CYFROWY POLSAT S.A.

CAPITAL GROUP

Interim Consolidated Report
for the three month period ended
March 31, 2016

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Report of the Management Board on the activities of Cyfrowy Polsat S.A. Capital Group for the three month period ended March 31, 2016

POLSAT GROUP AT A GLANCE

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

- pay digital TV services offered by Cyfrowy Polsat – the largest pay TV provider in Poland and one of the leading satellite platforms in Europe. We offer our customers access to over 170 TV channels, including 69 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD Home Movie Rental, TV online, catch-up TV) and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market;

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

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

- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 32 popular TV channels, including 12 in HD standard.

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

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

Our mission and main strategic goals

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

The 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.

DISCLAIMERS

This constitutes the quarterly report of Cyfrowy Polsat Capital Group S.A. prepared as required by Paragraph 82 section 1 and 2 and Paragraph 87 of the Regulation of the Minister of Finance of February 19, 2009 concerning the submission of current and periodic information by the securities' issuers and the conditions of recognizing as equal the information demanded by the national lawful regulation of a country which does not hold the membership in European Union.

Presentation of financial and other information

References to the Company and Cyfrowy Polsat contained in this Management Board's report on the activities of Cyfrowy Polsat S.A. Capital Group (hereafter "Report") apply to Cyfrowy Polsat S.A., 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, this it contains our quarterly condensed consolidated financial statement for the 3-month period ended March 31, 2016 and quarterly condensed financial statement for the 3-month period ended March 31, 2015. The financial statements attached to this Report have been prepared in accordance with International Accounting Standard no. 34 "Interim Financial Reporting" ("IAS 34") and are presented in millions of zlotys. The financial statements have not been audited by an independent auditor.

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

Currency presentation

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

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 publication of this Report.

Industry and market data

In this Report we set out information relating to our business and the markets in which we and our competitors operate. The information regarding the market, its size, the market share, the market position, the growth rates and other industry data relating to our business and markets in which we operate consists of data and reports compiled by various third-party entities and our internal estimates. We obtain market and industry data relating to our business 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;
- SMG Poland (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2015-2019);
- ZenithOptimedia;
- Megapanel PBI/Gemius;
- PMR;
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the 3-month period ended March 31, 2016 and March 31, 2015. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with the interim condensed consolidated financial statements for the 3-month period ended March 31, 2016 and the information included in item 4 of this Report – *Operating and financial review of Polsat Group*.

Selected financial data:

- from the consolidated income statement and the consolidated cash flow statement for the 3-month period ended March 31, 2016 and March 31, 2015 have been converted into euro at a rate of PLN 4.3610 per EUR 1.00, being the average of monthly average exchange rates announced by the NBP in the reporting period i.e. from January 1 to March 31, 2016;
- from the consolidated balance sheet data as at March 31, 2016 and December 31, 2015 have been converted into euro at a rate of PLN 4.2684 per EUR 1.00 (average exchange rate published by NBP on March 31, 2016).

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

It should be noted that data for the 3-month period ended March 31, 2016 are not fully comparable with data for the 3-month period ended March 31, 2015 due to the acquisition of 100% shares of Litenite Limited, the direct parent of Midas, on February 29, 2016, as well as the acquisition of 100% of shares in Radio PIN S.A. on February 27, 2015 and of 100% of shares in Orsen Holding Ltd. on April 1, 2015.

	March 31, 2016		December 31, 2015	
	mPLN	mEUR	mPLN	mEUR
Consolidated balance sheet				
Cash and cash equivalents[(1)]	1,582.4	370.7	1,523.7	357.0
Assets	28,355.5	6,643.1	26,490.1	6,206.1
Non-current liabilities	13,787.7	3,230.2	7,773.5	1,821.2
Non-current financial liabilities	12,255.9	2,871.3	6,376.0	1,493.8
Current liabilities	4,162.6	975.2	8,466.5	1,983.5
Current financial liabilities	1,639.0	384.0	6,011.9	1,408.5
Equity	10,405.2	2,437.7	10,250.1	2,401.4
Share capital	25.6	6.0	25.6	6.0

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

	for the 3-month period ended March 31			
	2016		2015	
	mPLN	mEUR	mPLN	mEUR
Consolidated cash flow statement				
Net cash from operating activities	446.8	102.5	417.7	95.8
Net cash from/(used in) investment activities	(24.9)	(5.7)	(208.2)	(47.7)
Net cash used in financial activities	(371.9)	(85.3)	(467.4)	(107.2)
Net increase in cash and cash equivalents	50.0	11.5	(257.9)	(59.1)

	for the 3-month period ended March 31			
	2016		2015	
	mPLN	mEUR	mPLN	mEUR
Consolidated income statement				
Retail revenue	1,565.7	359.0	1,637.2	375.4
Wholesale revenue	599.8	137.5	553.3	126.9
Sale of equipment	172.8	39.6	118.4	27.1
Other sales revenue	25.7	5.9	20.1	4.6
Revenue	2,364.0	542.1	2,329.0	534.1
Content costs	(248.5)	(57.0)	(235.5)	(54.0)
Distribution, marketing, customer relation management and retention costs	(200.5)	(46.0)	(189.2)	(43.4)
Depreciation, amortization, impairment and liquidation	(423.7)	(97.2)	(467.9)	(107.3)
Technical costs and cost of settlements with mobile network operators	(550.3)	(126.2)	(482.3)	(110.6)
Salaries and employee-related costs	(137.9)	(31.6)	(129.1)	(29.6)
Cost of equipment sold	(326.8)	(74.9)	(332.5)	(76.2)
Cost of debt collection services and bad debt allowance and receivables written off	(9.6)	(2.2)	(18.7)	(4.3)
Other costs	(50.7)	(11.6)	(53.8)	(12.3)
Total operating cost	(1,948.0)	(446.7)	(1,909.0)	(437.7)
Other operating income, net	6.8	1.6	8.7	2.0
Profit from operating activities	422.8	97.0	428.7	98.3
Gain/(loss) on investment activities, net	(35.2)	(8.1)	28.9	6.6
Financial costs	(182.7)	(41.9)	(261.3)	(59.9)
Share of the profit of a joint venture accounted for using the equity method	0.8	0.2	0.5	0.1
Gross profit for the period	205.7	47.2	196.8	45.1
Income tax	(27.2)	(6.2)	(26.0)	(6.0)
Net profit for the period	178.5	40.9	170.8	39.2
Net profit attributable to equity holders of the Parent	175.5	40.2	170.8	39.2
Net profit attributable to non-controlling interest	3.0	0.7	-	-
Basic and diluted earnings per share (in PLN)	0.27	0.06	0.27	0.06
Weighted number of issued shares in PLN	639,546,016		639,546,016	
Other consolidated financial data				
EBITDA (1)	846.5	194.1	896.6	205.6
EBITDA margin	35.8%	35.8%	38.5%	38.5%
Operating margin	17.9%	17.9%	18.4%	18.4%
Capital expenditures, net (2)	115.2	26.4	156.5	35.9

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

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

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

1. CHARACTERISTICS OF POLSAT GROUP

1.1. Composition and structure of the Group

The table and graph below present the organizational structure of Polsat Group as at March 31, 2016 and December 31, 2015, indicating the consolidation method.

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

Company name	Registered office	Activity	Share in voting rights (%) as at March 31, 2016	Share in voting rights (%) as at December 31, 2015
Eileme 1 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 2 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 3 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding and financial activities	100%	100%
Eileme 4 AB (publ)	Stureplan 4C, 114 35 Stockholm, Sweden	holding activities	100%	100%
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ)	Norrlandsgatan 18, 111 43 Stockholm, Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property right management and rental	100%	100%
LTE Holdings Limited	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property rights rental	100%	100%
Litenite Limited(2)	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	49%(3)
Midas S.A.(2)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	65.9975%	-
Aero2 Sp. z o.o.(2)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	65.9975%(4)	-
Sferia S.A.(2)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	33.66%(4)	-
AltaLog Sp. z o.o.(2)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	43.56%(4)	-
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Grab Sarl	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, 02-001 Warsaw	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	(5)	(5)
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością S.k.	Al. Jerozolimskie 81, 02-001 Warsaw	provision of Premium-Rate services	100%	100%

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

(1) Disposal of shares in Rioni 1 AB.on January 4, 2016.
(2) Company consolidated since February 29, 2016.
(3) Due to restriction related to a dividend and construction of the transactions related to the acquisition, investment in Litenite Limited was accounted for as an investments in associates without equity pick-up as at 31 December 2015
(4) Midas S.A. holds 100% share in voting rights in Aero 2 Sp. z o.o., 51% share in voting rights in Sferia S.A. and 66% share in voting rights in AltaLog Sp. z o.o.
(5) Cyfrowy Polsat owns indirectly 100% of certificates.

Additionally, the following entities were included in the consolidated financial statements for the 3-month period ended March 31, 2016:

	Registered office	Activity	Share in voting rights (%) as at	
			March 31, 2016	December 31, 2015
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	4.32%(2)	-

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

Changes in the organizational structure of Polsat Group and their effects

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

Date	Change
January 4, 2016	Disposal of shares in Rioni 1 AB.
January 11, 2016	Transformation of Radio PIN S.A. into a limited liability Muzo.fm Sp. z o.o.
January 29, 2016	Shares in Litenite Limited representing 49% of its share capital assigned for security in favor of LTE Holdings Limited (a subsidiary of Polkomtel) for the price of EUR 1.00 were transferred back to Ortholuck Limited for the price of EUR 1.00.
February 29, 2016	Acquisition by Polkomtel of 100% of shares in the share capital of Litenite Ltd., the direct owner of shares in Midas representing 65.9975% of the total number of votes and share capital in Midas S.A.
April 27, 2016	Direct acquisition by Polkomtel, by way of a tender offer, of shares in Midas representing 27.2395% of the total number of votes and share capital in Midas S.A.

1.2. Shareholders holding material bundles of shares of the Company

The following table presents shareholders of Cyfrowy Polsat S.A. holding – according to our best knowledge – at least 5% of votes at the General Meeting of Cyfrowy Polsat S.A. as at the date of publication of this Report, that is May 12, 2016. Information included in the table is based on the information received from shareholders pursuant to Art. 69 of the act of July 29, 2005 on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organized Trading, and Public Companies.

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

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

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

Since the publication of the previous interim report, i.e. since February 29, 2016 (annual report for 2015) until the date of publication of this Report, i.e. May 12, 2016, no changes in the structure of ownership of significant packages of the Company's shares took place.

1.3. Shares of Cyfrowy Polsat S.A. owned by the members of the Management Board and the Supervisory Board

Management Board of Cyfrowy Polsat S.A.

