM Sp. z o.o.	10.7	10.7
Goodwill recognized on the acquisition of IT Polpager S.A.	0.2	0.2
Ipla brand	7.8	7.8
“Broadcasting and television production” cash-generating unit	**3,353.8**	**3,282.8**
Goodwill recognized on the acquisition of Telewizja Polsat S.A.	2,360.2	2,360.2
Goodwill recognized on the acquisition of ESKA TV S.A.	34.9	-
Goodwill recognized on the acquisition of Polskie Media S.A.	34.8	34.8
Goodwill recognized on the acquisition of Lemon Records Sp. z o.o.	31.4	-
Goodwill recognized on the acquisition of Radio PIN S.A.	4.8	4.8
Polsat brand	840.0	840.0
TV4 brand	33.7	33.7
TV6 brand	9.3	9.3
Lemon Records brand	4.7	-

The recoverable amounts of all the cash generating units have been determined based on the value-in-use calculations. These calculations were 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 2022. 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 Group operates.

The key financial assumptions used in the value-in-use calculations

The most sensitive key financial assumptions used in the value-in-use calculations of “Broadcasting and television production” cash-generating unit and “Services to individual and business customers” cash-generating unit were as follows:
- discount rate
- terminal growth rate used for estimating the cash flows beyond the period of financial plans.

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

Discount rate – the discount rate reflects the estimate made by the management of the risks specific to each 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 Group's and its operating segments' business environment. WACC considers both debt and equity. Cost of equity is based on the return on investment excepted by the Group'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.

The key financial assumptions used for value-in-use calculations in 2017 and 2016 are as follows:

	Broadcasting and television production		Retail	
	2017	2016	2017	2016
Terminal growth	2%	2%	2%	2%
Discount rate before tax	8.7%	9.9%	8.0%	9.4%

The impairment tests for goodwill and brands allocated to "Broadcasting and television production" and "Services to individual and business customers" cash-generating units did not indicate impairment as at 31 December 2017.

Sensitivity analysis of key financial assumptions

The Group believes that the key assumptions made in testing for impairment of the "Broadcasting and television production" and "Services to individual and business customers" cash-generating units as at 31 December 2017 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 above mentioned cash-generating units' recoverable amounts are based would not cause the impairment charge to be recognized.

20. Customer relationships and other intangible assets

	31 December 2017	31 December 2016
Customer relationships	2,557.3	3,031.2
Customer relationships total	**2,557.3**	**3,031.2**
Software and licenses	543.1	558.9
Concessions	2,467.3	2,915.3
Other	32.4	31.9
Other intangible assets under development	218.7	150.1
Other intangible assets total	**3,261.5**	**3,656.2**

The customer relationships and telecommunication concessions (900 MHz, 1800 MHz and 2100 MHz) were recognized in the balance sheets following the acquisition of Metelem Holding Company Limited based on the Group's acquisition accounting. The carrying amount of the customer relationships and concessions was allocated to "Services to individual and business customers" cash-generating unit.

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

The telecommunication concessions (800 MHz, 900 MHz, 1800 MHz and 2600 MHz) were recognized in the balance sheets following the acquisition of Midas S.A. based on the Group's acquisition accounting. The carrying amount of the customer relationships and concessions was allocated to "Services to individual and business customers" cash-generating unit.

Customer relationships as at 31 December 2017 include the following:

	Amortization period
Customer relationships with retail clients	10 years
Customer relationships – infrastructure lease	3 years
Customer relationships – roaming	13 years
Customer relationships with wholesale clients (MVNO)	3 years

Concessions as at 31 December 2017 include the following:

	Expiry date
Concession GSM 900	24.02.2026
Concession GSM 1800	14.09.2029
Concession GSM 2600	25.01.2031
Concession UMTS	01.01.2023
Concession (fixed-line telecommunication network)	31.12.2020
Concession 900 MHz	31.12.2023
Concession 1800 MHz	31.12.2022
Concession 1800 MHz	31.12.2022
Concession 2600 MHz	31.12.2024
Concession 800 MHz	31.12.2018

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

	Customer relationships	Software and licenses	Concessions	Other	Other intangible assets under development	**Other intangible assets**
Cost						
Cost as at 1 January 2017	**4,640.0**	**1,083.2**	**3,672.7**	**56.0**	**152.5**	**4,964.4**
Additions	**-**	68.6	-	2.3	208.9	**279.8**
Acquisition of subsidiary (see note 37)	**-**	-	5.1	-	-	**5,1**
Transfer from intangible assets under development	**-**	57.4	-	5.5	(62.6)	**0.3**
Disposals	**-**	(15.3)	-	(5.5)	(64.3)	**(85,1)**
Transfer between groups	**-**	(0.8)	-	0.6	(13.6)	**(15.0)**
Cost as at 31 December 2017	**4,640.0**	**1,193.1**	**3,677.8**	**57.7**	**220.9**	**5,149.5**
Accumulated impairment losses as at 1 January 2017	**-**	**-**	**-**	**-**	**2.4**	**2.4**
Recognition	-	-	-	-	-	**-**
Disposals	-	-	-	-	(0,2)	**(0.2)**
Accumulated impairment losses as at 31 December 2017	**-**	**-**	**-**	**-**	**2.2**	**2.2**
Accumulated amortization as at 1 January 2017	**1,608.8**	**524.3**	**757.4**	**24.1**	**-**	**1,305.8**
Additions	**473.9**	138.1	453.1	6.6	-	**597.8**
Disposals	**-**	(12.2)	-	(5.0)	-	**(17.2)**
Transfer between groups	**-**	(0.2)	-	(0.4)	-	**(0.6)**
Accumulated amortization as at 31 December 2017	**2.082,7**	**650.0**	**1,210.5**	**25.3**	**-**	**1,885.8**
Carrying amounts						
As at 1 January 2017	**3,031.2**	**558.9**	**2,915.3**	**31.9**	**150.1**	**3,656.2**
As at 31 December 2017	**2,557.3**	**543.1**	**2,467.3**	**32.4**	**218.7**	**3,261.5**

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

	Customer relationships	Software and licenses	Concessions	Other	Other intangible assets under development	**Other intangible assets**
Cost						
Cost as at 1 January 2016	**4,640.0**	**1,034.7**	**2,009.2**	**27.0**	**70.9**	**3,141.8**
Additions	**-**	47.3	155.8	2.0	101.2	**306.3**
Acquisition of subsidiary	**-**	2.2	1,507.7	0.8	15.2	**1,525.9**
Transfer from intangible assets under development	**-**	28.0	-	3.3	(31.3)	**-**
Disposals	**-**	(4.7)	-	(1.4)	(3.5)	**(9.6)**
Transfer between groups	**-**	(24.3)	-	24.3	-	**-**
Cost as at 31 December 2016	**4,640.0**	**1,083.2**	**3,672.7**	**56.0**	**152.5**	**4,964.4**
Accumulated impairment losses as at 1 January 2016	**-**	**0.5**	**-**	**-**	**-**	**0.5**
Recognition	-	-	-	-	2.4	**2.4**
Disposals	-	(0.5)	-	-	-	**(0.5)**
Accumulated impairment losses as at 31 December 2016	**-**	**-**	**-**	**-**	**2.4**	**2.4**
Accumulated amortization as at 1 January 2016	**1,001.5**	**353.4**	**350.4**	**15.3**	**-**	**719.1**
Additions	**607.3**	175.1	407.0	10.2	-	**592.3**
Disposals	**-**	(4.2)	-	(1.4)	-	**(5.6)**
Accumulated amortization as at 31 December 2016	**1,608.8**	**524.3**	**757.4**	**24.1**	**-**	**1,305.8**
Carrying amounts						
As at 1 January 2016	**3,638.5**	**680.8**	**1,658.8**	**11.7**	**70.9**	**2,422.2**
As at 31 December 2016	**3,031.2**	**558.9**	**2,915.3**	**31.9**	**150.1**	**3,656.2**

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

21. Programming assets

	31 December 2017	31 December 2016
Acquired film licenses	219.9	207.6
Capitalised cost of external production and sports rights	31.9	58.0
Co-productions	0.1	0.2
Prepayments	169.9	78.0
Total	**421.8**	**343.8**
Of which: Current	*251.7*	*192.0*
Non-current	*170.1*	*151.8*

Change in programming assets

	2017	2016
Net carrying amount as at 1 January	**343.8**	**337.2**
Acquisition of Eska TV and Lemon Records (see note 37)	9.4	-
Increase*:	313.7	261.6
Acquisition of film licenses	*173.3*	*160.2*
Capitalized costs of sports rights	*140.4*	*101.4*
Change in impairment losses:	(0.6)	0.5
Film licenses	*(0.6)*	*0.6*
Capitalized cost of external production and sports rights	*-*	*(0.1)*
Change in internal production*	(14.3)	2.7
Amortization of film licenses	(136.2)	(129.4)
Amortization of capitalized cost of sports rights	(92.3)	(112.0)
Disposals:	(1.7)	(16.8)
Sale of film licenses	*(1.7)*	*(16.8)*
Net carrying amount as at 31 December	**421.8**	**343.8**

* includes change in prepayments

Commitments related to acquisition of programming assets by the Group are presented in note 48.

22. Deferred distribution fees

	31 December 2017	31 December 2016
Deferred distribution fees	**299.3**	**290.0**
Of which: Current	*207.9*	*207.2*
Non-current	*91.4*	*82.8*

Deferred distribution fees include commissions for distributors for contracts effectively concluded with subscribers. These costs are expensed by the Group to profit or loss over the minimum base period of the subscription contracts.

As at 31 December 2017, 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 298.9 (as at 31 December 2016: 288.4 PLN).

23. Other non-current assets

	31 December 2017	31 December 2016
Shares in associates accounted for using the equity method	665.2	-
Non-current trade receivables	580.3	401.2
Investment in joint ventures	5.9	5.9
Bonds	9.3	-
Deposits paid	2.8	2.9
Other shares	2.6	5.9
Deferred costs	2.5	3.8
Derivative instruments IRS (note 38)	1.9	9.5
Loans granted to related parties	0.2	22.8
Total	**1,270.7**	**452.0**

As at 31 December 2017 and 31 December 2016 Non-current trade receivables include receivables from installment plan purchases.

a) *Shares in associates accounted for using the equity method* – Netia S.A.

On 5 December 2017 the Company acquired 31.76% shares in Netia S.A. („Netia") – the company paid PLN 638.7 for aforementioned shares (the price of one share was PLN 5.77 (not in millions)). Netia's shares are quoted on the Warsaw Stock Exchange.

The table below presents summary of Netia's financial data (as presented in the full consolidated statements of the Netia's capital group):

	for the year ended
	31 December 2017
Revenue	1,442.5
Profit from operating activities	71.9
Gross profit for the period	64.4
Net profit for the period	35.5
Other comprehensive income, net of tax	(2.5)
Total comperhensive income for the period	33.0

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

	31 December 2017
Non-current assets	2,160.3
Current assets	240.3
Total assets	2,400.6
Non-current liabilities	190.3
Current liabilities	432.0
Total liabilities	622.3

Share of the profit of associates accounted for using the equity method presented in the Group's consolidated income statement includes Netia's consolidated profit in the amount of PLN 3.1 achieved in December 2017 (the acquisition of shares took place on 5 December 2017).

b) *Shares in associates accounted for using the equity method* – TV Spektrum Sp. z o.o.