As at the date of publication of this Report, i.e. May 12, 2016 and as at the date of publication of the previous periodic report (annual report for 2015) on February 29, 2016, the members of the Company's Management Board did not hold, directly or indirectly, shares of the Company.

Supervisory Board of Cyfrowy Polsat S.A.

As at the date of publication of this Report, i.e. May 12, 2016, and as at date of publication of the previous periodic report (annual report for 2015) on February 29, 2016, the Chairman of the Supervisory Board, Mr. Zygmunt Solorz-Żak held indirectly, through controlled entities, 370,256,512 shares of the Company with the nominal value of PLN 14,810,260.48. Information on entities controlled by Mr. Zygmunt Solorz-Żak, who hold shares of the Company, is presented in the item above 1.2. *Shareholders holding material bundles of shares of the Company*.

2. BUSINESS REVIEW OF POLSAT GROUP

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

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, online TV services, mobile services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at March 31, 2016 we had 5.9 million contract customers and companies from our Group provided a total of over 16.5 million RGUs both contract and prepaid.

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.

2.1. Segment of services to individual and business customers

Pay TV

We are the largest pay TV provider in Poland and a leading satellite platform in Europe in terms of the number of customers. Since 2006 we are the leader on the Polish market in terms of the number of active services as well as market share. As at March 31, 2016 we provided almost 4.6 million active pay TV services in both the contract and prepaid models (including almost 1.0 million Multiroom services).

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family, at attractive prices. At present we provide access to 170 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to 69 HD channels and also provide OT services, such as Cyfrowy Polsat GO, VOD/PPV, online TV, catch-up TV and Multiroom HD services.

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

As the only operator in Poland, we offer our subscribers our own high-quality set-top boxes at affordable prices. In the first quarter of 2016, our set-top boxes accounted for 90% of all the set-top boxes sold or otherwise made available to our pay TV customers. Until March 2015 we had manufactured a total of over 7.1 million set-top boxes, including 5.5 million HD units.

Online video

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

IPLA online television offers access to 47 linear TV channels, a vast library of feature films, Poland's largest legal TV content database, comprising tens of thousands video materials including over 180 series and TV programs aired on over 35 TV channels, as well as around 200 hours of major sports events coverage per month. IPLA television also comprises a wide selection of content available free of charge with commercials (90% of the entire resources).

Access to IPLA resources is available to users of computers with the Windows operating system, through the www.ipla.tv website and dedicated applications, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea (TV UPPLEVA), Toshiba, Thomson, TCL), set-top boxes (Cyfrowy Polsat, cable TV TOYA, Netia), PlayStation game consoles and Blu-ray.

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

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, operator of Plus network. Polkomtel is one of the leading Polish mobile telecommunications network operators and the 2013 market leader in terms of revenue (according to the "Report on the telecommunications market in Poland in 2014", published by UKE in June 2015). As at March 31, 2016 we provided over 10.0 million mobile telephony services.

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

Broadband Internet

In 2011, we were the first commercial service provider in Poland to launch an LTE-based broadband Internet access service, offering technical features and quality parameters which allows to compete effectively with fixed-line Internet services, thus meeting the increasing demand of consumers. In addition, LTE-based broadband access offers mobility, which is a feature that has been increasingly more popular among consumers. As at the end of March 2016, LTE Internet and HSPA/HSPA+ Internet covered 96.8% and nearly 100% of Poland's population, respectively. According to data published by operators, that is the broadest coverage currently offered in the country. As at March 31, 2016 we provided nearly 1.9 million broadband Internet access services.

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

Additionally, pursuant to the provisions of the concession related to the purchase of the 2.6 GHz band, the company Aero 2, a member of Midas Group, provides free of charge Internet access services, however with limited parameters (BDI offer). BDI customers have the possibility to purchase additionally paid data packages, which allow them to use the Internet with higher transfer speed and without a time limit on the duration of the session. BDI packages are sold in the prepaid model.

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

Bundled services

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

smartDOM

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

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

smartFIRMA

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

Wholesale business

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

Network interconnection

Our telecommunications infrastructure used in interconnection cooperation enables us to effectively manage telecommunications traffic routing to all operators domestically and abroad. As at March 31, 2016 we were party to 26 interconnection agreements with national and international operators.

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

Shared access to network assets and lease of telecommunications infrastructure

As a consequence of significant capital expenditures in the past our subsidiaries, Polkomtel, Aero 2 and Sferia have an extensive telecommunications infrastructure, which allows handling constantly increasing usage of telecommunication products and services. In order to optimize costs of maintenance of our infrastructure, we share access to network assets and lease components of our network infrastructure from and/or to other telecommunication providers on the Polish market.

International roaming

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

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

National roaming and virtual operators (MVNOs)

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

As part of the wholesale national roaming service, we offer voice calls, text messaging and packet data transmission services to P4, 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 necessarily have all technical infrastructure required to provide telecommunications services. Their operation is typically based on the frequency allocations and the infrastructure of existing MNOs throughout the country.

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

2.2. Broadcasting and television production segment

Production and sale of television channels

Our portfolio comprises 32 channels (12 of which are available both in SD and HD) including our flagship POLSAT, available in SD and HD formats and 30 thematic channels.

POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is one of the leading Polish TV channels in terms of shares in the commercial audience, aged 16-49, with a share of 12.7% in the first quarter of 2016. Telewizja Polsat broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2). Apart from terrestrial signal, POLSAT is also available in SD and HD formats from most cable networks and satellite platforms. The channel features a broad range of films, entertainment shows, news and commentaries, Polish and foreign TV series, as well as popular sporting events.

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

Thematic channel	Description
Polsat Sport Polsat Sport HD	Sports channel broadcasting major sports events in Poland and worldwide (volleyball, athletics, football, handball, world class boxing and MMA contests), which include live broadcast. Polsat Sport HD broadcasts the content of the corresponding basic channel in HD standard.
Polsat Sport Extra Polsat Sport Extra HD	Sports channel broadcasting premium sport events, primarily the largest international tennis tournaments such as Wimbledon and handball Champions League. Polsat Sport Extra HD broadcasts the content of the corresponding basic channel in HD standard.
Polsat Sport News	Sports channel dedicated to sports news. It is an FTA channel broadcast within the DTT technology.
Polsat Film Polsat Film HD	Movie channel broadcasting movie hits, top box office productions and non-mainstream movies from a library of major US movie studios. Polsat Film HD is a version of our movie channel offering high definition broadcast.
Polsat Cafe Polsat Cafe HD	Channel dedicated to women focusing on lifestyle, fashion and gossip as well as talk-shows. The channel also broadcasts in HD standard.
Polsat Play Polsat Play HD	Channel dedicated to men, focusing on consumer gadgets, the automotive industry, angling and cult series. The channel also broadcasts in HD standard.

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

Sales of TV channel advertising airtime and sponsoring

Within out wholesale business we sell advertising and sponsoring time on our own channels as well as third-party channels. Based on data from SMG Poland (previously SMG Starlink), we estimate that in the first quarter of 2016 Polsat Group channels captured 25.5% of the Polish TV advertising market worth approximately PLN 901 million in that period.

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

Sale of channel broadcasting rights

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

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

3. Significant Events

3.1. Corporate events

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

Conclusion of hedging agreements

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

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

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

Repayment and redemption of PLK Senior Notes

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

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

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

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

Consolidation of Term Loans

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

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

Establishment of additional security interests related to the Combined Term Loan

As a result of the repayment of all debts in respect of the PLK Senior Notes and the PLK Facilities Agreement, the security interests established in connection with the debts contracted under the aforementioned finance documents were released. On January 29, 2016, Polkomtel and other members of the Company's group and UniCredit Bank AG, London Branch, executed and signed certain agreements and further documents concerning the establishment of security interests in connection with the amendment of the CP Senior Facilities Agreement pursuant to the Amendment, Restatement and Consolidation Deed, described in the previous point, and the accession thereto of Polkomtel and other subsidiaries of the Company as a borrower and guarantor.

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

Acquisition of Litenite Ltd., direct parent of Midas Group

On February 29, 2016 Polkomtel purchased from Ortholuck Limited 100% of shares in Litenite Limited, a direct owner of 976,542,690 shares of Midas, representing 65.9975% of the total number of votes and the share capital of Midas. As a consequence of the aforementioned acquisition, the Company and Polkomtel, became indirect dominant entities of the Midas Group which includes, in addition to Midas, the companies: Aero 2, Altalog and Sferia.

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

The indirect acquisition of shares in Midas by the Company is considered a strategic long-term investment of the Group. We plan to continue the cooperation between Midas Group and Polsat Group, and to integrate Midas Group into the corporate structure of Polsat Group.

Tender offer to purchase shares in Midas

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

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

As at the date of this Report, Cyfrowy Polsat holds indirectly 1,379,597,139 shares in Midas giving the right to 1,379,597,139 votes at the General Meeting of Midas and representing 93.237% of the total number of votes and share capital of Midas.

In connection with the fact that Polkomtel exceeded the threshold of 90% of the total number of votes in Midas, on May 5, 2016 the management board of Polkomtel made the decision to acquire up to 100% of shares in Midas took actions aimed at announcing and conducting a mandatory squeeze-out of Midas shares, including the establishment of a statutory collateral, as well as actions aimed at reversing the dematerialization of Midas shares and delisting Midas shares from the regulated market.

3.2. Business related events

Roll-out of the LTE-Advanced network

Plus aggregated two frequency bands in the LTE-Advanced standard, which enables Internet access at speeds of up to 300 Mbps. This speed has been accomplished by aggregating the spectrum from two carrier frequencies, 1800 MHz and 2600 MHz, with 20 MHz of spectrum in LTE FDD standard used in each frequency band. LTE-Advanced Carrier Aggregation software has been used for the purpose of aggregation.

Plus already offers smartphones and routers which support the LTE-Advanced technology. The operator's customers already own over 70 thousand devices which enable Internet access at speeds of up to 300 Mbps. LTE-Advanced will also enhance the network's capacity, which in turn will enable to ensure broadband Internet access to a bigger group of users in the face of increasing traffic.

Cyfrowy Polsat GO

In line with the adopted strategy of expanding the world of multimedia family entertainment, Cyfrowy Polsat introduced a new offer Cyfrowy Polsat GO, which extends the existing package of satellite channels by adding on-line, on-demand access to selected content and to linear channels offered in respective TV packages, as well as access to free and paid VOD content. Cyfrowy Polsat GO is a subsequent step in the development of Cyfrowy Polsat's TV offer and it addresses the expectations of subscribers who try to make the best of every moment of their lives and expect that TV will be available to them at the time and place of their choice.

The Cyfrowy Polsat GO offer includes access to as many as 174 satellite channels, 84 online channels available via mobile devices, thousands of programs, sports events, soap operas and programs for children in the VOD option at no additional cost and a rich library of additionally paid VOD content, including movies. Cyfrowy Polsat GO service is available via connected set-top boxes and mobile devices at go.cyfrowypolsat.pl, as well as in the form of an application for mobile devices with Android OS.

Expansion of the offer of the service Mobile TV

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

Acquisition of sports rights

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

New channels from Cyfrowy Polsat

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

3.3. Events after the balance date

Repayment of the indebtedness of Midas Group

On April 29, 2016 Midas S.A., a subsidiary of Cyfrowy Polsat, had repaid in full its indebtedness under a facilities agreement dated July 10, 2014, as amended, concluded with Bank Polska Kasa Opieki S.A., in the amount of PLN 326.3 million. The repayment of the indebtedness was made using funds from current operating activities of Aero 2.

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

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

Expansion of Cyfrowy Polsat's offer of sports channels

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

Both channels, available in the form of a paid package, are an addition to the 13 sports channels already available on Cyfrowy Polsat, covering a wide range of sports events including the most important Polish league competitions: Ekstraklasa, PlusLiga, Tauron Basket Liga, PGNiG Superliga, more football from UEFA EURO 2016, 2018 FIFA World Cup Russia qualifiers, Bundesliga and the UEFA Europa League, national volleyball team matches, tennis tournaments such as the Australian Open and US Open, and combat sports including KSW and top boxing galas.

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

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

4. Operating and financial review of Polsat Group

4.1. Operating review of the Group

Key performance indicators (KPI) presented below for the 3-month period ended March 31, 2016 include the operating results of Polsat Group comprising Midas Group, acquired on February 29, 2016. In light of the above, the operating results for the first quarter of 2016 are not fully comparable with the operating results for the first quarter of 2015, however, the effect of consolidation of the operating results of Midas Group on the overall reported operating results of Polsat Group is immaterial.

When assessing our operating results in the segment of services to individual and business customers, we analyze contract services and prepaid services separately. In the case of contract services we consider the number of unique, active services provided in the contract model (RGUs), the number of customers, churn rate and average revenue per customer (ARPU). When analyzing prepaid services we consider the number of unique, active services provided in the prepaid model (prepaid RGUs) as well as average revenue per prepaid RGU. The number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero 2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.

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

	for the 3 month period ended March 31		change / %
	2016	2015	
Total number of RGUs (contract + prepaid)	16,531,833	16,429,469	0.6%
CONTRACT SERVICES			
Total number of RGUs, including:	12,744,166	12,394,712	2.8%
Pay TV, including:	4,560,267	4,405,464	3.5%
Multiroom	*957,952*	*872,628*	*9.8%*
Mobile telephony	6,536,366	6,552,365	(0.2%)
Internet	1,647,533	1,436,883	14.7%
Number of customers	5,893,225	6,068,839	(2.9%)
ARPU per customer [PLN]	87.0	85.8	1.4%
Churn per customer	9.8%	9.5%	0.3 p,p,
RGU saturation per one customer	2.16	2.04	5.9%
Average number of RGUs, including:	12,675,864	12,376,603	2.4%
Pay TV, including:	4,532,806	4,403,541	2.9%
Multiroom	*948,366*	*860,827*	*10.2%*
Mobile telephony	6,523,316	6,570,344	(0.7%)
Internet	1,619,742	1,402,718	15.5%
Average number of customers	5,902,526	6,105,250	(3.3%)
PREPAID SERVICES			
Total number of RGUs, including:	3,787,667	4,034,757	(6.1%)
Pay TV	35,754	66,163	(46.0%)
Mobile telephony	3,495,733	3,775,976	(7.4%)
Internet	256,180	192,618	33.0%
ARPU per total prepaid RGU [PLN]	17.7	17.3	2.3%
Average number of RGUs, including:	3,801,870	4,068,646	(6.6%)
Pay TV	36,255	67,972	(46.7%)
Mobile telephony	3,529,840	3,797,423	(7.0%)
Internet	235,775	203,251	16.0%
TELEVISION			
Audience share	24.4%	24.0%	1.8%
Advertising market share	25.5%	25,1%	1.4

4.1.1. Segment of services to individual and business customers

As at March 31, 2016, in the segment of services to individual and business customers, our Group provided a total of 16,531,833 active services, which constitutes an increase of o 102,364 compared to 16,429,469 active services provided as at March 31, 2015. In terms of the main models of service provision, we noted a dynamic growth of the number of broadband Internet access services provided in the contract model and a higher number of pay TV services (in particular Multiroom) provided in the first quarter of 2016 compared to the corresponding period of the prior year, which was partially offset by a decline in the number of provided prepaid services in the analyzed period.

As at March 31, 2016 the share of contract services in the total number of provided, active services was 77.1%. This indicator increased from 75.4% as at March 31, 2015.

Contract services

As at March 31, 2016 we provided contract services to a total of 5,893,225 customers, i.e. 2.9% less compared to 6,068,839 as at March 31, 2015. The drivers behind this decrease include the merging of contracts under one common contract for the household and the outflow of single-play customers, i.e. customers with only one service. In line with the our strategic assumptions, the Group avoids conducting an aggressive customer acquisition policy for individual products and concentrates rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of active contract services provided by us increased by 349,454, that is 2.8%, to 12,744,166 as at March 31, 2016 from 12,394,712 as at March 31, 2015. This change is primarily the effect of an increase of the number of broadband Internet access services by 210,650, i.e. 14.7%. The dynamic growth in the number of mobile Internet RGUs was supported by the broadest coverage offered by our network, as well as its highest quality proven by a survey by UKE published in January 2016. The total number of pay TV services provided in the contract model increased by 3.5% year on year to 4,560,267 as at March 31, 2016 from 4,405,464 as at March 31, 2015, mainly due to an increase by 85 thousand in the number of Multiroom services provided. Concurrently, the number of provided mobile telephony services stabilized at the level of 6,536,366. We believe that further saturation of our customer base with integrated services, including our product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

As a result of the implementation of our strategy, we note an increase of ARPU in the contract services segment. ARPU per customer increased by 1.4%, to PLN 87.0, in the first quarter of 2016 from PLN 85.8 in the corresponding period of 2015. In line with the assumptions of our long-term strategy, our Group aims to maximize revenue per contract customer through sales of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer.

Our churn rate was equal to 9.8% in the twelve-month period ended March 31, 2016 compared to 9.5% in the twelve-month period ended March 31, 2015.

The saturation of our customer base with multi-play services is systematically growing. As at March 31, 2016, each customer in our customer base had on average 2.16 active contract services, which constitutes an increase of 5.9% compared to 2.04 active contract services per customer as at March 31, 2015. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to one customer.

The smartDOM program continues to record very good sales results and has a positive effect on both the level of RGU saturation per one customer and ARPU per contract customer. At the end of March 2016, already almost 1.09 million customers had joined the program and had bought a total of 3.22 million RGUs. RGU saturation per customer in this group was approximately 3.0 as at March 31, 2016. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through sales of additional products and services, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at March 31, 2016 decreased by 247,090, that is 6.1%, to 3,787,667 from 4,034,757 as at March 31, 2015. This decrease was caused among others by a migration of part of our customers from prepaid tariffs towards the contract services segment driven by relatively more attractive terms of post-paid tariffs as well as discounts offered in the smartDOM program.

At the same time ARPU per prepaid RGU increased by 2.3% in the first quarter of 2016, to PLN 17.7 from PLN 17.3 in the corresponding period of 2015. The increase in the level of ARPU in the prepaid segment is connected mainly with higher consumption of data on smartphones as well as higher volumes of exchanged voice traffic at stable retail prices in the segment.

4.1.2. Broadcasting and television production segment

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

Audience shares

	3 months ended March 31		change [%]
	2016	2015	
Audience share[(1) (2)], including:	24.40%	23.97%	*1.79%*
POLSAT (main channel)	***12.73%***	***13.44%***	*(5.28%)*
Thematic channels[(2)]	***11.67%***	***10.52%***	*10.93%*
TV4	3.75%	3.38%	*10.95%*
TV6	1.81%	1.42%	*27.46%*
Polsat 2	1.37%	1.42%	*(3.52%)*
Polsat Film	0.86%	0.74%	*16.22%*
Polsat News	0.73%	0.73%	*0.00%*
Polsat Play	0.68%	0.70%	*(2.86%)*
Polsat Sport	0.45%	0.35%	*28.57%*
Polsat Sport News	0.38%	0.28%	*35.71%*
Polsat Cafe	0.34%	0.39%	*(12.82%)*
Polsat JimJam	0.27%	0.17%	*58.82%*
Disco Polo Music	0.24%	0.23%	*4.35%*
Polsat Romans	0.16%	0.15%	*6.67%*
CI Polsat	0.11%	0.10%	*10.00%*
Polsat Viasat History	0.11%	0.11%	*0.00%*
Polsat Food Network	0.10%	0.08%	*25.00%*
Polsat Viasat Explore	0.10%	0.06%	*66.67%*
Polsat Sport Extra	0.09%	0.09%	*0.00%*
Polsat News 2	0.07%	0.08%	*(12.50%)*
Polsat Viasat Nature	0.03%	0.03%	*0.00%*
Muzo.tv	0.01%	0.02%	*(50.00%)*
Polsat 1[(3)]	n/d	n/d	*n/d*
Advertising market share[(4)]	25.50%	25.10%	***1,40%***

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

In the first quarter of 2016 viewers in the commercial group (everyone aged 16-49) were attracted by the fixed slots on our main channel's schedule, such as Monday's film slot Mega Hit, which yielded an audience share of 18.8%, as well as the series *First Love*, the premier episodes of which gained an audience share of 19.8%. The series *Świat według Kiepskich,* aired from Monday to Saturday at 7.30 p.m. had an audience share of 14.9%.

The news program broadcast at 6.50 p.m., *Wydarzenia* (*News*), gained an audience share of 19.7%. 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 16.8% in the first quarter of 2016.

The results of the first quarter of 2016 were significantly influenced by programs from the spring scheduling. A large audience was gathered by the show *Your Face Sounds Familiar.* The Saturday slots dedicated to this show had an audience share of 18.1%. Another position in our spring scheduling, the show *Our New House*, gathered on average 16.6% of viewers. The reality show *Hell's Kitchen* gained an audience share of 14.6%. The entertainment shows *Dancing with the Stars* and *Must be the Music – Tylko Muzyka* attracted 14.6% and 12.6% of viewers watching television at this time, respectively.

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

We continue to observe the positive effect of introducing the channels TV4 and TV6 to TV Polsat Group. These channels, available in DTT, maintain a high rate of growth of viewership and they have a significant effect on the overall audience share of our thematic channels. Apart from the abovementioned channels, a high dynamic of growth of audience shares in the first quarter of 2016 was recorded by our sports channels (Polsat Sport and Polsat Sport News) as well as our children's channel Polsat Jim Jam.