On 4 December 2017, Company's direct subsidiary acquired 34.02% shares in TV Spektrum Sp. z o.o. ("Spectrum TV") for the amount of PLN 23.7.

Share of the profit of associates accounted for using the equity method presented in the Group's consolidated income statement includes TV Spectrum's loss in the amount of PLN 0.3 reported in December 2017 (the acquisition of shares took place on 4 December 2017).

24. Inventories

Types of inventories	**31 December 2017**	**31 December 2016**
Mobile phones	121.5	86.4
Laptops, tablets and modems	33.7	36.3
Set-top boxes and disc drives	31.2	42.0
Other inventories	97.3	114.0
Total net book value	**283.7**	**278.7**

Other inventories comprise primarily of raw materials used in the production of set-top boxes.

Write-downs of inventories	**2017**	**2016**
Opening balance	**16.4**	**17.0**
Increase	6.6	10.2
Utilisation	(1.1)	(9.7)
Decrease	(5.0)	(1.1)
Closing balance	**16.9**	**16.4**

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

25. Trade and other receivables

	31 December 2017	31 December 2016
Trade receivables from related parties	9.1	12.7
Trade receivables from third parties	1,835.0	1,567.9
Tax and social security receivables	104.7	51.1
Other receivables	34.4	56.3
Total	**1,983.2**	**1,688.0**

Trade receivables from third parties include primarily receivables from individual customers, media houses and distributors.

Trade receivables by currency

Currency	31 December 2017	31 December 2016
PLN	1,802.4	1,530.8
EUR	32.7	25.8
USD	6.5	18.8
Other	2.5	5.2
Total	**1.844,1**	**1,580.6**

Movements in the allowance for impairment of accounts receivable

	2017	2016
Opening balance	**102.3**	**95.3**
Increase	63.0	58.5
Reversal	(6.6)	(11.1)
Utilisation	(35.3)	(40.4)
Closing balance	**123.4**	**102.3**
Of which:		
Short-term	*97.3*	*79.4*
Long-term	*26.1*	*22.9*

26. Other current assets

	31 December 2017	31 December 2016
Derivative instruments IRS (note 38)	5.1	6.7
Other deferred income	0.4	1.8
Other deferred costs	26.2	30.2
Total	**31.7**	**38.7**

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

27. Cash and cash equivalents

	31 December 2017	31 December 2016
Cash on hand	0.3	0.3
Current accounts	160.5	427.3
Deposits	1,000.7	898.4
Total	**1,161.5**	**1,326.0**

The Group 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 and EFG Bank as required by the loan agreement and policies adopted therein. As at 31 December 2017 cash and cash equivalents were placed primarily with institutions rated A2 by Moody's Investors Service Ltd.

Currency	31 December 2017	31 December 2016
PLN	1,109.9	1,228.9
EUR	13.5	14.6
USD	29.1	75.2
Other	9.0	7.3
Total	**1,161.5**	**1,326.0**

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

Restricted cash in the amount of PLN 10.5 includes mainly guarantee deposits.

28. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 December 2017 and at 31 December 2016:

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

The shareholders' structure as at 31 December 2017 was as follows:

	Number of shares	Nominal value of shares	% of share capital held	Number of votes	% of voting rights
Karswell Ltd. [1]	157,988,268	6.3	24.70%	157,988,268	19.29%
Reddev Investments Ltd. [2]	154,204,296	6.2	24.11%	306,709,172	37.45%
Sensor Overseas Ltd. [3]	55,092,796	2.3	8.61%	82,005,421	10.01%
Embud 2 Sp. z o.o. S.K.A. (formerly Embud Sp. z o.o.) [1]	58,063,948	2.3	9.08%	58,063,948	7.09%
Other	214,196,708	8.5	33.50%	214,196,708	26.16%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] Entity is controlled by Mr. Zygmunt Solorz

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

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

The shareholders' structure as at 31 December 2016 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 2 Sp. z o.o. S.K.A. (formerly Embud Sp. z o.o.) [1]	58,063,948	2.3	9.08%	58,063,948	7.09%
Other	214,367,958	8.6	33.52%	214,539,208	26.20%
Total	**639,546,016**	**25.6**	**100%**	**818,963,517**	**100%**

[1] Entity is controlled by Mr. Zygmunt Solorz

[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 27 June 2017 the Annual General Meeting of the Company adopted a resolution on the distribution of the profit for the year ended 31 December 2016 in the amount of PLN 578.0 as follows:
(i) PLN 204.7 (PLN 0.32 (not in million) per share) to be distributed as dividends to the shareholders of the Company,
(ii) PLN 373.3 to be allocated to the reserve capital.

(iv) Other reserves

Other reserves include hedge valuation effect and actuarial gains.

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

29. Hedge valuation reserve

On 13 May 2016 the Company concluded interest rate swap transaction with BNP Paribas S.A. 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.

On 18 January 2017 the Company concluded interest rate swap transaction with Credit Agricole Corporate and Investment Bank. The transaction exchanges interest payments based on a floating rate WIBOR 3M into interest payments based on a fixed interests rate amounting to 2.0695%.
The transaction was concluded for the period from 31 March 2017 to 30 September 2019. The Transaction protects the nominal amount of a bank loan in the amount of PLN 125.

Impact of hedging instruments valuation on assets and liabilities as at 31 December 2017

	IRS
Assets	
Long-term	0.2
Short-term	0.4
Liabilities	
Short-term	(0.5)
Total	**0.1**

Impact of hedging instruments valuation on 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 hedge valuation reserve

	2017	2016
Balance as at 1 January	**1.2**	**(6.7)**
Valuation of cash flow hedges	(1.3)	9.8
Deferred tax	0.2	(1.9)
Change for the period	**(1.1)**	**7.9**
Balance as at 31 December	**0.1**	**1.2**

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

30. Loans and borrowings

Loans and borrowings	31 December 2017	31 December 2016
Short-term liabilities	1,341.9	1,270.0
Long-term liabilities	9,291.4	9,302.7
Total	**10,633.3**	**10,572.7**

Change in loans and borrowings liabilities:

	2017	2016
Loans and borrowings as at 1 January	**10,572.7**	**6,610.7**
Loans and borrowings on acquisition of Litenite Ltd.	-	378.7
Facilities agreement	-	4,800.0
Revolving facility loan	1,200.0	700.0
Repayment of capital	(1,162.5)	(1,940.9)
Repayment of interest and commissions	(346.5)	(377.5)
Interest accrued	369.6	401.7
Loans and borrowings as at 31 December	**10,633.3**	**10,572.7**

* includes amount paid for costs related to the new financing

<u>Facilities agreement between the Company and a consortium of financial institutions</u>

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 had been awarded a Term Facility Loan up to PLN 1,200 (the "CP Term Facility") and a Revolving Facility Loan up to PLN 300 (the "CP Revolving Facility").

The Company used the CP Term Facility and the CP Revolving 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.

Senior Facilities Agreement between Polkomtel sp. z o.o. ("Polkomtel") and a consortium of financial institutions

On 21 September 2015, the Senior Facilities Agreement was concluded between a Company's subsidiary – Polkomtel as the borrower along with 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. 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 Citicorp Trustee Company Limited as the Security Agent (the "PLK Facilities Agreement").

Based on the PLK Facilities Agreement Polkomtel had been awarded a Term Facility Loan up to PLN 10,300 (the "PLK Term Facility") and a Revolving Facility Loan up to PLN 700 (the "PLK Revolving Facility").

The PLK Term Facility and the PLK Revolving Facility was utilized by Polkomtel in particular to:
(i) fully repay the outstanding debt under the refinanced Polkomtel's Facilities Agreement dated 17 June 2013;
(ii) fully repay the indebtedness under the senior notes issued on 26 January 2012 by Eileme 2 AB (publ) – a Company's subsidiary („HY Notes Indebtedness"); and
(iii) fund general corporate needs of the Group.

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

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

i. the maximum amount of the CP Term Facility is PLN 11,500, and the maximum amount of the CP Revolving Facility is PLN 1,000;
ii. the Company and other Group members established additional collaterals for the facilities granted on this basis. These collaterals include, in particular, registered pledges on collections of movables and economic interests of variable composition comprised in the enterprise of certain members of the Group, registered and financial pledges on shares in

the Group members, registered and financial pledges on receivables related to bank accounts kept for certain members of the Group, ordinary and registered pledges on selected trademarks, assignments of rights for security, mortgages, notarial submissions to enforcement and similar collaterals on shares (interests) or assets of members of the Group, to be governed by foreign laws.

The CP Term Facility and the CP Revolving Facility bear interest at a variable rate equal to WIBOR for the relevant interest period plus margin. The margin on the CP Term Facility and the CP Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA in such a way that the lower the ratio – the lower the margin. As at 31 December 2017 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.

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 Revolving Facility as at 31 December 2017 was utilized. The CP Revolving Facility as at 31 December 2016 was not utilized.

In accordance with the provisions of the Amendment, Restatement and Consolidation Deed, the Company, Polkomtel and other members of 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.

Liabilities related to the CP Facilities Agreement and the PLK Facilities Agreement are secured by collaterals established by the Company, Polkomtel and other members of the Group as a security. A detailed description of the established securities is presented in the Management Report in note 4.6.6.

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 12.0. As at 31 December 2017 the bank issued guarantees in the total amount of PLN 2.1 and EUR 1.7.

Agreement with PKO BP

On 29 November 2012 Company's indirect subsidiary signed a framework agreement with PKO BP S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Pursuant to the frame agreement and its annexes, the bank's total commitment regarding issued guarantees relating to tenders and trade agreements may not exceed PLN 50.0. As at 31 December 2017 the bank issued guarantees in the total amount of PLN 13.0 and EUR 3.3.

On 8 March 2011 Company's indirect subsidiary signed a framework agreement with PKO BP S.A. defining rights and obligations of the parties should the company order the bank to issue a guarantee. Pursuant to the frame agreement and its annexes, the bank's total commitment regarding issued guarantees relating to tenders and trade agreements may not exceed PLN 10.0. As at 31 December 2017 the bank issued guarantees in the total amount of PLN 2.6 and EUR 0.7.

31. Issued bonds

	31 December 2017	31 December 2016
Short-term liabilities	42.5	42.4
Long-term liabilities	975.7	1,835.7
Total	**1,018.2**	**1,878.1**

Change in issued bonds:

	2017	2016
Issued bonds as at 1 January	**1,878.1**	**5,752.0**
Bonds on acquisition of Litenite Ltd.	-	1,123.2
Bonds redemption	(886.7)	(4,484.0)
Repurchase of own bonds by the Group companies*	-	(328.8)
Foreign exchange losses	-	244.8
Early redemption cost	58.7	-
Early redemption fee	(58.7)	(262.1)
Repayment of interest and commission	(43.0)	(308.7)
Interest accrued	69.8	141.7
Issued bonds payable as at 31 December	**1,018.2**	**1,878.1**

* repurchase of bonds issued by Midas from third parties

Bonds issued by Cyfrowy Polsat S.A.