Distribution and technical reach

Technical reach[1]	3 months ended March 31		*Change / %*
	2016	2015	
Polsat	99.8%	99.9%	*(0.10%)*
TV4	99.8%	99.8%	*0.00%*
Polsat Sport News	94.2%	93.3%	*0.96%*
TV6	93.9%	92.9%	*1.08%*
Polsat 2	62.7%	61.8%	*1.46%*
Polsat News	55.8%	55.5%	*0.54%*
Polsat News 2	55.1%	54.0%	*2.04%*
Polsat Cafe	54.8%	53.8%	*1.86%*
Polsat Film	50.8%	50.1%	*1.40%*
Polsat Sport	48.6%	47.9%	*1.46%*
Polsat Play	48.3%	46.8%	*3.21%*
Polsat Romans	45.8%	42.8%	*7.01%*
Disco Polo Music	45.6%	44.2%	*3.17%*
Polsat JimJam	43.8%	43.1%	*1.62%*
Muzo.tv	39.5%	38.1%	*3.67%*
CI Polsat	38.5%	37.4%	*2.94%*
Polsat Viasat History	38.5%	33.4%	*15.27%*
Polsat Sport Extra	35.9%	34.6%	*3.76%*
Polsat Viasat Explore	34.3%	25.4%	*35.04%*
Polsat Viasat Nature	29.7%	25.5%	*16.47%*
Polsat Food Network	24.7%	20.1%	*22.89%*
Polsat 1 [2]	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 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. Comparing data for the first quarter of 2016 with corresponding period of 2015, the highest growth rates in technical reach were recorded by Polsat Food Network, Polsat Viasat Explore, Polsat Viasat History and Polsat Viasat Nature and were driven by the season "open windows" in cable operators' networks.

Advertising and sponsoring market share

According to SMG Poland (previously SMG Starlink) media house estimates, expenditures on TV advertising and sponsoring in the first quarter of 2016 amounted to about PLN 901 million and increased year-on-year by 2.7%. Based on these data, we estimate that in the first quarter of 2016 our TV advertising market share increased year-on-year to 25.5% from 25.1%.

If we compare the current portfolio of Polsat Group's channels, we generated 1.98% more GRPs in the first quarter of 2016 compared to the corresponding period of 2015.

4.2. Key positions in the consolidated income statement

Revenue

Revenue is derived from (i) retail revenue, (ii) wholesale revenue, (iii) sale of equipment, and (iv) other revenue sources.

Retail revenue

Retail revenue consists primarily of (i) monthly subscription fees paid by our pay digital television contract customers for programming packages, (ii) subscription fees paid by our contract customers for telecommunication services, (iii) fees for telecommunication services provided to our contract customers, which are not included in the subscription fee, (iv) payments for telecommunication services paid by our prepaid and mix customers, (v) fees for the lease of set-top boxes, (vi) activation fees, (vii) penalties, and (viii) fees for additional services. The total revenue from pay digital television and telecommunication subscription fees depends on the number of customers and the number of services provided to them, as well as on the amount of monthly subscription fees paid for our programming and telecommunication packages and the amount of additional services provided to our customers in the given period. Activation fees are collected at the moment of activation and amortized over the life of the contract.

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;
(ii) revenue from cable and satellite operator fees;
(iii) revenue from the lease of infrastructure;
(iv) interconnect revenue;
(v) revenue from roaming;
(vi) revenue from the sale of broadcasting and signal transmission services; and
(vii) revenue from the sale of licenses, sublicenses and property rights.

Sale of equipment

Sale of equipment consists mostly of revenue from sale of set-top boxes, STB hard disk drives, antennas, Internet modems, tablets, laptops, routers, mobile handsets, smartphones and accessories to our customers when they enter into agreements with us.

Other revenue

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

Operating costs

Operating costs consist of:

(i) content costs;
(ii) distribution, marketing, customer relation management and retention costs;
(iii) depreciation, amortization, impairment and liquidation;
(iv) technical costs and cost of settlements with mobile network operators;
(v) salaries and employee-related costs;
(vi) cost of equipment sold;
(vii) cost of debt collection services and bad debt allowance and receivables written off; and
(viii) other costs.

Content costs

Content costs consist of:

(i) programming license costs;
(ii) amortization of purchased film licenses;

(iii) costs of internal and external production and amortization of sport rights; and
(iv) other content costs.

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of (i) commissions due to our distributors and retail points of sale when they conclude sale or retention agreements with our customers for pay television and telecommunication services, (ii) costs of courier services, distribution of reception equipment, storage costs and costs associated with services of our regional agents, (iii) costs of warranty service and (iv) costs of maintenance of points of sales. Marketing expenses consist of expenses on TV and radio commercials, press, online and outdoor advertising, promotional activities and materials, as well as other expenses incurred to increase sales and brand recognition. Customer relation management and retention costs consist of mailing costs, call center costs and other customer relation management costs.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs primarily consist of (i) depreciation of network systems components and telecommunication network equipment (access and core network equipment, network management systems and software), (ii) amortization of costs of telecommunications concessions acquired by Polkomtel, (iii) depreciation of set-top boxes leased to our customers, (iv) depreciation of plant and equipment, TV and broadcasting equipment, (v) amortization of intangible assets, including customer relationships, trademarks and IT programs, (vi) non-current assets impairment allowance and (vii) net value of disposed property, plant and equipment as well as intangible assets, no longer suitable for use.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;
(ii) electric energy costs connected with the functioning of our telecommunications network;
(iii) telecommunication network maintenance costs and fees;
(iv) IT systems maintenance costs;
(v) payments for the lease of satellite transponder capacity;
(vi) payments for the use of conditional access system based on the number of access cards;
(vii) TV broadcasting costs (digital terrestrial transmission and DVB-T);
(viii) Interconnection and roaming charges ; and
(ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

(i) bad debt recovery fees;
(ii) bad debt allowance and the cost of receivables written off; and
(iii) gains and losses from the sales of liabilities.

Other costs

Key items of other costs include:

(i) the cost of SMART and SIM cards provided to customers;
(ii) the cost of licenses and other current assets sold;
(iii) legal, advisory and consulting costs;
(iv) property maintenance costs;
(v) taxes and other charges;
(vi) trademark license costs;
(vii) technical and production costs, such as costs of costumes, set design, staging services, other cost which cannot be directly attributable to production and
(viii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

(i) inventory impairment write-downs/reversals; and
(ii) other operating revenue/costs, not derived in the ordinary course of business.

Gains and losses on investment activities, net

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

Finance costs

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

4.3. Review of our financial situation

The following review of results for the 3-month period ended March 31, 2016 was prepared based on the interim condensed consolidated financial statements for the 3-month period ended March 31, 2016, prepared in accordance with International Accounting Standard 34 and internal analysis.

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

Given that we acquired shares in Radio PIN S.A. on February 27, 2015, in Orsen Holding Ltd. on April 1, 2015, and that on February 29, 2016 we indirectly acquired 100% shares in Midas Group, our results for the three month period ended March 31, 2016 are not fully comparable with the results for the corresponding period of 2015. Given that the results of Radio PIN S.A. and Orsen Holdings Ltd. do not have a material impact on the results of the Group, they will not be subject to elimination in the analysis of the Group's financial situation. Concurrently, we emphasize the we also do not eliminate the effect of consolidation of Midas Group on the results of Polsat Group, however the positions influenced by the consolidation of Midas Group are indicated.

4.3.1. Income statement analysis

Revenue

Our total revenue increased by PLN 35.0 million, or 1.5%, to PLN 2,364.0 million in the first quarter of 2016 from PLN 2,329.0 million in the first quarter of 2015. Revenue grew for the reasons set forth below.

[mPLN]	for the 3 months ended March 31 (1)		change	
	2016	*2015*	*mPLN*	*%*
Retail revenue	1,565.7	1,637.2	(71.5)	(4%)
Wholesale revenue	599.8	553.3	46.5	8.4%
Sale of equipment	172.8	118.4	54.4	45.9%
Other revenue	25.7	20.1	5.6	27.9%
Revenue	2,364.0	2,329.0	35.0	1.5%

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

Retail revenue

Retail revenue decreased by PLN 71.5 million, or 4.4%, to PLN 1,565.7 million in the first quarter of 2016 from PLN 1,637.2 million in the first quarter of 2015. This decrease was primarily due to lower revenue from voice services caused by a highly competitive market, which was partially compensated by growing revenue from the mobile Internet access service and data transmission.

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

Wholesale revenue

Wholesale revenue increased by PLN 46.5 million, or 8.4%, to PLN 599.8 million in the first quarter of 2016 from PLN 553.3 million in the first quarter of 2015. This increase was driven mainly by higher revenue from interconnection services and higher advertising and sponsoring revenue.

In the first quarter of 2015 this position comprised higher revenue from the lease of telecommunication infrastructure to Midas Group, while in the first quarter of 2016 this revenue was only recognized in January and February due to the acquisition of Midas Group on February 29, 2016.

Sale of equipment

Revenue from the sale of equipment increased by PLN 54.4 million, or 45.9%, to PLN 172.8 million in the first quarter of 2016 from PLN 118.4 million in the first quarter of 2015. This increase was due primarily to higher revenue from installment plan sales and higher revenue from sales of contracts for telecommunication services with a subsidized device (due to higher unit prices of the equipment sold), as well as optimal management of inventories.

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

Other revenue

Other revenue increased by PLN 5.6 million, or 27.9%, to PLN 25.7 million in the first quarter of 2016 from PLN 20.1 million in the first quarter of 2015, i.a. due to an increase in revenue from interest on installment plan sales of equipment for residential customers.

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

Operating costs

Our total operating costs increased by PLN 39.0 million, or 2.0%, to PLN 1,948.0 million in the first quarter of 2016 from PLN 1,909.0 million in the first quarter of 2015. Operating costs grew for the reasons set forth below.

[mPLN]	for the 3 months ended March 31 (1)		change	
	2016	2015	mPLN	%
Content costs	248.5	235.5	13.0	5.5%
Distribution, marketing, customer relation management and retention costs	200.5	189.2	11.3	6.0%
Depreciation, amortization, impairment and liquidation	423.7	467.9	(44.2)	(9.4%)
Technical costs and cost of settlements with telecommunication operators	550.3	482.3	68.0	14.1%
Salaries and employee-related costs	137.9	129.1	8.8	6.8%
Cost of equipment sold	326.8	332.5	(5.7)	(1.7%)
Cost of debt collection services and bad debt allowance and receivables written off	9.6	18.7	(9.1)	(48.7%)
Other costs	50.7	53.8	(3.1)	(5.8%)
Operating costs	1,948.0	1,909.0	39.0	2.0%

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

Content costs

Content costs increased by PLN 13.0 million, or 5.5%, to PLN 248.5 million in the first quarter of 2016 from PLN 235.5 million in the first quarter of 2015. This increase is due to higher costs of broadcast and produced sports events and costs of amortization of film licenses.

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

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 11.3 million, or 6.0%, to PLN 200.5 million in the first quarter of 2016 from PLN 189.2 million in the first quarter of 2015, mainly due to the recognition of higher costs of sales commissions (accounting effect).

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

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs decreased by PLN 44.2 million, or 9.4%, to PLN 423.7 million in the first quarter of 2016 from PLN 467.9 million in the first quarter of 2015. The decrease was primarily the result of declining costs of depreciation of the telecommunications network and was partially compensated by the recognition of depreciation costs of Midas Group for March 2016.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators increased by PLN 68.0 million, or 14.1%, to PLN 550.3 million in the first quarter of 2016 from PLN 482.3 million in the first quarter of 2015. This increase is primarily due to higher interconnection costs and higher costs of data within our broadband Internet access service, which result from the dynamic growth of our Internet user base, especially in the smartDOM program, and consequently a rapidly increasing volume of transferred data. The aforementioned costs of traffic were payable to Midas Group. Following the acquisition of Midas Group these costs are subject to consolidation eliminations as of February 29, 2016.

Salaries and employee-related costs

Salaries and employee-related costs increased by PLN 8.8 million, or 6.8%, to PLN 137.9 million in the first quarter of 2016 from PLN 129.1 million in the first quarter of 2015, as a result of a modification of the schedule of creating provisions, as well as the recognition of salaries and employee-related costs in Midas Group following its consolidation as of February 29, 2016.

Cost of equipment sold

The cost of equipment sold decreased by PLN 5.7 million, or 1.7%, to PLN 326.8 million in the first quarter of 2016 from PLN 332.5 million in the first quarter of 2015, i.a. due to the decrease in the number of concluded contracts comprising the sale of equipment.

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

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

The cost of debt collection services and bad debt allowance and receivables written off decreased by PLN 9.1 million, or 48.7%, to PLN 9.6 million in the first quarter of 2016 from PLN 18.7 million in the first quarter of 2015, primarily due to lower costs of write-offs on receivables.

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

Other costs

Other costs decreased by PLN 3.1 million, or 5.8%, to PLN 50.7 million in the first quarter of 2016 from PLN 53.8 million in the first quarter of 2015, mainly due to a decrease in the costs of office real estate maintenance.

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

Other operating income and costs, net

Other net operating income decreased by PLN 1.9 million, or 21.8%, to PLN 6.8 million in the first quarter of 2016 from PLN 8.7 million in the first quarter of 2015.

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

Gains/(losses) on investment activities, net

Net losses on investment activities amounted to PLN 35.2 million in the first quarter of 2016, which constitutes a decrease by PLN 64.1 million, or 221.8%, compared to net gains on investment activities of PLN 28.9 million in the first quarter of 2015. This decrease was mainly due to higher foreign exchange costs related to the valuation of liabilities related to the UMTS license (due to the depreciation of the PLN versus the EUR in the first quarter of 2016 compared to the appreciation of the PLN versus the EUR in the corresponding period of 2015), as well as the recognition of foreign exchange losses on the valuation of cash used to repay the PLK Senior Notes, which occurred between the moment of their acquisition and the moment of redemption. This loss corresponds with an appropriately lower foreign exchange costs on the valuation of the PLK Senior Notes, recognized in Finance costs.

Finance costs

Finance costs amounted to PLN 182.7 million in the first quarter of 2016 and decreased by PLN 78.6 million, or 30.1%, compared to PLN 261.3 million in the first quarter of 2015, mainly as a result of the recognition in the first quarter of 2016 of a one off net revenue related to the valuation and execution of forward contracts hedging the repayment of the principal of the PLK Senior Notes and lower costs of interest on the PLK Senior Notes in connection with their early redemption, which was offset by a higher valuation of the PLK Senior Notes, denominated in EUR and USD, due to a strong depreciation of the PLN versus both these currencies in the first quarter of 2016 compared to the corresponding period of 2015. As a result of the acquisition of Litenite capital group, as of February 29, 2016, this position also comprises costs of interest on loans and notes for the period of consolidation.

Net profit

Net profit increased by PLN 7.7 million, or 4.5%, to PLN 178.5 million in the first quarter of 2016 from PLN 170.8 million in the first quarter of 2015, mainly as the result of limiting finance costs.

EBITDA & EBITDA margin

EBITDA decreased by PLN 50.1 million, or 5.6%, to PLN 846.5 million in the first quarter of 2016 from PLN 896.6 million in the first quarter of 2015. EBITDA margin decreased by 2.7 p.p. to 35.8% in the first quarter of 2016 from 38.5% in the first quarter of 2015.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 5,031 full-time equivalents in the first quarter of 2016, as compared to 5,076 full-time equivalents in the corresponding period of 2015.

4.3.2. Operating segments

The Group operates in the following two segments:

- services to individual and business customers segment which relates to the provision of services to the general public, including digital television transmission signal, mobile services, 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.

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 (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), 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.

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

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 3 months ended 31 March 2016:

3 months ended March 31, 2016 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	2,098.2	265.8	-	2,364.0
Inter-segment revenues	7.3	32.8	(40.1)	-
Revenues	2,105.5	298.6	(40.1)	2,364.0
EBITDA (unaudited)	745.4	101.1	-	846.5
Depreciation, amortization, impairment and liquidation	413.6	10.1	-	423.7
Profit/(loss) from operating activities	331.8	91.0	-	422.8
Acquisition of property, plant and equipment, reception equipment and other intangible assets	142.3*	7.9	-	150.2
Balance as at March 31, 2016 (unaudited)				
Assets, including:	24,108.2	4,292.2**	(44.9)	28,355.5
Investments in joint venture	-	6.7	-	6.7

* 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 14.4 million.

All material revenues are generated in Poland.

It should be noted that the 3 months ended 31 March 2016 is not comparable to the 3 months ended 31 March 2015 as Litenite Limited was acquired on February 29, 2016 (allocated to the Services to individual and business customers segment).

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 3 months ended 31 March 2015:

3 months ended March 31, 2015 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	2,081.4	247.6	-	2,329.0
Inter-segment revenues	8.2	35.4	(43.6)	-
Revenues	2,089.6	283.0	(43.6)	2,329.0
EBITDA (unaudited)	796.3	100.3	-	896.6
Depreciation, amortization, impairment and liquidation	458.3	9.6	-	467.9
Profit/(loss) from operating activities	338.0	90.7	-	428.7
Acquisition of property, plant and equipment, reception equipment and other intangible assets	196.2*	4.5	-	200.7
Balance as at March 31, 2015 (unaudited)				
Assets, including:	22,983.5	4,191.9**	(86.5)	27,088.9
Investments in joint venture	-	3.7	-	3.7

* This item also includes the acquisition of reception equipment for operating lease purposes.

** Includes non-current assets located outside of Poland.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the 3-month period ended	
	March 31, 2016 unaudited	March 31, 2015 unaudited
EBITDA (unaudited)	846.5	896.6
Depreciation, amortization, impairment and liquidation	(423.7)	(467.9)
Profit from operating activities	422.8	428.7
Other foreign exchange rate differences, net	(28.5)	30.6
Share of the profit of joint venture accounted for using the equity method	0.8	0.5
Interest costs, net (note 10 and 11)	(131.9)	(175.3)
Foreign exchange differences on issued bonds (note 11)	(244.8)	(73.9)
Valuation and realization of derivatives not used in hedge accounting – relating to principal (nota 11)	203.8	-
Other	(16.5)	(13.8)
Gross profit for the period	205.7	196.8
Income tax	(27.2)	(26.0)
Net profit for the period	178.5	170.8

4.3.3. Balance sheet analysis

As at March 31, 2016 and December 31, 2015, our balance sheet amounted to PLN 28,355.5 million and PLN 26,490.1 million, respectively.

Assets

As at March 31, 2016 and December 31, 2015, our non-current assets were PLN 24,489.5 million and PLN 22,261.2 million, respectively, and accounted for 86.4% and 84.0% of the total assets, respectively.

As at March 31, 2016 and December 31, 2015, our current assets amounted to PLN 3,866.0 million and PLN 4,228.9 million, respectively, and accounted for 13.6% and 16.0% of the total assets, respectively.

The value of reception equipment amounted to PLN 356.7 million as at March 31, 2016 and decreased by PLN 14.3 million, or 3.9%, compared to PLN 371.0 million as at December 31, 2015.

The value of other property, plant and equipment increased by PLN 453.6 million, or 17.8%, to PLN 3,002.2 million as at March 31, 2016 from PLN 2,548.6 million as at December 31, 2015, mainly due to the recognition of the value of the telecommunication infrastructure and technical equipment of Midas Group.

The value of goodwill increased by PLN 1,068.9 million, or 10.1%, to PLN 11,675.3 million as at March 31, 2016 from PLN 10,606.4 million as at December 31, 2015 as an effect of the acquisition of Midas Group.

The value of customer relationships decreased by PLN 149.8 million, or 4.1%, to PLN 3,488.7 million as at March 31, 2016 compared to PLN 3,638.5 million as at December 31, 2015, i.a. due to amortization costs for the first quarter of 2016. The key component of this position is the valuation of Polkomtel's relationships with individual and business customers, who have signed term agreements with the operator as well as customers of prepaid services.

As at March 31, 2016, the value of brands was PLN 2,074.6 million, which constitutes a decrease by PLN 6.0 million, or 0.3%, to PLN 2,080.6 million as at December 31, 2015, due to recognition of the amortization of the Plus trademark in the first quarter of 2016.

The value of other intangible assets amounted to PLN 2,988.7 million as at March 31, 2016 which constitutes an increase of PLN 566.5 million, or 23.4%, compared to PLN 2,422.2 million as at December 31, 2015. The main reason behind this increase is the recognition of the value of telecommunication licenses belonging to Midas Group and the license for frequencies in the 2600 MHz band, purchased by Polkomtel in the LTE auction concluded in 2015.

The value of non-current and current programming assets increased by PLN 27.3 million, or 8.1%, to PLN 364.5 million as at March 31, 2016 from PLN 337.2 million as at December 31, 2015. The increase was mainly due to the purchase of additional film rights and the higher value of internal production related to the expansion of our scheduling which translates into higher attractiveness of our programming offer and therefore has a positive impact on the viewership results of our channels.