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).

Early redemption

On 26 April 2017 Litenite Limited early redeemed all of its issued zero-coupon bonds in the total of PLN 945.4 (including early redemption fee).

32. Group as a lessor and as a lessee

a) Group as a lessor

Operating lease

The Group entered into contracts with third parties, which are classified as operating leases based on their economic substance. The contracts relate to the rental of reception equipment, lease of premises and call center equipment as well as vehicles. Reception equipment and call center equipment connected with such contracts are presented as part of property, plant and equipment. The premises is classified as operating lease and vehicles are recognized as financial leasing.

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

Lease contracts for set-top boxes are concluded for a base contractual period ranging from 12 to 29 months. After each base period, the contracts are converted into contracts with indefinite term, unless terminated by the subscribers or new contracts are signed.

Future minimum lease payments with respect to operating lease are as follows:

	31 December 2017	31 December 2016
less than 1 year	40.7	37.7
between 1 and 5 years	16.4	12.8
Total	**57.1**	**50.5**

b) Group as a lessee

Operating leases

The Group 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 leases of premises, lease of satellite transponders capacity, vehicles and other equipment as well as lease of land for network locations.

The table below presents a maturity analysis for such commitments:

	31 December 2017	31 December 2016
within one year	475.3	445.7
between 1 to 5 years	1,260.3	997.4
more than 5 years	477.0	299.3
Total	**2,212.6**	**1,742.4**

The table below presents future minimum payments relating to operating lease agreements to related parties:

	31 December 2017	31 December 2016
within one year	24.5	20.3
between 1 to 5 years	83.4	88.2
more than 5 years	31.2	33.4
Total	**139.1**	**141.9**

In 2017 the Group incurred costs related to operating lease agreements amounting to PLN 425.5 and in 2016 to PLN 419.4.

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

Finance leases

The total carrying amount of vehicles used under finance lease contracts amounted to PLN 27.3 as at 31 December 2017 and PLN 25.3 as at 31 December 2016.

The lease term is up to 5 years with respect to vehicles and other equipment.

Future minimum lease payments under finance leases are as follows:

	31 December 2017	31 December 2016
less than 1 year	9.7	5.0
between 1 and 5 years	18.6	20.8
Total	**28.3**	**25.8**

The present value of minimum lease payments amounted to PLN 28.3 as at 31 December 2017 and PLN 25.8 as at 31 December 2016.

33. UMTS license liabilities

Future payments	**31 December 2017**	**31 December 2016**
30 September 2017	-	123.9
30 September 2018	116.8	123.9
30 September 2019	116.8	123.9
30 September 2020	116.8	123.9
30 September 2021	116.8	123.9
30 September 2022	129.2	137.0
Total payments	**596.4**	**756.5**
Amounts representing discount	(41.1)	(61.0)
Discounted minimum payments	**555.3**	**695.5**
Of which:		
Short-term	*114.5*	*121.5*
Long-term	*440.8*	*574.0*

UMTS license liability is denominated in EUR. The value of the liability is a subject to annual reduction due to subsequent installments paid to the regulator. UMTS license liability is due in 2022.

34. Other non-current liabilities and provisions

	31 December 2017	31 December 2016
Provisions	112.7	120.6
Other	1.5	9.6
Total	**114.2**	**130.2**

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

35. Trade and other payables

	31 December 2017	31 December 2016
Trade payables to related parties	21.7	9.6
Trade payables to third parties	415.4	241.9
Taxation and social security payables	196.5	156.6
Payables relating to purchase of programming rights to related parties	1.4	1.4
Payables relating to purchase of programming rights to third parties	64.5	75.0
Payables relating to purchases of tangible and intangible assets	96.0	195.8
Accruals	760.5	706.4
Short-term provisions	102.4	130.1
Derivative instruments (IRS) liabilities (note 38)	3.6	-
Other	65.3	52.7
Total	**1,727.3**	**1,569.5**

Accruals

	31 December 2017	31 December 2016
Salaries	98.5	98.5
License fees and royalties for copyright management organizations	84.2	87.1
Distribution costs	117.3	80.0
Costs of settlements with telecommunication operators	165.8	152.3
Other	294.7	288.5
Total	**760.5**	**706.4**

Short-term and long-term provisions

	2017	2016
Opening balance as at 1 January	**250.7**	**225.9**
Acquisition of subsidiary	-	20.8
Increases	11.5	35.3
Reversal	(37.4)	(29.4)
Utilisation	(9.7)	(1.9)
Closing balance as at 31 December	**215.1**	**250.7**
Of which:		
Short-term	*102.4*	*130.1*
Long-term	*112.7*	*120.6*

Provisions comprise *inter alia* of provision for license fees, litigation and disputes, warranty provision, provision for dismantling.

Trade payables and payables relating to purchases of programming rights and non-current assets by currency

Currency	31 December 2017	31 December 2016
PLN	488.8	427.9
USD	54.8	69.4
EUR	50.6	22.6
Other	4.8	3.8
Total	**599.0**	**523.7**

Accruals by currency

Currency	31 December 2017	31 December 2016
PLN	631.8	585.3
EUR	93.8	80.4
USD	17.7	21.0
Other	17.2	19.7
Total	**760.5**	**706.4**

36. Deferred income

	31 December 2017	31 December 2016
Deferred income	621.5	668.0
Of which: *Short-term*	*618.3*	*647.9*
Long-term	*3.2*	*20.1*

Deferred income comprises mainly deferred retail revenue (subscription fees paid in advance, prepaid services and rental fees for set-top boxes) as well as deferred wholesale revenue (prepaid advertising broadcasts).

Other notes

37. Acquisition of a subsidiaries

Acquisition of shares in Paszport Korzyści Sp. z o.o.

On 7 September 2017 Polkomtel Sp. z o.o. (Company's indirect subsidiary) acquired remaining 51% shares of Paszport Korzyści Sp. z o.o. ("Paszport Korzyści") from related parties: Bithell Holdings Limited, Plus Bank S.A. and Polkomtel Business Development Sp. z o.o. (Company's indirect subsidiary, which have had 49% shares of Paszport Korzyści before above mentioned transaction). The consideration for the 100% shares of Paszport Korzyści amounted to PLN 5,000 (not in millions).

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

a) Consideration transferred

	Final value of transferred consideration
Cash transferred for the 51% shares of Paszport Korzyści	0.0
Final value as at 7 September 2017	**0.0**

b) Reconciliation of transactional cash flow

Cash transferred	(0.0)
Cash and cash equivalents received	1.6
Cash increase in the period of 12 months ended 31 December 2017	**1.6**

c) Fair value valuation of net assets as at acquisition date

The table below presents final fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Final fair values of assets and liabilities acquired as at 7 September 2017:

	Final fair value as at the acquisition date (7 September 2017)
Net assets:	
Deferred tax assets	4.5
Trade receivables and other receivables	0.1
Cash and equivalents	1.6
Loans and borrowings*	(28.6)
Trade liabilities and other liabilities	(0.2)
Value of net assets	**(22.6)**
Consideration transferred as at 7 September 2017	**0.0**
Adjustment concerning loans and borrowings	**22.6**
Goodwill	**0.0**

* As at 7 September 2017 Paszport Korzyści had loans and borrowings to Company's indirect subsidiary.

The revenue and net income included in the consolidated income statement for the reporting period since 7 September 2017 contributed by Paszport Korzyści amounted to PLN 4.7 and PLN 0.5, respectively. Had it been acquired on 1 January 2017 the proforma revenue and net income included in the consolidated income statement would have amounted to PLN 9,828.5 and PLN 948.3, respectively.

<u>*Acquisition of shares in ESKA TV S.A. and in Lemon Records Sp. z o.o.*</u>

On 4 December 2017 Telewizja Polsat Sp. z o.o. (Company's indirect subsidiary) acquired 100% shares of ESKA TV S.A. ("ESKA TV") from Bookmacher Sp. z o.o., Radio ESKA S.A., Time S.A. and Zjednoczone Przedsiębiorstwa Rozrywkowe S.A.

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

On 4 December 2017 Telewizja Polsat Sp. z o.o. (Company's indirect subsidiary) acquired 100% shares of Lemon Records Sp. z o.o. ("Lemon Records") from Zjednoczone Przedsiębiorstwa Rozrywkowe S.A., ZPR Media S.A. and Time S.A.

The consideration for the 100% shares of ESKA TV and for the 100% shares of Lemon Records amounted to PLN 69.0.

a) Provisional consideration transferred

	Provisional value of transferred
Cash transferred for the 100% shares of ESKA TV and for the 100% shares of Lemon Records	69.0
Provisional value as at 4 December 2017	**69.0**

b) Reconciliation of transactional cash flow

Cash transferred	(69.0)
Cash and cash equivalents received	0.6
Cash increase in the period of 12 months ended 31 December 2017	**(68.4)**

c) Provisional fair value valuation of net assets as at acquisition date

The table below presents provisional fair values of identified assets and liabilities of the acquired companies, as at the acquisition date, and goodwill accounted for an acquisition.

Provisional fair values of assets and liabilities acquired as at 4 December 2017:

	Provisional fair value as at the acquisition date (4 December 2017)
Net assets:	
Lemon Records brand	4.7
Concession for broadcasting television programs	5.1
Programming assets	9.4
Trade receivables and other receivables	6.6
Other current assets	0.2
Cash and equivalents	0.6
Trade liabilities and other liabilities	(23.9)
Provisional value of net assets	**2.7**
Consideration transferred as at 4 December 2017	**69.0**
Provisional goodwill	**66.3**

Goodwill is allocated to the "Broadcasting and television production" operating segment.

The revenue and net loss included in the interim consolidated income statement for the reporting period since 4 December 2017 contributed by ESKA TV and Lemon Records amounted to PLN 3.7 and PLN 0.1, respectively. Had it been acquired on

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

1 January 2017 the proforma revenue and net income included in the interim consolidated income statement for would have amounted to PLN 9,861.4 and PLN 937.3, respectively.

38. Financial instruments

Overview

Cyfrowy Polsat S.A. Group has exposure to the following risks from its use of financial instruments:
- credit risk,
- liquidity risk,
- market risk:
  (i) currency risk,
  (ii) interest rate risk.

The Group's risk management policies are designed to reduce the impact of any adverse conditions on the Group's results.

The Management Board has overall responsibility for the oversight and management of the risks that the Group is subjected to in its activities. Therefore, the Management Board has established an overall risk management framework as well as specific risk management policies with respect to market, credit and liquidity risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are also included throughout these consolidated financial statements.

Bank loans, bonds, cash, foreign exchange call options, forwards, interest rate swaps and short-term bank deposits are the main financial instruments used by the Group, with the intention of securing the financing for the Group's activities. The Group also holds other financial instruments including trade receivables and payables, payables relating to purchases of programming rights 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 2017	**31 December 2016**
Loans and receivables, including:	**3,631.0**	**3,397.4**
Loans granted	4.5	51.8
Trade and other receivables from related parties	9.3	12.5
Trade and other receivables from third parties	2,445.2	1,996.4
Cash and cash equivalents	1,161.5	1,326.0
Restricted cash	10.5	10.7
Hedging derivative instruments	**0.6**	**1.5**
Interest rate swaps	0.6	1.5
Derivative instruments not designated as hedging instruments	**6.4**	**14.7**
Interest rate swaps	6.4	14.7

(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 2017	31 December 2016
Other financial liabilities measured at amortized cost, including:	**13,660.9**	**14,464.6**
Finance lease liabilities	28.3	25.9
Loans and borrowings	10,633.3	10,572.7
Bonds	1,018.2	1,878.1
UMTS license liabilities	555.3	695.5
Trade and other payables to third parties and deposits	641.8	573.9
Trade and other payables to related parties	23.5	12.1
Accruals	760.5	706.4
Hedging derivative instruments	**0.5**	**-**
Interest rate swaps	0.5	-
Derivative instruments not designated as hedging instruments	**3.1**	**-**
Forward transactions	1.5	-
Interest rate swaps	1.6	-

Credit risk

Credit risk is defined as the risk that counterparties of the Group will not be able to meet their contractual obligations. Exposure to credit risk is related to three main areas:

- 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.

The Group's exposure to credit risk is associated primarily with trade receivables. The Parent's customer base includes a large number of individual subscribers who are dispersed geographically over the entire country, and who are required to prepay their subscription fees. Receivables from Parent's sales network are covered with commission liabilities or deposits. Receivables from subscribers are continuously monitored and recovery actions are taken, including blocking of the signal transferred to subscribers or termination of services to a telephony client and Internet customer. Telewizja Polsat and its subsidiaries provide services with deferred payment which may cause the risk of delays. Assessment of the creditworthiness of the counterparties is regularly carried out and in principle the company does not require security in relation to the financial assets. Polkomtel's customer base is dispersed geographically over the entire country. In case of important postpaid clients services are rendered following positive credit approval while in case of individual retail clients the verification process is automatized and based on IT-supported customer relationship management system and characteristics of the billing systems. Receivables from Polkomtel's sales network are continuously monitored; sales limits and utilization limits are used.

The Group 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 Group is not materially exposed to credit risk as a result of derivative transactions entered into.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk as at the reporting date was as follows:

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

Maximum exposure to credit risk

	Carrying amount	
	31 December 2017	**31 December 2016**
Loans granted	4.5	51.8
Trade and other receivables from related parties	9.3	12.5
Trade and other receivables from third parties	2,445.2	1,996.4
Cash and cash equivalents	1,161.5	1,326.0
Restricted cash	10.5	10.7
Derivative instruments not designated as hedging instruments:	**6.4**	**14.7**
Interest rate swaps	6.4	14.7
Total	**3,637.4**	**3,412.1**

The concentration of credit risk for trade and other receivables and loans granted is presented in the tables below:

	Carrying amount	
	31 December 2017	**31 December 2016**
Receivables from subscribers	1,635.6	1,232.0
Receivables from media companies	321.2	238.7
Receivables from satellite and cable operators	13.3	21.2
Roaming and interconnect receivables	209.3	166.9
Receivables from distributors	103.5	121.6
Receivables and loans granted to related parties	11.4	63.9
Other receivables and loans granted to third parties	164.7	216.4
Total	**2,459.0**	**2,060.7**

	Carrying amount	
	31 December 2017	**31 December 2016**
Company A	56.3	44.0
Company B	30.1	29.5
Company C	27.4	25.3
Company D	25.6	22.8
Company E	22.8	21.9
Other	2,296.8	1,917.2
Total	**2,459.0**	**2,060.7**

Note: for each year 5 largest debtors are presented, not necessarily the same entities in both periods.

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The ageing of trade and other receivables and loans granted at the reporting date was:

	31 December 2017			31 December 2016		
	Gross	Impairment	Net	Gross	Impairment	Net
Not past due	2,118.7	60.9	2,057.8	1,703.6	29.9	1,673.7
Past due 0-30 days	174.0	2.0	172.0	216.4	4.8	211.6
Past due 31-60 days	136.4	1.9	134.5	86.2	4.9	81.3
Past due more than 60 days	163.7	69.0	94.7	158.5	64.4	94.1
Total	**2,592.8**	**133.8**	**2,459.0**	**2,164.7**	**104.0**	**2,060.7**

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 90 days or for trade and other receivables for which impairment indicator exists.

Liquidity risk

The Group's objective in liquidity management is to ensure that it always has sufficient funds to meet its liabilities when due. Any surplus cash is invested mainly into bank deposits.

The Group prepares, on an ongoing basis, analyses and forecasts of its cash requirements based on projected cash flows.

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The following are the contractual maturities of the Group's financial liabilities.

	31 December 2017						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	10,633.3	11,472.6*	1,087.1*	704.1*	1,459.3*	8,222.1*	-
Bonds	1,018.2	1,172.5	21.7	21.4	43.1	1,086.3	-
UMTS license liabilities	555.3	596.5	-	116.8	116.8	362.9	-
Finance lease liabilities	28.3	30.1	5.8	4.7	8.6	11.0	-
Trade and other payables to third parties and deposits	641.8	641.8	641.8	-	-	-	-
Trade and other payables to related parties	23.5	23.5	23.5	-	-	-	-
Accruals	760.5	760.5	760.5	-	-	-	-
Hedging derivative instruments:							
IRS**	0.5	0.5	0.3	0.2	-	-	-
Derivative instruments not designated as hedging instruments:							
IRS**	1.6	1.6	1.0	0.6	-	-	-
Forward transactions	1.5						
– inflows		(183.5)	(183.5)	-	-	-	-
– outflows		185.6	185.6	-	-	-	-
	13,664.5	**14,701.7**	**2,543.8**	**847.8**	**1,627.8**	**9,682.3**	**-**

* loan agreements' contractual cash flows changed pursuant to the new agreement entered into on 2 March 2018 (see note 47)

** 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 2016						
	Carrying amount	Contractual cash flows	6 months and less	6-12 months	1-2 years	2-5 years	Over 5 years
Loans and borrowings	10,572.7	11,716.9	637.8	659.0	1,371.0	9,049.1	-
Bonds	1,878.1	2,739.9	21.6	21.4	43.1	1,129.4	1,524.4
UMTS license liabilities	695.5	756.5	-	123.9	123.9	371.7	137.0
Finance lease liabilities	25.9	27.7	3.0	2.8	9.7	12.2	-
Trade and other payables to third parties and deposits	573.9	573.9	573.9	-	-	-	-
Trade and other payables to related parties	12.1	12.1	12.1	-	-	-	-
Accruals	706.4	706.4	706.4	-	-	-	-
Hedging derivative instruments:							
IRS*	-	-	-	-	-	-	-
Derivative instruments not designated as hedging instruments:							
IRS*	-	-	-	-	-	-	-
Forward transactions							
– inflows	-	-	-	-	-	-	-
– outflows	-	-	-	-	-	-	-
	14,464.6	**16,533.4**	**1,954.8**	**807.1**	**1,547.7**	**10,562.4**	**1,661.4**

* pursuant to the agreements settlements shall be on a net basis

Market risk

The Group 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 Group 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 Group 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 Group, 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 Group 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 Group relies on information obtained from particular market leading banks, brokers and information services.

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It is permitted to use the following types of instruments:

- Swaps (IRS/CIRS),
- Forwards and futures,
- Options.

Currency risk

One of the main risks that the Group is exposed to is currency risk resulting from fluctuations in exchange rate of the Polish zloty against other currencies. Revenues generated by the Group are denominated primarily in the Polish zloty, while a portion of operating costs and capital expenditures are incurred in foreign currencies. The Parent's currency risk is associated mainly to royalties to 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). After the purchase of Telewizja Polsat Sp. z o.o. currency risk exposure is also associated to purchases of foreign programming licences (USD). After the purchase of Metelem Holding Company Ltd. currency risk exposure is also associated to UMTS license liabilities (EUR), agreements with suppliers of stock, mainly mobile phones, and suppliers of telecommunication network equipment (EUR), roaming and interconnect agreements and some agreements concerning rental of space required for network locations and rental of office space (various currencies).

In respect of licence fees and transponder capacity leases, the Group 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 Group does not hold any assets held for trading denominated in foreign currencies.

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

	31 December 2017					
	EUR	**USD**	**CHF**	**GBP**	**SEK**	**XDR**
Trade receivables	7.8	1.9	-	-	-	0.5
Cash and cash equivalents	3.2	8.4	2.3	0.1	1.2	-
UMTS license liabilities	(133.1)	-	-	-	-	-
Trade payables	(13.1)	(14.5)	(0.1)	-	-	(0.8)
Gross balance sheet exposure	**(135.2)**	**(4.2)**	**2.2**	**0.1**	**1.2**	**(0.3)**
Forward transactions	44.0	-	-	-	-	-
Net exposure	**(91.2)**	**(4.2)**	**2.2**	**0.1**	**1.2**	**(0.3)**

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

	31 December 2016					
	EUR	**USD**	**CHF**	**GBP**	**SEK**	**XDR**
Trade receivables	5.8	4.5	-	0.5	-	0.4
Cash and cash equivalents	3.3	18.0	1.1	0.4	1.5	-
UMTS license liabilities	(157.2)	-	-	-	-	-
Trade payables	(5.1)	(16.6)	-	-	-	(0.6)
Gross balance sheet exposure	**(153.2)**	**5.9**	**1.1**	**0.9**	**1.5**	**(0.2)**
Forward transactions	-	-	-	-	-	-
Net exposure	**(153.2)**	**5.9**	**1.1**	**0.9**	**1.5**	**(0.2)**

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

	Average rate		**Rates at the reporting date**	
(in PLN)	**2017**	**2016**	**31 December 2017**	**31 December 2016**
1 EUR	4.2583	4.3625	4.1709	4.4240
1 USD	3.7782	3.9431	3.4813	4.1793
1 GBP	4.8595	5.3431	4.7001	5.1445
1 CHF	3.8364	4.0021	3.5672	4.1173
1 XDR	5.2368	5.4805	4.9653	5.6716
1 SEK	0.4422	0.4611	0.4243	0.4619
1 AUD	2.8949	2.9330	2.7199	3.0180

For the purposes of the exchange rate sensitivity analysis as at 31 December 2017 and 31 December 2016, exchange rate volatility in the +/- 5% range was assumed as probable. 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)