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

The value of non-current and current deferred distribution fees amounted to PLN 294.4 million as at March 31, 2016 and remained at a similar level compared to PLN 296.0 million as at December 31, 2015.

The value of the early redemption option was PLN 180.5 million as at March 31, 2016 due to the recognition of the valuation of the option related to the premature redemption of the Midas Notes and Litenite Notes.

The value of other non-current assets amounted to PLN 295.4 million as at March 31, 2016 and increased by PLN 22.6 million, or 8.3%, compared to PLN 272.8 million as at December 31, 2015, i.a. as a result of an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 211.3 million as at March 31, 2016, which constitutes an increase of PLN 123.7 million, or 141.2%, compared to PLN 87.6 million as at December 31, 2015, mainly due to the consolidation of Midas Group.

The value of inventories was PLN 260.2 million as at March 31, 2016 and decreased by PLN 20.8 million, or 7.4%, from PLN 281.0 million as at December 31, 2015. This change was caused primarily by a fall in the stock of handsets, which was partially compensated by a higher stock of set-top boxes.

The value of trade and other receivables decreased by PLN 115.2 million, or 7.1%, to PLN 1,503.9 million as at March 31, 2016 from PLN 1,619.1 million as at December 31, 2015, among others due to lower trade receivables and lower public receivables.

The value of other current assets amounted to PLN 69.6 million as at March 31, 2016, which constitutes a decrease of PLN 329.9 million, or 82.6%, compared to PLN 399.5 million as at December 31, 2015, primarily due to the elimination of intragroup settlements related to the purchase of data packages from Midas Group due to consolidation of Midas Group from February 29, 2016.

The value of cash and cash equivalents and restricted cash increased by PLN 58.7 million, or 3.9%, to PLN 1,582.4 million as at March 31, 2016 from PLN 1,523.7 million as at December 31, 2015.

Equity and liabilities

Equity increased by PLN 155.1 million, or by 1.5%, to PLN 10,405.2 million as at March 31, 2016 from PLN 10,250.1 million as at December 31, 2015, primarily due to profit generated in 2015 in the amount of PLN 178.5 million.

As at March 31, 2016 and December 31, 2015 the value of our non-current liabilities amounted to PLN 13,787.7 million and PLN 7,773.5 million, which constituted 76.8% and 47.9% of the Group's total liabilities, respectively.

As at March 31, 2016 and December 31, 2015 the value of our current liabilities amounted to PLN 4,162.6 million and PLN 8,466.5 million, which constituted 23.2% and 52.1% of the Group's total liabilities, respectively.

Loans and borrowings (long- and short-term) increased by PLN 4,964.4 million, or 75.1%, to PLN 11,575.1 million as at March 31, 2016 from PLN 6,610.7 million, mainly as a result of the increased use of the Combined SFA by drawing the amount of PLN 4,80.0 million pursuant to the Amendment, Restatement and Consolidation Deed.

Senior Notes liabilities (long- and short-term) decreased by PLN 3,457.9 million or by 60.1%, to PLN 2,294.1 million as at March 31, 2016 from PLN 5,752.0 million as at December 31, 2015. This is the net effect of the premature redemption of the PLK Senior Notes in January 29, 2016 and the recognition of liabilities from Midas Notes and Litenite Notes, acquired along with shares in Litenite.

Finance lease liabilities (long- and short-term) amounted to PLN 25.7 million as at March 31, 2016 and increased by PLN 0.5 million, or 2.0%, from PLN 25.2 million as at December 31, 2015.

UMTS license liabilities (long- and short-term) increased by PLN 6.2 million, or 0.8%, to PLN 776.0 million as at March 31, 2016 from PLN 769.8 million as at December 31, 2015.

Deferred income tax liabilities increased by PLN 78.6 million, or 12.8%, to PLN 694.4 million as at March 31, 2016 from PLN 615.8 million as at December 31, 2015, mainly due to the acquisition of Midas Group.

Non-current and current deferred income amounted to PLN 687.1 million as at March 31, 2016, which constitutes an increase by PLN 6.3 million, or 0.9%, compared to PLN 680.8 million as at December 31, 2015.

The value of other non-current liabilities and provisions amounted to PLN 157.3 million as at March 31, 2016, which constitutes an increase by PLN 33.1 million, or 26.7%, compared to PLN 124.2 million as at December 31, 2015, due i.a. to provisions in Midas Group.

The value of trade and other payables amounted to PLN 1,711.4 million as at March 31, 2016 which constitutes an increase by PLN 226.0 million, or 15.2%, compared to PLN 1,485.4 million as at December 31, 2015. This increase was driven primarily by the recognition of a liability related to the acquisition of the non-controlling stake at Midas and was partially offset by lower trade liabilities from third-parties, as well as lower liabilities related to the purchase of non-current and intangible assets, lower public liabilities and lower accruals.

Income tax liabilities decreased by PLN 146.9 million, or 83.4%, to PLN 29.2 million as at March 31, 2016 from PLN 176.1 million as at December 31, 2015, i.a. due to the backflush settlement by Polkomtel of corporate income tax, which was paid in the advance payment model in 2015.

4.3.4. Cash flow analysis

The table below presents selected data from the consolidated cash flow statement for the 3-month periods ended March 31, 2016 and March 31, 2015. All data are expressed in millions PLN.

[mPLN]	for the 3 months ended March 31 [1]		change	
	2016	2015	mPLN	%
Net cash from operating activities	446.8	417.7	29.1	7.0%
Net cash from/(used in) investing activities	(24.9)	(208.2)	183.3	(88.0%)
Net cash from/(used in) financing activities	(371.9)	(467.4)	95.5	(20.4%)
Net increase in cash and cash equivalents	50.0	(257.9)	307.9	(119.4%)
Capital expenditure	118.7	156.7	(38.0)	(24.3%)

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

Net cash from operating activities

Net cash from operating activities amounted PLN 446.8 million in the first quarter of 2016, which constitutes an increase of PLN 29.1 million, or 7.0%, compared to PLN 417,7 million in the first quarter of 2015. The increase in net cash from operating activities was mainly the result of higher net profit by PLN 7.7 million in the first quarter of 2016, amounting to PLN 178.5 million, adjusted by a series of factors, the most significant being:

- higher costs related to foreign exchange differences recognized in the first quarter of 2016 than in the corresponding period of 2015 , primarily due to the valuation of the PLK Senior Notes in the first quarter of 2016,
- recognition of net gains on derivatives in the first quarter of 2016 versus a net loss on derivatives in the corresponding period,
- a lower increase in receivables and other assets in the first quarter of 2016 than in the corresponding period of 2015,
- higher value of income tax paid;
- lower costs of depreciation, amortization, impairment and liquidation in the first quarter of 2016 than in the corresponding period of 2015,
- lower interest costs in the first quarter of 2016 than in the corresponding period of 2015,

- a smaller decrease in inventories in the first quarter of 2016 compared to the decrease in inventories in the corresponding period of 2015,
- higher payments for film licenses and sport broadcasting rights combined with higher amortization costs of film licenses and sport broadcasting rights in the first quarter of 2016 than in the corresponding period of 2015,
- a lower increase of the net value of set-top boxes provided under operating lease rights in the first quarter of 2016 than in the corresponding period of 2015.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 24.9 million in the first quarter of 2016, which constitutes a decrease of PLN 183.3 million, or 88.0%, from PLN 208.2 million in the corresponding period of 2015 and comprised the cash position of Midas Group and lower than in the corresponding period of 2015 expenditures on the purchase of property, plant and equipment, as well as intangible assets and a payment for the reservation of four blocks in the 2600 MHz band, won by Polkomtel in the LTE auction concluded in 2015.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 371.9 million in the first quarter of 2016, which constitutes a decrease by PLN 95.5 million, or 20.4%, compared to 467.4million in the first quarter of 2015 The level of cash used in financing activities in the first quarter of 2016 was affected primarily by the refinancing of the PLK Senior Notes and the associated premium for a premature redemption, as well as inflow from the beneficial realization of currency hedging instruments.

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

In the first quarter of 2016 cash expenditures of Polsat Group on the purchase of property, plant and equipment and intangible assets decreased by PLN 38.0 million, or 24.3%, to PLN 118.7 million from PLN 156.7 million in the first quarter of 2015. These expenditures comprised among others, the continued roll-out of the telecommunications network based on HSPA+ and LTE technologies, the modernization of the transmission network, the purchase of IT software and licenses, the modernization of service platforms, the execution of the project of integration and modernization of server environments, a replacement of the switchboard at the call center, the purchase of equipment related to the launch of the Cyfrowy Polsat GO services and expenditures related to the construction of the new recording studio.

4.3.5. Liquidity and capital resources

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

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

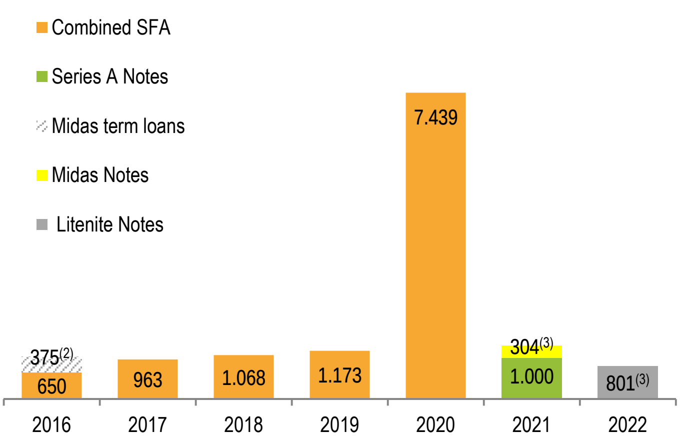
The table below presents a summary of the indebtedness of the Group as at March 31, 2016.

	Balance value [mPLN]	Coupon / interest	Maturity date
Combined Term Facility	11,203.0	WIBOR + margin	2020
Revolving Facility Loan	-	WIBOR + margin	2020
Midas term facility – Pekao(1)	329.6	WIBOR + margin	2019
Midas term facility – Plus Bank (2)	41.1	WIBOR + margin	2018
Series A Notes	1,006.6	WIBOR + 2.5%	2021
Zero-coupon Midas Notes	375.1	16.01%	2021
Zero-coupon Litenite Notes	912.5	10%	2022
Leasing and other	27.1	-	-
Gross debt	13,895.0	-	-
Early notes redemption option	(180.5)		
Cash and cash equivalents (3)	(1,582.4)	-	-
Net debt	12,132.1		
EBITDA LTM	3,635.0		
Net debt / EBITDA LTM	3.34		

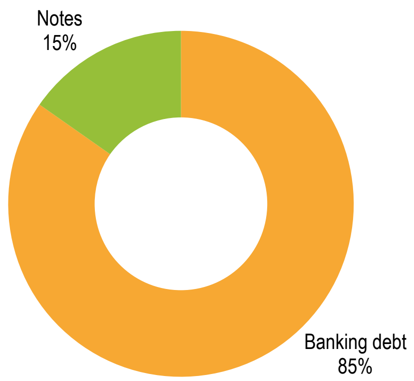
1) Repaid in full on April 29, 2016.
2) Repaid in full on May 10, 2016.
3) This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.