	2017					2016				
	As at 31 December 2017		Estimated change in exchange rate in %	Estimated change in profit in PLN	Estimated change in other comprehensive income in PLN	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
	in currency	in PLN				in currency	in PLN			
Trade receivables										
EUR	7.8	32.7	5%	1.5	-	5.8	25.8	5%	1.3	-
USD	1.9	6.5	5%	0.4	-	4.5	18.8	5%	0.9	-
XDR	0.5	2.3	5%	0.3	-	0.4	2.3	5%	0.1	-
GBP	-	-	5%	-	-	0.5	2.6	5%	0.1	-
Cash and cash equivalents										
EUR	3.2	13.5	5%	0.5	-	3.3	14.6	5%	0.7	-
USD	8.4	29.1	5%	1.6	-	18.0	75.2	5%	3.8	-
CHF	2.3	8.2	5%	0.4	-	1.1	4.7	5%	0.2	-
GBP	0.1	0.3	5%	0.2	-	0.4	1.9	5%	0.1	-
SEK	1.2	0.5	5%	-	-	1.5	0.7	5%	-	-
UMTS license liabilities										
EUR	(133.1)	(555.3)	5%	(27.6)	-	(157.2)	(695.5)	5%	(34.8)	-
Trade payables										
EUR	(13.1)	(54.8)	5%	(2.6)	-	(5.1)	(22.6)	5%	(1.1)	-
USD	(14.5)	(50.6)	5%	(2.4)	-	(16.6)	(69.4)	5%	(3.5)	-
XDR	(0.8)	(3.9)	5%	(0.3)	-	(0.6)	(3.2)	5%	(0.2)	-
CHF	(0.1)	(0.2)	5%	(0.2)	-	-	-	5%	-	-
Change in operating profit				**(28.2)**	**-**				**(32.4)**	**-**

Forwards										
EUR	44.0	183.5	5%	9.2	-	-	-	5%	-	-
Income tax				3.6	-				6.2	-
Change in net profit				**(15.4)**	**-**				**(26.2)**	**-**

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

	2017					**2016**				
	As at 31 December 2017		**Estimated change in exchange rate in %**	**Estimated change in profit in PLN**	**Estimated change in other comprehensive income in PLN**	**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**
	in currency	**in PLN**				**in currency**	**in PLN**			
Trade receivables										
EUR	7.8	32.7	-5%	(1.5)	-	5.8	25.8	-5%	(1.3)	-
USD	1.9	6.5	-5%	(0.4)	-	4.5	18.8	-5%	(0.9)	-
XDR	0.5	2.3	-5%	(0.3)	-	0.4	2.3	-5%	(0.1)	-
GBP	-	-	-5%	-	-	0.5	2.6	-5%	(0.1)	-
Cash and cash equivalents										
EUR	3.2	13.5	-5%	(0.5)	-	3.3	14.6	-5%	(0.7)	-
USD	8.4	29.1	-5%	(1.6)	-	18.0	75.2	-5%	(3.8)	-
CHF	2.3	8.2	-5%	(0.4)	-	1.1	4.7	-5%	(0.2)	-
GBP	0.1	0.3	-5%	(0.2)	-	0.4	1.9	-5%	(0.1)	-
SEK	1.2	0.5	-5%	-	-	1.5	0.7	-5%	-	-
UMTS license liabilities										
EUR	(133.1)	(555.3)	-5%	27.6	-	(157.2)	(695.5)	-5%	34.8	-
Trade payables										
EUR	(13.1)	(54.8)	-5%	2.6	-	(5.1)	(22.6)	-5%	1.1	-
USD	(14.5)	(50.6)	-5%	2.4	-	(16.6)	(69.4)	-5%	3.5	-
XDR	(0.8)	(3.9)	-5%	0.3		(0.6)	(3.2)	-5%	0.2	
CHF	(0.1)	(0.2)	-5%	0.2	-	-	-	-5%	-	-
Change in operating profit				**28.2**	**-**				**32.4**	**-**

Forwards										
EUR	44.0	183.5	-5%	(9.2)	-	-	-	-5%	-	-
Income tax				(3.6)	-				(6.2)	-
Change in net profit				**15.4**	**-**				**26.2**	**-**

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

	2017		2016	
	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	(15.4)	-	(27.5)	-
USD	(0.4)	-	1.0	-
CHF	0.2	-	0.2	-
GBP	0.2	-	0.2	-
XDR	-	-	(0.1)	-
Estimated change in exchange rate by -5 %				
EUR	15.4	-	27.5	-
USD	0.4	-	(1.0)	-
CHF	(0.2)	-	(0.2)	-
GBP	(0.2)	-	(0.2)	-
XDR	-	-	0.1	-

Had Polish zloty strengthened 5% against the basket of currencies as at 31 December 2017 and 31 December 2016, the Group's net profit would have decreased by PLN 15.4 and decreased by PLN 26.2, respectively and other comprehensive income would have been unchanged in 2017 and would have been unchanged in 2016. Had the Polish zloty weakened 5%, the Group's net profit would have correspondingly increased by PLN 15.4 in 2017 and increased by PLN 26.2 in 2016, 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 Group'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 Group regularly analyses its level of interest rate risk exposure, including refinancing and risk minimising scenarios. Based on these analyses, the Group estimates the effects of changes in interest rates on its profit and loss.

In order to reduce interest rate risk exposure resulting from Parent's interest payments on floating rate senior facility, the Group stipulated interest rate swaps for which hedge accounting was adopted (see note 29). In order to reduce interest rate risk exposure resulting from Metelem Holding Company Ltd. group (actually Eileme 1 AB (publ) group) interest payments on floating rate senior facilities the Group also uses interest rate swaps and for them hedge accounting was not adopted.

(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 2017	**31 December 2016**
Fixed rate instruments		
Financial assets	242.5	472.3
Financial liabilities*	-	(860.3)
Variable rate instruments		
Financial assets*	802.6	909.8
Financial liabilities*	(11,679.5)	(11,668.2)
Net interest exposure	**(10,876.9)**	**(11,146.4)**

* nominal debt

The Group 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 2017						
Variable rate instruments*	(77.4)	77.4	3.1	(3.1)	(74.3)	74.3
Cash flow sensitivity (net)	**(77.4)**	**77.4**	**3.1**	**(3.1)**	**(74.3)**	**74,3**
31 December 2016						
Variable rate instruments*	(107.6)	107.6	3.7	(3.7)	(103.9)	103.9
Cash flow sensitivity (net)	**(107.6)**	**107.6**	**3.7**	**(3.7)**	**(103.9)**	**103.9**

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

For some instruments the Group 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 Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

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

Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data

Presented below are fair values and carrying amounts of financial assets and liabilities not measured in fair value.

			31 December 2017		31 December 2016	
	Category according to IAS 39	**The level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	4.5	4.5	53.0	51.8
Trade and other receivables	A	*	2,454.5	2,454.5	2,008.9	2,008.9
Cash and cash equivalents and short-term deposits	A	*	1,161.5	1,161.5	1,326.0	1,326.0
Restricted cash	A	*	10.5	10.5	10.7	10.7
Loans and borrowings	C	2	(10,692.0)	(10,633.3)	(10,651.7)	(10,572.7)
Issued bonds	C	1,2**	(1,036.7)	(1,018.2)	(2,076.3)	(1,878.1)
UMTS licence liabilities	C	2	(594.2)	(555.3)	(755.4)	(695.5)
Finance lease liabilities	C	2	(28.3)	(28.3)	(25.8)	(25.9)
Accruals	C	*	(760.5)	(760.5)	(706.4)	(706.4)
Trade and other payables and deposits	C	*	(665.3)	(665.3)	(586.0)	(586.0)
Total			**(10,146.0)**	**(10,029.9)**	**(11,403.0)**	**(11,067.2)**
Unrecognized gain/(loss)				(116.1)		(335.8)

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

** As at 31 December 2017, bonds issued by Cyfrowy Polsat are included in level 1 of the fair value hierarchy. As at 31 December 2016, bonds issued by Cyfrowy Polsat are included in level 1 of the fair value hierarchy whereas bonds issued by Litenite are included in level 2 of the fair value hierarchy.

When determining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to assumed dates of lease agreements termination were analyzed. The discount rate for each payment was calculated as a WIBOR interest rate plus a margin regarding the Group's credit risk.

Trade and other receivables, trade and other payables and deposits comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking into account the time value of money, would approximately be equal to their nominal value.

When determining the fair value of UMTS license liability, forecasted cash flows from the reporting date to September 2022 were discounted at EURIBOR market rate.

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

When determining the fair value of 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.

As at 31 December 2017 and 31 December 2016 loans and borrowings comprised senior facilities. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities as at 31 December 2017 and 31 December 2016, forecasted cash flows from the reporting date to 21 September 2020 (assumed dates of repayment of the loans) were analyzed.

The fair value of issued bonds as at 31 December 2017 and 31 December 2016 was estimated as a last purchase price at the balance sheet date according to GPW Catalyst quotations for bonds issued by Cyfrowy Polsat S.A. Fair value of Litenite bonds as at 31 December 2016 was estimated according to generally accepted valuation model based on discounted cash flow analysis while the most significant batch data is interest rate reflecting customers credit risks.

As at 31 December 2017, the Group held the following financial instruments carried at fair value on the statement of financial position.

Assets measured at fair value

	31 December 2017	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Interest rate swaps		-	6.4	-
Hedging derivative instruments:				
Interest rate swaps		-	0.6	-
Total		**-**	**7.0**	**-**

Liabilities measured at fair value

	31 December 2017	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Forward transactions		-	(1.5)	-
Interest rate swaps		-	(1.6)	-
Hedging derivative instruments:				
Interest rate swaps		-	(0.5)	-
Total		**-**	**(3.6)**	**-**

The fair value of forwards and 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.

(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 Group held the following financial instruments measured at fair value:

Assets measured at fair value

	31 December 2016	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Interest rate swaps		-	14.7	-
Hedging derivative instruments:				
Interest rate swaps		-	1.5	-
Total		**-**	**16.2**	**-**

Items of income, costs, profit and losses recognized in profit or loss generated by loans and bonds (including hedging transactions)

For the period from 1 January 2017 to 31 December 2017	Loans and borrowings	Bonds	Hedging instruments	Derivative instruments not designated as hedging instruments	**Total**
Interest expense on loans and borrowings	(369.6)	-	0.2	(6.3)	**(375.7)**
Interest expense on bonds	-	(69.8)	-	-	**(69.8)**
Early redemption costs	-	(58.7)	-	-	**(58.7)**
Total finance costs	(369.6)	(128.5)	0.2	(6.3)	**(504.2)**
Total gross profit/(loss)	**(369.6)**	**(128.5)**	**0.2**	**(6.3)**	**(504.2)**
Hedge valuation reserve	**-**	**-**	**1.3**	-	**1.3**

For the period from 1 January 2016 to 31 December 2016	Loans and borrowings	Bonds	Hedging instruments	Derivative instruments not designated as hedging instruments	**Total**
Interest expense on loans and borrowings	(401.7)	-	(7.3)	(10.3)	**(419.3)**
Interest expense on bonds	-	(141.7)	-	(218.3)	**(360.0)**
Foreign exchange rate differences	-	(244.8)	-	-	**(244.8)**
Total finance costs	(401.7)	(386.5)	(7.3)	(228.6)	**(1,024.1)**
Total gross profit/(loss)	**(401.7)**	**(386.5)**	**(7.3)**	**(228.6)**	**(1,024.1)**
Hedge valuation reserve	**-**	**-**	**(9.8)**	-	**(9.8)**

Hedge accounting and derivatives

Cash Flow Hedge of interest rate risk of interest payments

At 31 December 2017, the Group held a number of interest rate swaps not designated as hedges in order to reduce the risk of floating interest payments on senior facilities denominated in PLN.

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

Table below presents the basic parameters of IRS not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2017	31 December 2016
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	4,000.0	3,000.0
Fair value of hedging instruments	4.8	14.6
Hedge accounting approach	Hedge accounting not adopted	Hedge accounting not adopted
Expected period the hedge item affect income statement	Until 31 March 2020	Until 30 September 2019

At 31 December 2017, the Group 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 Group'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 2017	31 December 2016
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	375.0	250.0
Fair value of hedging instruments	0.1	1.5
Hedge accounting approach	Cash Flow Hedge	Cash Flow Hedge
Expected period the hedge item affect income statement	Until 30 September 2019	Until 30 September 2018

Change in fair value of cash flow hedges is presented below (pre-tax):

	2017	2016
Opening Balance	**1.5**	**(8.3)**
Effective part of gains or losses on the hedging instrument	(1.2)	1.5
Amounts recognized in equity transferred to the profit and loss statement, of which:	(0.2)	8.3
- adjustment of interest costs	(0.2)	8.3
Closing Balance	**0.1**	**1.5**

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

Cash Flow Hedge of foreign exchange risk of operational payments

At 31 December 2017 the Group held a number of forwards not designated as hedges in order to reduce the risk of operational payments in EUR.

Tables below present the basic parameters of forwards not designated as hedging instruments, including the periods in which cash flows occur, periods they will affect the financial results and their fair value in PLN as at the balance sheet date.

	31 December 2017	31 December 2016
Type of instrument	Forward	-
Exposure	Operational payments in euro	-
Hedged risk	Foreign exchange risk	-
Notional value of hedging instrument (EUR)	44.0	-
Fair value of hedging instruments	(1.5)	-
Hedge accounting approach	Hedge accounting not adopted	-
Expected period the hedge item affect income statement	Until 27 April 2018	-

39. Capital management

This note presents information about the Group's management of capital. Further quantitative disclosures are also included throughout these financial statements.

The goal of capital management is to maintain the Group'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 Group might issue shares, increase debt or sell assets in order to maintain or improve the equity structure.

The Group 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 2017	31 December 2016
Loans and borrowings	10,633.3	10,572.7
Bonds	1,018.2	1,878.1
Cash and cash equivalents and restricted cash	(1,172.0)	(1,336.7)
Net debt	**10,479.5**	**11,114.1**
Equity	12,116.8	11,377.6
Equity and net debt	**22,596.3**	**22,491.7**
Leverage ratio	**0.46**	**0.49**

40. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment includes:

- digital pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by pay-TV subscription fees,
- mobile telecommunication services (postpaid and mix) which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees,
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators,
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including international and domestic roaming as well as telecommunication infrastructure sharing services,
- online TV services (IPLA) available on computers, smartphones, tablets, SmartTV, game consoles and other TV equipment which generate revenues mainly from subscription fees and advertising on the Internet,
- Premium Rate services based on SMS/IVR/MMS/WAP technology,
- production of set-top boxes,
- sale of telecommunication equipment and production of set-top boxes,
- sale of electric energy and other media to retail customers.

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

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2017:

The year ended 31 December 2017	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,562.5	1,266.1	-	9,828.6
Inter-segment revenues	42.5	167.7	(210.2)	-
Revenues	**8,605.0**	**1,433.8**	**(210.2)**	**9,828.6**
EBITDA (unaudited)	**3,112.5**	**504.5**	**-**	**3,617.0**
Depreciation, amortization, impairment and liquidation	1,746.3	36.7	-	1,783.0
Profit from operating activities	**1,366.2**	**467.8**	**-**	**1,834.0**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	852.8*	25.1	-	877.9
Balance as at 31 December 2017				
Assets, including:	23,191.6	4,621.5**	(57.1)	27,756.0
Investments in joint venture	-	5.9	-	5.9

* this item also includes the acquisition of reception equipment for operating lease purposes

** includes non-current assets located outside of Poland in the amount of PLN 12.1

All material revenues are generated in Poland.

It should be noted that the year ended 31 December 2017 is not comparable to the year ended 31 December 2016 as Litenite Ltd. was acquired on 29 February 2016 (allocated to the Services to individual and business customers segment), IT Polpager S.A. was acquired on 30 September 2016 (allocated to the Services to individual and business customers segment), LTE Holdings Limited was disposed on 19 June 2017 (allocated to the Services to individual and business customers segment), 51% shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) were acquired on 7 September 2017 (allocated to the Services to individual and business customers segment), Eska TV S.A. and Lemon Records Sp. z o.o. were acquired on 4 December 2017 (allocated to the Broadcasting and television production), 34.02% shares in TV Spektrum Sp. z o.o. were acquired on 4 December 2017 (allocated to the Broadcasting and television production), 31.76% shares in Netia S.A. were acquired on 5 December 2017 (allocated to the Services to individual and business customers segment) and shares in New Media Ventures Sp. z o.o. were disposed on 8 December 2017(allocated to the Services to individual and business customers segment).

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the year ended 31 December 2016:

The year ended 31 December 2016	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	8,440.4	1,289.4	-	9,729.8
Inter-segment revenues	35.4	194.6	(230.0)	-
Revenues	**8,475.8**	**1,484.0**	**(230.0)**	**9,729.8**
EBITDA (unaudited)	**3,077.4**	**563.4**	**-**	**3,640.8**
Depreciation, amortization, impairment and liquidation	1,929.6	41.9	-	1,971.5
Profit from operating activities	**1,147.8**	**521.5**	**-**	**1,669.3**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	717.2*	27.7	-	744.9
Balance as at 31 December 2016				
Assets, including:	23.324.5	4,459.9**	(55.1)	**27,729.3**
Investments in joint venture	-	5.9	-	5.9

* this item also includes the acquisition of reception equipment for operating lease purposes

** includes non-current assets located outside of Poland in the amount of PLN 14.5

Reconciliation of EBITDA and Net profit for the period:

	for the year ended	
	31 December 2017	**31 December 2016**
EBITDA (unaudited)	**3,617.0**	**3,640.8**
Depreciation, amortization, impairment and liquidation (note 10)	(1,783.0)	(1,971.5)
Profit from operating activities	**1,834.0**	**1,669.3**
Other foreign exchange rate differences, net (note 11)	49.6	(63.5)
Share of the profit of associates accounted for using the equity method	2.8	-
Interest costs, net (note 11 and 12)	(415.7)	(495.8)
Early redemption costs (note 12)	(58.7)	-
Valuation and realization of derivatives not used in hedge accounting – relating to principal (note 12)	-	203.8
Foreign exchange differences on issued bonds (note 12)	-	(244.8)
Other	(77.0)	(35.6)
Gross profit for the period	**1,335.0**	**1,033.4**
Income tax	(389.8)	(12.4)
Net profit for the period	**945.2**	**1,021.0**

41. Barter transactions

The Group 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, products, goods and materials sold, costs comprise selling expenses.

(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	
	31 December 2017	31 December 2016
Revenues from barter transactions	45.0	53.2
Cost of barter transactions	43.2	53.3

	31 December 2017	31 December 2016
Barter receivables	16.5	24.1
Barter payables	9.0	10.8

42. Transactions with related parties

Receivables

	31 December 2017	31 December 2016
Joint ventures	3.3	1.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	6.6	11.2
Total*	**9.9**	**12.5**

* amounts presented above do not include deposits paid (31 December 2017 – PLN 3.4, 31 December 2016 – PLN 3.4)

Receivables due from related parties have not been pledged as security.

Other assets

	31 December 2017	31 December 2016
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.3	0.1
Total	**0.3**	**0.1**

Liabilities

	31 December 2017	31 December 2016
Joint ventures	2.1	1.5
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	35.5	27.3
Total	**37.6**	**28.8**

Loans granted

	31 December 2017	31 December 2016
Joint ventures	-	48.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	2.1	3.1
Total	**2.1**	**51.4**

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

Issued bonds

	31 December 2017	31 December 2016
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	-	792.2
Total	**-**	**792.2**

On 26 April 2017 Litenite Limited early redeemed all of its issued bonds.

Revenues

	for the year ended	
	31 December 2017	31 December 2016
Subsidiaries*	0.1	84.6
Joint ventures	3.0	0.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	14.6	13.3
Total	**17.7**	**98.8**

* Concerns transaction with subsidiaries executed prior to their acquisition.

In 12 months ended 31 December 2016 the most significant transactions include revenues from sharing base transceiver stations and radio module, services relating to expansion of telecommunication network, sale of advertisements and revenues from audiotext services.

Expenses and purchases of programming assets

	for the year ended	
	31 December 2017	31 December 2016
Subsidiaries*	-	120.2
Joint ventures	4.1	4.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	254.7	224.4
Total	**258.8**	**348.9**

* Concerns transaction with subsidiaries executed prior to their acquisition.

In 12 months ended 31 December 2017 the most significant transactions include cost of electrical energy, property rental, expenses for programming assets and advertising services.

In 12 months ended 31 December 2016 the most significant transactions include data transfer services, property rental, cost of electrical energy, expenses for programming assets and advertising services.

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

Gain on investment activities, net

	for the year ended	
	31 December 2017	**31 December 2016**
Subsidiaries*	0.8	-
Joint ventures	1.6	2.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	0.7
Total	**2.5**	**3.6**

* Concerns transaction with subsidiaries executed prior to their acquisition.

Finance costs

	for the year ended	
	31 December 2017	**31 December 2016**
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	78.4	61.2
Total	**78.4**	**61.2**

The acquisition of shares in Plus Flota Sp. z o.o. (formerly Paszport Korzyści Sp. z o.o.) was presented in note 37.

43. Contingent liabilities

Management believes that the provisions as at 31 December 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer („UOKiK")

On 24 February 2011 the President of UOKiK imposed penalty on Polkomtel (Company's indirect subsidiary) in the amount of PLN 130.7 for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court ("SOKiK"). According to management, during the inspection the company had fully and at all times cooperated with UOKiK within the scope provided by the law. On 18 June 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4.0 (i.e. EUR 1.0). On 20 October 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. On 28 April 2017 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 1.3. Polkomtel and President of UOKiK appealed against the verdict.

On 23 November 2011 Polkomtel (Company's indirect subsidiary) received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5. In management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the UOKiK's President regarding the penalty. Following SOKiK's verdict dated 19 June 2015 the penalty has been revoked in full. The President of UOKiK appealed against the verdict. On 15 March 2017 the President of UOKiK appeal has been rejected by the Court. The verdict is binding. The President of UOKiK filed for cassation against the verdict.

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

On 23 December 2014 the President of UOKiK issued a decision ending investigations related to Polkomtel's (Company's indirect subsidiary) alleged practices which infringed upon the collective interests of consumers by including certain clauses in the terms and conditions of the online shop and including certain clauses in the equipment return policy when telecommunication agreements are terminated by the subscriber. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 8.8. The company appealed to SOKiK against the decision. On 24 October 2017 the appeal has been rejected by SOKiK. The company appealed against the SOKiK verdict.