The graphs below present the aging balance of the Group's debt and its currency composition as at March 31, 2016, expressed in nominal values and excluding the debt under the Revolving Facility Loan.

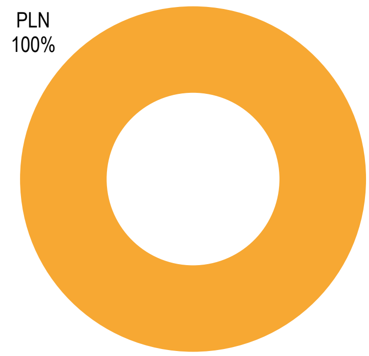
Debt maturing profile (1)
as at March 31, 2016 [mPLN]



Debt structure by instrument type (1)
as at March 31, 2016



Debt structure by currency (1)
as at March 31, 2016



(1) Nominal value of the indebtedness as at March 31, 2016 (excluding the Revolving Facility Loan)
(2) The entire indebtedness under the Midas term loan with Bank Polska Kasa Opieki S.A. has been repaid on April 29, 2016 and the entire indebtedness under the Midas term loan with Plus Bank S.A. has been repaid on May 10, 2016
(3) Nominal amount of the Notes as at March 31, 2016.

Senior Facilities Agreements executed by the Group until the date of preparation of this Report

Combined Senior Facilities Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PLK Senior Notes

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

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

Series A Bonds issued by Cyfrowy Polsat

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(iii) granting loans;

(iv) disposing of assets;

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

(vi) incurring of financial indebtedness and

(vii) entering into composition agreements.

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

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

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

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

Investment loan agreements concluded between Aero 2 and Plus Bank S.A.

On October 27, 2010 and November 25, 2010 investment loan agreements, as amended, were concluded between Aero 2 Sp. z o.o., as borrower, and Invest Bank S.A. (currently Plus Bank S.A.) as the creditor, with the aim to refinance and finance investment expenditures on telecommunication infrastructure.

Based on these agreements, as amended, Aero 2 was granted a term loan in the total amount of PLN 64.5 million. The repayment of interest on the term loan was based on a variable interest rate equal to the sum of WIBOR 3M and the applicable margin. As at March 31, 2016 the outstanding capital amounted to PLN 41.1 million. The indebtedness under the agreements with Plus Bank S.A. was repaid in full on May 10, 2016 by Midas Group, and all securities established pursuant to the agreements, have been released. Midas Group prepaid the indebtedness using own funds.

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

On July 10, 2014 Midas and its subsidiaries: Aero 2 Sp. z o.o., CenterNet S.A. and Mobyland Sp. z o.o., as borrowers, and Bank Polska Kasa Opieki S.A. as creditor concluded an investment loan agreement, later amended by amendments dated March 30, 2015, June 26, 2015 and October 22, 2015.

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

The final repayment date was July 10, 2019, however the creditor had the possibility to advance the term of repayment. The repayment of the term loan took place in equal monthly installments, starting from the end of January 2016. The term loan bore interest based on a variable interest rate equal to the sum of WIBOR 1M and the applicable margin.

The indebtedness under the loan agreement with Bank Polska Kasa Opieki S.A. was repaid in full on April 29, 2016 by the companies Midas and Aero 2, and all securities established pursuant to the agreement, have been released. Funds used to repay the debt were generated from operating activities of Midas Group.

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

Pursuant to the resolution of the management board adopted on March 6, 2013, amended by the resolution of the management board of March 28, 2013, Midas issued on April 16, 2013 583,772 zero-coupon, dematerialized, secured series A bearer notes with the nominal value of PLN 1,000.0 each and the total nominal value of PLN 583.8 million, maturing on April 16, 2021. Detailed terms and conditions of the notes' issuance, redemption and payment of interest are specified in the terms of issuance of the Midas Notes.

The issue price of one note was PLN 342.8 million. The notes entitle solely to a cash consideration, consisting in the payment to the benefit of the noteholder of:

(i) the redemption amount payable at the date of redemption, i.e. on April 16, 2021, equal to the nominal value of one note, that is PLN 1,002.4, in accordance with the current wording of the terms of issuance of the Midas Notes;

(ii) the early redemption amount payable at the date of the early redemption,

(iii) the immediate redemption amount payable at the date of the immediate redemption.

The value of the Midas Notes is calculated based on the issue price, the discount rate of 16.01% and the number of days in specific periods.

In accordance with the terms of issuance, Midas may exercise an early redemption of the Midas Notes. An early redemption shall be exercised based on the Midas Notes' value calculated as at the date of the early redemption plus an applicable premium depending on the date of redemption, specified as follows:

(i) if the early redemption occurs not sooner than April 17, 2015 and not later than April 16, 2016, the premium shall be equal to 14.31% of the issue price;

(ii) if the early redemption occurs not sooner than April 17, 2016 and not later than April 16, 2017, the premium shall be equal to 7.155% of the issue price;

(iii) if the early redemption occurs not sooner than April 17, 2017 and not later than April 16, 2018, the premium shall be equal to 3.5775% of the issue price;

(iv) if the early redemption occurs not sooner than April 17, 2018, the premium shall be equal to 0%.

Additionally, pursuant to the terms of issuance of the Midas Notes, Midas is subject to restrictions with respect to the acquisition or taking up of shares in other companies. In the event of a breach of restrictions specified in the terms of issuance of the Midas Notes, and the continuous duration of this breach for 14 days, noteholders holding not less than 20% of the issued and unredeemed Midas Notes, are entitled to demand an immediate redemption of the Midas Notes held by those noteholders with the consent of the Meeting of Noteholders.

On August 5, 2013, the series A notes issued by Midas were introduced to trading in the alternative trading system on the Catalyst market managed by WSE.

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

Litenite Notes

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

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

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

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

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

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

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

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

Contractual obligations

Contractual commitments to purchase programming assets

As at March 31, 2016 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	March 31, 2016 (unaudited)	December 31, 2015
within one year	170.7	178.1
between 1 to 5 years	203.1	116.4
Total	373.8	294.5

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

[mPLN]	March 31, 2016 (unaudited)	December 31, 2015
within one year	10.2	15.9
Total	10.2	15.9

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 121.7 million as at March 31, 2016 (PLN 136.3 million as at December 31, 2015). The total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at March 31, 2016 was PLN 74.9 million (PLN 63.8 million as at December 31, 2015).

Ratings

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

	Moody's Investor Services			Standard & Poor's Rating Services		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
CYFROWY POLSAT						
Corporate rating	Ba3 /positive	Ba3/stable	22.09.2015	BB+/stable	BB/ CreditWatch Positive	25.09.2015

On September 22, 2015 Moody's Investors Service affirmed the Company's corporate family rating at Ba3 and changed its outlook from stable to positive. Moody's justified the outlook change by, among other things, benefits associated with the refinancing of current indebtedness with a facility denominated in Polish zloty and the expected improvement of the Company's credit metrics over the medium-term.

On September 25, 2015 Standard & Poor's Rating Services, among others upgraded its long-term corporate credit rating on the Company from "BB" to "BB+" with a stable outlook. S&P justified its decision by the expected significant improvement of the Company's capital structure due to the refinancing of the existing debt of the Group. In its media release S&P emphasized in particular greater flexibility resulting from the ultimate pooling of the facilities of companies belonging to the Group, the elimination of foreign exchange risk given that the debt under the new facilities agreements will be denominated solely in Polish zloty, as well as the strengthening of the Company's credit metrics thanks to reduced interest costs to the blended level of ca. 3.6% versus ca. 6.6% currently.

4.3.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

In order to secure the repayment of claims under the Combined Senior Facilities Agreement the following encumbrances over assets of the Group have been established by the Company, Polkomtel and other companies belonging to the Group 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 and Plus TM Management 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 sp. z o.o. (with an aggregate nominal value of PLN 236,946,700), Polkomtel (with a total nominal value of PLN 3,525,300) and in Plus TM Management sp. z o.o. (with a total nominal value of PLN 1,106,000), governed by Polish law, together with powers of attorney to exercise corporate rights attached to the shares in the said companies; the pledged shares represent 100% of the share capital of each company and are held by the Company as a long-term capital investment;

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

(iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme 4 and Plus TM Management sp. z o.o., governed by Polish law;

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

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

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

(viii) contractual mortgage governed by Polish law on the land property owned by Polkomtel and located in Warsaw, Ursynów district, in the vicinity of Baletowa street, comprising plots of land no. 131/4 and 132/6, subject to the establishment of the Land and Mortgage Register for these plots upon their separation from Land and Mortgage Register No. WA2M/00210976/8;

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

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

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

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

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

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

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

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

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

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

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

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

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

(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 and Plus TM Management sp. z o.o. on the submission to enforcement on the basis of a notarial deed, governed by Polish law.

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

5.1. Transactions concluded with related parties on conditions other than market conditions

Transactions concluded in the 3-month period ended March 31, 2016 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 18 of the interim condensed consolidated financial statements for the 3-month period ended March 31, 2016.

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

Cyfrowy Polsat had not published any financial forecasts.

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

The Management of Cyfrowy Polsat believes that the provisions as at March 31, 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer

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

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

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

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

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

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

In September 2015, Polkomtel received a claim from P4 Sp. z o.o., in which the company demands compensation of EUR 316 million (including interest of PLN 85 million), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Polska, Polkomtel and T-Mobile Polska.

The management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In the management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

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

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

5.4.1. Factors related to social-economic environment

Economic situation in Poland

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

In the sluggish world economy of 2011-2013, Poland continued to record one of the highest real GDP growth rates in the EU. According to Eurostat, Poland's real GDP growth in 2011, 2012 and 2013 was 5.0%, 1.6% and 1.3%, respectively, with the corresponding figures for the EU 28 at 1.7%, -0.5% and 0.2%, respectively. Despite the Polish economy's relatively good condition, the downturn on the global markets in 2011-2013 adversely impacted the volume of advertising spending in Poland, including on TV advertising.

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

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

Situation on the pay TV market in Poland

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

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

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

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

Development of advertising market in Poland

Part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising air-time is highly correlated with the macro-economic situation. ZenithOptimedia Media House forecasts that 2016 will be another year of growth on the advertising market and forecasts the growth of total TV advertising expenditure, net at the rate of 2.9%. Given that TV is a highly effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still a substantial growth potential for TV advertising in Poland in the long term, and the expected economic recovery in 2016-2017 will positively influence the level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs.