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

On 30 December 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) 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 and Polkomtel were charged with a penalty in the amount of PLN 5.3 and PLN 18.4, respectively. The Group appealed to SOKiK against the decision.

On 30 December 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) 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 and Polkomtel was charged with a penalty in the amount of PLN 4.4 and PLN 12.3, respectively. The Group appealed to SOKiK against the decision.

Other proceedings

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21.0 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0. On 20 April 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0. On 12 May 2017 Polkomtel made a payment in the amount of PLN 9.0. Polkomtel filed cassation appeal. In management's opinion the claim is groundless.

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

In September 2015, Polkomtel (Company's indirect subsidiary) received a claim from P4 Sp. z o.o., in which the company demands compensation of PLN 316.0 (including interest of PLN 85.0), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Poland S.A., Polkomtel and T-Mobile Poland S.A.
Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

On 28 April 2017, ZASP filed a lawsuit against Cyfrowy Polsat for payment of PLN 20.3. The Company issued an objection in the writ-of-payment proceedings and filed for its dismissal entirety. On 10 January 2018 the Court issued a decision to refer the case to mediation proceedings.

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

44. Remuneration of the Management Board

The table below presents the Management Board's remuneration.

Name	Function	2017	2016
Tobias Solorz	President of the Management Board	1.5	1.5
Dariusz Działkowski	Member of the Management Board	0.7	0.6
Tomasz Gillner-Gorywoda	Member of the Management Board	1.2	1.2
Aneta Jaskólska	Member of the Management Board	0.9	0.9
Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016)	0.6	0.5
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	1.0	0.2
Maciej Stec	Member of the Management Board	0.9	0.9
Tomasz Szeląg	Member of the Management Board (until 30 September 2016)	-	0.7
Total		**6.8**	**6.5**

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

The amounts of bonuses and other remuneration payable to each member of the Management Board for 2017 and 2016 are presented below:

Name	Function	2017	2016
Tobias Solorz	President of the Management Board	1.5	5.0
Dariusz Działkowski	Member of the Management Board	1.1	1.0
Tomasz Gillner-Gorywoda	Member of the Management Board	1.4	1.5
Aneta Jaskólska	Member of the Management Board	1.3	1.8
Agnieszka Odorowicz	Member of the Management Board (from 1 March 2016)	0.6	0.5
Katarzyna Ostap-Tomann	Member of the Management Board (from 1 October 2016)	1.4	1.2
Maciej Stec	Member of the Management Board	1.5	1.6
Tomasz Szeląg	Member of the Management Board (until 30 September 2016)	-	4.1
Total		**8.8**	**16.7**

45. Remuneration of the Supervisory Board

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.

Presented below total remuneration payable to the Supervisory Board members in 2017 and 2016:

Name	Function	2017	2016
Zygmunt Solorz	President of the Supervisory Board (until 30 September 2016)	-	0.15
Marek Kapuściński	President of the Supervisory Board (from 25 October 2016), Member of the Supervisory Board (from 1 October 2016 to 24 October 2016)	0.24	0.06
Józef Birka	Member of the Supervisory Board	0.18	0.15
Robert Gwiazdowski	Independent Member of the Supervisory Board	0.18	0.15
Aleksander Myszka	Member of the Supervisory Board	0.18	0.15
Leszek Reksa	Independent Member of the Supervisory Board	0.18	0.15
Heronim Ruta	Member of the Supervisory Board (until 30 November 2017)	0.17	0.15
Tomasz Szeląg	Member of the Supervisory Board (from 1 October 2016)	0.18	0.05
Total		**1.31**	**1.01**

46. Important agreements and events

Decision of the Head of the Mazovian Tax Office in Warsaw

On 25 May 2017 the Head of the Mazovian Tax Office in Warsaw ("Tax Office") issued the decision determining the value of tax obligation in relation to corporate income tax for the year 2011 at a higher level than the declared value, by PLN 40.6 plus accrued penalty.

In the issued decision the Tax Office contested the Company's right to charge into tax deductible expenses certain expenditures incurred in 2011. The decision was issued in spite of the Company having presented a number of arguments stipulating that the findings of the Tax Office were incorrect and had no legal basis. In particular, the Tax Office disregarded that the Company received an individual tax interpretation confirming the correctness of the Company's operations in the scope covered by the current findings of the Tax Office.
The decision in question is neither final nor enforceable. The Company appealed against the decision of the Tax Office to the head of the Treasury Administration Chamber in Warsaw.
At present the Company does not intend to create any provisions encumbering its financial results.

Acquisition of shares and tender offer announcement

On 5 December 2017 the Company acquired 110,702,441 shares of Netia S.A. – the purchase price is PLN 5.77 (not in million) per one share.

On 5 December 2017 the Company announced a tender offer to place subscriptions for the sale of 119,349,971 ordinary bearer shares issued by Netia S.A., representing 34.24% of Netia's share capital. The tender offer price amounts to PLN 5.77 (not in million) for one share. The tender offer was announces subject to precedent conditions including *inter alia* receiving a decision from the President of the Office for Competition and Consumer Protection consenting to the concentration resulting from taking over control of Netia S.A.. The term to place subscriptions for the sale of Netia's shares was extended until 9 April 2018. In the event of Netia's share capital decrease (pursuant to Netia's resolution dated 30 January 2018) being registered by the registry court before the end of the subscription period for the sale of shares, then the tender offer will concern 110,702,444 shares, representing 33% of Netia's share capital.

On 15 December 2017 the Company entered into a bank guarantee agreement with Bank BGŻ BNP Paribas S.A. securing the Company's obligations resulting from the tender offer to sell Netia's shares. Bank's total commitment may not exceed PLN 200.

The legal dispute in respect to the telecommunication concession

There is a pending legal dispute in respect to the telecommunication concession for the 1800 MHz frequency granted in 2007 to Mobyland Sp. z o.o. (now Aero 2 Sp. z o.o.) and Centernet S.A. (now Aero 2 Sp. z o.o.). Proceedings to invalidate the 1800 MHz frequency allocation tender have been instigated by T-Mobile and Orange. Supreme Administrative Court (NSA), in its ruling dated 8 May 2014, sustained the decision of the Court of First Instance and repealed the decision issued by the President of the Office of Electronic Communications (UKE) on 23 September 2011 which partially invalidated the above mentioned tender. Following the decision of the Supreme Administrative Court, UKE informed that "the decisions regarding re-running the tender will be taken by the Office upon careful analysis of the written justification of NSA's rulings and the Court's guidelines regarding further procedure as well as upon analysis of the legal situation". UKE also stated that the 'reservation decisions issued by UKE President remained valid while the operators could continue providing their services while using these frequencies'. On 23 December 2016 President of UKE notified the parties that the tender annulment proceedings relating to the 1800 MHz frequency have been adopted. Pursuant to the decision dated 4 August 2017 President of UKE notified the parties that the tender dated 2007 has been annulled. On 13 October 2017 Aero 2 Sp. z o.o. (a successor of CenterNet S.A. and Mobyland Sp. z o.o.) filed a motion to reconsider the decision of the President of UKE dated 4 August 2017 concerning the annulment of the tender procedure. On 31 January 2018 the

President of UKE upheld its decision dated 4 August 2017. Aero2 has the right to file a complaint against this decision to WSA in Warsaw.

The decision issued by UKE President does not affect reservation decisions issued following the administrative tender. In accordance with President of UKE's press release, these reservation decisions remain valid and telecommunication operators may continue to provide their services based on these reservation decisions. In management's opinion this issue should have no negative impact on the results and financial condition of the Group. Accordingly, no valuation adjustment has been made in these consolidated financial statements.

47. Events subsequent to the reporting date

Cross-border merger

On 9 January 2018 the Extraordinary General Meeting of the Company adopted a resolution concerning the cross-border merger by acquisition of Cyfrowy Polsat (Acquiring Company) and Eileme 1 AB (Ceasing Company). The merger 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.

Decision of the Head of the Małopolska Tax Office in Cracow

On 15 February 2018 the Head of the Małopolska Tax Office in Cracow ("Tax Office") issued the decision assessing the tax liability from uncollected withholding corporate income tax in 2012 in the amount of PLN 24.2 increased by interest on tax arrears.

In the issued decision the Tax Office contested the Company's right to an exemption from the obligation to withhold income tax on certain interest payments in 2012.

The decision is neither final nor enforceable. The Company will appeal against the decision of the Tax Authority on the basis of acquired opinions issued by renowned entities. The Company does not intend to create any provisions encumbering its financial results.

The Tax Office control activities in the aforesaid matter are in progress in relation to 2013 and 2014. If an unfavorable and, in the opinion of the Company, incorrect interpretation of tax regulations relating to disputed matter is upheld, additional Company's tax liabilities might amount to ca. PLN 35 increased by interest on tax arrears.

Acquisition of shares

On 2 February 2018 Company's subsidiary acquired 15.46% of shares in TV Spektrum Sp. z o.o.

On 1 March 2018 Company's indirect subsidiary acquired 100% of shares in Coltex ST Sp. z o.o.

Amendments and restatement deed to the facilities agreement

On 2 March 2018 the Company (acting as the obligors' agent) and UniCredit Bank AG (acting as finance parties' agent) entered into Second Amendment and Restatement Deed to the Facilities Agreement dated 21 September 2015 and amended by the Amendment, Restatement and Consolidation Deed dated 21 September 2015. The Second Amendment and Restatement Deed amends *inter alia* the termination date of the Term Facility and the Revolving Facility to 30 September 2022 (originally set on 21 September 2020). Pursuant to the agreement the repayment schedule has been changed as follows:

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- in years 2019-2021 the Term Facility annual payments amount to PLN 1,017.6,
- in 2022 the Term Facility payments amount to PLN 6,626.7.

The Second Amendment and Restatement Deed also amends the level of the ratio of consolidated net debt to consolidated EBITDA, upon achieving of which the Company may request the release of security established in connection with the Facilities Agreement (excluding the release of guarantees granted pursuant to the Facilities Agreement) or after exceeding of which the Company shall re-establish the released security, is revised to 3.00:1 (originally 1.75:1).

The primary objective of the capital resources management policy of Cyfrowy Polsat Capital Group remains the continued reduction of indebtedness below the level of 1.75x consolidated net debt/consolidated EBITDA.

48. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

The Group entered into a series of agreements establishing collateral under the Senior Facilities Agreement, SFA Agreement and Senior Notes. Detailed information in respect to the agreements is presented in the Management Report in note 4.6.6.

Commitments to purchase programming assets

As at 31 December 2017 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 December 2017	31 December 2016
within one year	192.6	139.4
between 1 to 5 years	612.1	83.3
more than 5 years	15.0	20.0
Total	**819.7**	**242.7**

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

	31 December 2017	31 December 2016
within one year	0.2	14.6
Total	**0.2**	**14.6**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 110.4 as at 31 December 2017 (PLN 118.3 as at 31 December 2016). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 31 December 2017 was PLN 272.5 (PLN 115.3 as at 31 December 2016).

49. 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 Group 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 Group 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 Group holds substantially all the risks and rewards incidental to ownership of the reception equipment. The Group also provides vehicles under operating lease agreements which were initially leased from MLeasing and recognized as financial leasing.
As a part of its business activities the Group 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. The Group also entered into land lease agreements (locations for network infrastructure) and leases of office and other premises which are classified as operating leases. For more information see note 32.

- *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 (including customer relationships and Plus brand). 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 6j and 6k. For information on the depreciation charge for the period by the category of property, plant and equipment and intangible assets with definite useful lives see notes 16 and 20.

- *Economic useful lives and amortization method of programming assets*

Economic useful life of programming assets is based on the shorter of the expected consumption of future economic benefits embodied in an asset and the license period. Amortisation method of programming assets reflects how these economical benefits are consumed. The estimation of the useful life and the amortization method requires assessment of the timing during which the Group is expecting to obtain the income from the acquired programming assets and the percentage apportionment of this income in the given period. For more information about the amortization method and amortization charge for the period by programming assets category see notes 6l and 21.

- *Indefinite useful life of Polsat, TV4, TV6, IPLA and Lemon Records brands*

As at the reporting date, the Group has reviewed whether relevant factors continue to indicate indefinite useful life of Polsat, TV4, TV6 and IPLA brands recognised in 2011-2013 on the acquisition of Telewizja Polsat S.A., Polskie Media S.A. and entities comprising IPLA network.

The Group has reviewed the following factors which are essential for estimating the economic useful life of the Polsat, TV4, TV6, IPLA and Lemon Records brands:

- The expected usage of the asset by the entity and whether the asset could be managed more efficiently
- Technical, technological, commercial or other types of obsolescence
- The stability of the industry in which the asset operates and changes in the market demand for media services
- Expected actions by competitors or potential competitors
- The level of maintenance expenditure required to obtain the expected future economic benefits from the asset
- Whether the useful life of the asset is dependent on the useful life of other asset of the entity.

Having analyzed the above factors, the Group has concluded that there is no foreseeable limit to the period over which the Polsat, TV4, TV6, IPLA and Lemon Records brands are expected to generate net cash inflows for the Group and thus the indefinite useful life was assumed. This means that the above brands are not subject to amortization but rather are tested for impairment on annual basis. The Management believes that Polsat, TV4, TV6 and Lemon Records brands have a positive impact on the revenues from advertising and sponsorship and IPLA brand has a positive impact on acquisition of new customers as well as increase of ARPU among current customers of Cyfrowy Polsat. Furthermore, the Polsat brand is widely recognized by media and is highly appreciated in numerous rankings, for example "Rzeczpospolita" journal's rankings. Numerous awards for employees, individuals associated with the brand as well as high Power Ratio index also indicate a strong position of the brand.

As at the balance sheet date the Management states there are no plans to cease using or significantly modify Polsat, TV4, TV6, IPLA or Lemon Records brands. The value assigned to the brands relate to the name "Polsat", "TV4", "TV6", "ipla" and "Lemon Records" respectively and the related logotypes both of which are reserved trademarks. In case the Group decides about discontinuance of use or significant modification of the name or logotype the Management would review whether events and circumstances continue to support an indefinite useful life assessment of the Polsat, TV4, TV6, IPLA and Lemon Records brands and assess whether there are indicators of possible impairment.

- *Fair value of assets and liabilities of Paszport Korzyści Sp. z o.o.*

The Group identified assets and liabilities and estimated their fair value under the purchase price allocation process relating to the acquisition of Paszport Korzyści Sp. z o.o. For more information see note 37.

- *Preliminary fair value of assets and liabilities of ESKA TV S.A. and Lemon Records Sp. z o.o.*

The Group identified assets and liabilities and estimated their preliminary fair value under the purchase price allocation process relating to the acquisition of ESKA TV S.A. and Lemon Records Sp. z o.o. For more information see note 37.

- *The impairment of goodwill and intangible assets with indefinite useful lives*

The Group performed impairment test of a goodwill and of the intangible assets with indefinite useful lives (Polsat brand, TV4 and TV6 brands, Ipla brand and Lemon Records brand). The impairment test was based on the value-in-use calculations of the cash-generating unit to which the goodwill and brands have been allocated on the initial recognition. Goodwill and brands with indefinite useful lives have been allocated to the following cash-generating units, which also represent the Group's business segments:

- "Services to individual and business customers" - goodwill recognized on the acquisition of M.Punkt Holdings, goodwill recognized on the acquisition of INFO-TVFM, the goodwill and IPLA brand recognized on the acquisition of entities comprising the IPLA platform, the goodwill recognized on the acquisition of Metelem, the goodwill recognized on the acquisition of Orsen Holding, the goodwill recognized on the acquisition of Litenite Ltd. and the goodwill recognized on the acquisition of IT Polpager S.A.;
- "Broadcasting and television production" - goodwill and Polsat brand recognized on the acquisition of TV Polsat, goodwill and TV4 and TV6 brands recognized on the acquisition of Polskie Media, goodwill recognized on the acquisition of Radio PIN and goodwill recognized on the acquisition of Lemon Records.

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 and brands 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 19.

- *The impairment of non-financial non-current assets*

As at the reporting date the Group 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 note 16 and 20.

- *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 6n 25 and 38.

- *Impairment of inventories*

The Group provides for slow-moving or obsolete inventories based on inventory turnover ratios and current marketing plans. The purchase cost or production cost is determined based on weighted average cost method. Net realizable value is the estimated selling price in the ordinary course of business, less selling expenses. For more information see notes 6m and 24.

- *Provisions for pending litigation*

During the normal course of its operations the Group participates in several court proceedings, usually typical and repeatable and which, on an individual basis, are not material for the Group, its financial standing and operations. The provisions are estimated based on the court documentation and the expertise of the Group's lawyers who participate in the current litigations and who estimate Group's possible future obligations taking the progress of litigation proceedings into account.

The Group 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 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

- *Provisions for dismantling*

The Group is required to dismantle equipment and restore sites. The provision is based on the best estimate of the amount required to settle the obligation. The provision for the cost of dismantling and removing the asset and restoring the site is revised, when necessary, along with the value of the relevant asset. The provision is discounted by applying a discount rate that reflects the current market assessments of the time value of money and the risk specific to the liability. The discount rate used in calculating the provision for dismantling and removing the asset and restoring the site is 3.70% as at 31 December 2017. The discounting period reflects the management's best estimate regarding the expected time of dismantling the assets, taking into account the expiry dates of concessions held by the Group and the expected period of renewal.

- *Deferred tax*

Deferred taxes are recognised for all temporary differences, as well as for unused tax losses. The key assumption in relation to deferred tax accounting is the assessment of the expected timing and manner of realization or settlement of the carrying amounts of assets and liabilities held at the reporting date. In particular, assessment is required of whether it is probable that there will be suitable future taxable profits against which any deductible temporary differences can be utilized. At the end of the reporting period unrecognised deferred tax assets are re-assessed. A previously unrecognised deferred tax asset is recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. For further details refer to note 6w and 13.

- *Fair value of financial instruments*

Fair value of financial instruments for which there is no active market is estimated using appropriate techniques of measurements. The techniques are chosen based on the professional judgment. For more information about the method of establishing the fair value of financial instruments and key assumption made see note 6h.

- *Loan liabilities measured at amortised cost*

The CP Term Facility, the PLK Term Facility, the CP Revolving Facility and the PLK 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, the PLK Term Facility, the CP Revolving Facility and the PLK Revolving Facility depends on the ratio of net consolidated indebtedness to consolidated EBITDA. Accordingly, the Group classifies loan liabilities as variable rate instruments. The Group 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 2017 and 31 December 2016

50. Consolidated Income Statement

	for the 3 months ended	
	31 December 2017 unaudited	**31 December 2016 unaudited**
Continuing operations		
Revenue	2,579.2	2,535.1
Operating costs	(2,139.2)	(2,140.6)
Other operating cost, net	(2.1)	(4.6)
Profit from operating activities	**437.9**	**389.9**
Gain/loss on investment activities, net	19.1	(26.3)
Finance costs	(105.4)	(122.9)
Share of the profit of associates accounted for using the equity method	2.8	-
Gross profit for the period	**354.4**	**240.7**
Income tax	(197.2)	101.1
Net profit for the period	**157.2**	**341.8**
Net profit attributable to equity holders of the Parent	167.1	349.9
Net loss attributable to non-controlling interest	(9.9)	(8.1)
Basic and diluted earnings per share (in PLN)	**0.25**	**0.54**

51. Consolidated Statement of Comprehensive Income

	for the 3 months ended	
	31 December 2017 unaudited	**31 December 2016 unaudited**
Net profit for the period	**157.2**	**341.8**
Items that may not be reclassified subsequently to profit or loss:	***(0.2)***	***0.3***
Actuarial (loss)/gain	(0.2)	0.3
Items that may be reclassified subsequently to profit or loss:	***(0.1)***	***2.0***
Valuation of hedging instruments	(0.1)	2.5
Income tax relating to hedge valuation	-	(0.5)
Other comprehensive income, net of tax	**(0.3)**	**2.3**
Total comprehensive income for the period	**156.9**	**344.1**
Total comprehensive income attributable to equity holders of the Parent	166.8	352.2
Total comprehensive loss attributable to non-controlling interest	(9.9)	(8.1)

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

52. Revenue

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Retail revenue	1,497.9	1,589.0
Wholesale revenue	735.8	658.4
Sale of equipment	298.8	265.6
Other revenue	46.7	22.1
Total	**2,579.2**	**2,535.1**

53. Operating costs

	Note	for the 3 months ended	
		31 December 2017 unaudited	31 December 2016 unaudited
Technical costs and cost of settlements with telecommunication operators		533.8	472.6
Depreciation, amortization, impairment and liquidation		434.8	512.4
Cost of equipment sold		357.9	380.1
Content costs		321.2	297.3
Distribution, marketing, customer relation management and retention costs		243.3	222.5
Salaries and employee-related costs	a	164.2	163.9
Cost of debt collection services and bad debt allowance and receivables written off		10.5	15.3
Other costs		73.5	76.5
Total		**2,139.2**	**2,140.6**

a) Salaries and employee-related costs

	for the 3 months ended	
	31 December 2017 unaudited	31 December 2016 unaudited
Salaries	140.6	140.2
Social security contributions	17.7	18.5
Other employee-related costs	5.9	5.2
Total	**164.2**	**163.9**

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

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

	for the 3 months ended	
	31 December 2017 unaudited	**31 December 2016 unaudited**
Interest, net	6.0	7.1
Other foreign exchange differences, net	20.1	(18.5)
Other costs	(7.0)	(14.9)
Total	**19.1**	**(26.3)**

55. Finance costs

	for the 3 months ended	
	31 December 2017 unaudited	**31 December 2016 unaudited**
Interest expense on loans and borrowings	91.9	97.3
Interest expense on issued bonds	10.9	28.0
Valuation and realization of hedging instruments	-	1.7
Valuation and realization of derivatives not used in hedge accounting – relating to interest	1.1	(8.7)
Other	1.5	4.6
Total	**105.4**	**122.9**