The Internet advertising market is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 17.1% y-o-y and reached the value of nearly PLN 2.2 billion in the first three quarters of 2015. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures on the video advertising segment, in which we generate our revenue. In the first three quarters of 2015 those expenditures increased by 24% and represented 8% of the total expenditures on online advertising. According to PwC forecasts *(Global entertainment and media outlook: 2014-2019)* the online video advertising in Poland will grow by an average 19.5% (CAGR) in the years 2014-2019. We believe that thanks to the leading position on the online video market (through IPLA internet television) we may benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels

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

Fixed-mobile substitution and growth of mobile broadband Internet saturation

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

In Poland the fixed-mobile substitution has a larger scale than in most of the EU countries. Based on the UKE data, in 2014 the volume of voice traffic in fixed-line networks, which amounted to 10.4 billion minutes, was already almost 8 times lower than the voice traffic volume in mobile networks – which amounted to over 82.6 billion minutes.

At the same time the availability of fixed-line broadband services is limited mainly to urban areas. Outside urban areas, high-quality fixed-line broadband services are offered only to a limited extent, which is due to historical underinvestment resulting from the high cost of build-out of local loops (the so called "last mile"). What is important, current investment strategies of leading domestic fixed-line and cable operators focus primarily on the roll out of infrastructure in highly urbanized areas, due to which the potential of mobile technologies in suburban and rural areas seems unthreatened.

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

Growing demand for smartphones and data transmission

Popularity and sales of smartphones in Poland has been gradually growing. In the first quarter of 2016 91% of handsets sold by us to our telecommunication service customers were smartphones. At the same time, we estimate that at the end of March 2016 ca. 57% of phones used by our customers were smartphones, while this share was 47% in the previous year. This disproportion shows that the smartphones' penetration among our mobile services customers will grow consistently in the next years.

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

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

Seasonality of advertising market

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

Seasonality of the telecommunication market

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

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

5.4.2. Factors related to the operations of the Group

Growing importance of integrated services

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

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

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

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

Providing Internet access services in LTE technology

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

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

Development of IPLA

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

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

Attractive content of our TV channels

We offer the biggest and most versatile portfolio of TV channels on the Polish market, which places us in the leading position in terms of audience among private television groups in Poland and translates into our share in the advertising market. Our direct production covers mainly news programs, documentaries, shows and series based on international formats as well as solely created concepts. Moreover, we have contracts with major film studios, such as Sony Pictures Television International, 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 UEFA European Championships 2016 qualifying stage, UEFA Euro 2016 final tournament, FIFA World Championships 2018 qualifying stage, European Championships in volleyball and handball, boxing and mixed martial arts galas, World Rally Championship, Formula 1 races, Wimbledon and many others. We believe that attractive content, including content which is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

5.4.3. Factors related to the regulatory environment

International roaming in mobile networks

International roaming rates in the EU are regulated by the Regulation of the European Parliament and the Council of June 13, 2012. The Regulation covers retail and wholesale charges for voice (outbound and inbound calls), SMS, MMS and data roaming services on the territory of the European Economic Area (EEA), by determining average wholesale rates and maximum retail charges for the services.

On November 25, 2015, the European Parliament and Council have adopted a Resolution amending the Resolution of June 13, 2012, which introduced the levelling of retail roaming charges applied in EEA countries with domestic charges (the "Roam like at home" concept).

Pursuant to the new Resolution retail charges for regulated roaming services are to be levelled with domestic charges starting from June 15, 2017. This is conditional, however, on the ability to establish a set of detailed regulations with respect to, among others, the further reduction of wholesale roaming charges and adopting the so called Fair Usage Policy, which would protect the interests of operators across the EU after the implementation of the "Roam like at home" rule. As at the date of preparation of this Report, no detailed guidelines regarding these proposals were available.

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

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

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

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

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

Reservation of frequencies

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

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

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

As a result of the termination of the LTE Auction of 5 blocks in the 800 MHz band and 14 block in the 2600 MHz block, Polsat Group's competitors gained the possibility to provide high quality services in LTE based on frequencies in the 800 MHz band. Concurrently, we cannot exclude the possibility that high costs of financing the purchase of the 800 MHz spectrum incurred by our competitors will be reflected in their pricing policies related to mobile services, which may have a significant effect on the shape of the Polish telecoms market in the foreseeable future.

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

Development of the LTE technology

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

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

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

5.4.4. Financial factors

Exchange rates fluctuations

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

Foreign exchange rate fluctuations have historically affected the level of our operating costs, finance costs, as well as the profit or loss on investing activities, and are expected to do so in the future. In particular, our exposure to foreign exchange rate fluctuations stems from our foreign currency payments for (i) licensing fees paid to TV broadcasters, (ii) signal transmission-related charges, (iii) access to the offering of leading film and TV studios, and of other programming suppliers and producers, including sports federations; (iv) set-top box parts, and other hardware and software; (v) transponder capacity lease; (vi) telecommunication equipment for mobile telephony customers; (vii) UMTS license fees; (viii) telecommunication network equipment; (ix) selected leases of land for telecommunication network sites; (x) selected office building lease agreements; (xi) international roaming and interconnect agreements; and (xii) other trade obligations.

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

Refinancing of the Group's debt

On September 21, 2015, Polsat Group entered into a facility agreement with a consortium of Polish and foreign financial institutions comprising a term facility of up to PLN 11.5 billion and a revolving facility of up to PLN 1,0 billion, which, together with the Series A Bonds with the total nominal value of PLN 1,0 billion, issued in July 2015, was used to refinance the entire indebtedness of the Group.

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

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

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

Tobias Solorz
President of the Management Board

Tomasz Szeląg
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, May 11, 2016

GLOSSARY

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

Glossary of general terms

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

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

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

Technical terms

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

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

Term	Definition
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero 2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).
VOD - Home Movie Rental	Our video on demand services
VoLTE	Technology which ensures immediate call set-up, high quality of voice and the possibility to provide advanced communication services with the guarantee of quality, such as e.g. HD video streaming based on the standard phone number (*Voice over LTE*).
WCDMA	Network access technology developed by 3rd Generation Partnership Project from 1999, and used in UMTS-standard 3G networks (Wideband Code Division Multiple Access).
WiFi	A set of standards for the development of wireless computer networks.

CYFROWY POLSAT S.A. GROUP

Interim Condensed Consolidated Financial Statements
for the 3 months ended 31 March 2016

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

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APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 11 May 2016, the Management Board of Cyfrowy Polsat S.A. approved the interim condensed consolidated financial statements of Cyfrowy Polsat S.A. Group prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting,* as adopted by the European Union, which include:

Interim Consolidated Income Statement for the period from 1 January 2016 to 31 March 2016 showing a net profit for the period of:	PLN 178.5
Interim Consolidated Statement of Comprehensive Income for the period from 1 January 2016 to 31 March 2016 showing a total comprehensive income for the period of:	PLN 180.5
Interim Consolidated Balance Sheet as at 31 March 2016 showing total assets and total equity and liabilities of:	PLN 28,355.5
Interim Consolidated Cash Flow Statement for the period from 1 January 2016 to 31 March 2016 showing a net increase in cash and cash equivalents amounting to:	PLN 50.0
Interim Consolidated Statement of Changes in Equity for the period from 1 January 2016 to 31 March 2016 showing an increase in equity of:	PLN 155.1

Notes to the Interim Condensed Consolidated Financial Statements

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

Tobias Solorz President of the Management Board	Tomasz Szeląg Member of the Management Board	Dariusz Działkowski Member of the Management Board	Tomasz Gillner-Gorywoda President 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, 11 May 2016

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

Interim Consolidated Income Statement

	Note	for the 3 months ended 31 March 2016 unaudited	31 March 2015 unaudited
Continuing operations			
Revenue	8	2,364.0	2,329.0
Operating costs	9	(1,948.0)	(1,909.0)
Other operating income, net		6.8	8.7
Profit from operating activities		**422.8**	**428.7**
Gain/(loss) on investment activities, net	10	(35.2)	28.9
Finance costs	11	(182.7)	(261.3)
Share of the profit of joint venture accounted for using the equity method		0.8	0.5
Gross profit for the period		**205.7**	**196.8**
Income tax		(27.2)	(26.0)
Net profit for the period		**178.5**	**170.8**
Net profit attributable to equity holders of the Parent		175.5	170.8
Net profit attributable to non-controlling interest		3,0	-
Basic and diluted earnings per share attributable to equity holders of the Parent (in PLN)		**0.27**	**0.27**

Interim Consolidated Statement of Comprehensive Income

	Note	for the 3 months ended 31 March 2016 unaudited	31 March 2015 unaudited
Net profit for the period		**178.5**	**170.8**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	13	2.5	(0.6)
Income tax relating to hedge valuation	13	(0.5)	0.1
Items that may be reclassified subsequently to profit or loss		**2.0**	**(0.5)**
Other comprehensive income, net of tax		**2.0**	**(0.5)**
Total comprehensive income for the period		**180.5**	**170.3**
Total comprehensive income attributable to equity holders of the Parent		177.5	170.3
Total comprehensive income attributable to non-controlling interest		3.0	-

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

Interim Consolidated Balance Sheet - Assets

	Note	31 March 2016 unaudited	31 December 2015
Reception equipment		356.7	371.0
Other property, plant and equipment		3,002.2	2,548.6
Goodwill	16	11,675.3	10,606.4
Customer relationships		3,488.7	3,638.5
Brands		2,074.6	2,080.6
Other intangible assets		2,988.7	2,422.2
Non-current programming assets		129.8	145.0
Investment property		5.2	5.2
Non-current deferred distribution fees		81.1	83.3
Early redemption options		180.5	-
Other non-current assets		295.4	272.8
includes derivative instruments assets		*0.6*	*6.9*
Deferred tax assets		211.3	87.6
Total non-current assets		**24,489.5**	**22,261.2**
Current programming assets		234.7	192.2
Inventories		260.2	281.0
Trade and other receivables		1,503.9	1,619.1
Income tax receivable		1.9	0.7
Current deferred distribution fees		213.3	212.7
Other current assets		69.6	399.5
includes derivative instruments assets		*0.2*	*10.5*
Short-term deposits		12.4	-
Cash and cash equivalents		1,538.6	1,512.0
Restricted cash		31.4	11.7
Total current assets		**3,866.0**	**4,228.9**
Total assets		**28,355.5**	**26,490.1**

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

Interim Consolidated Balance Sheet - Equity and Liabilities

	Note	31 March 2016 unaudited	31 December 2015
Share capital	12	25.6	25.6
Share premium	12	7,174.0	7,174.0
Other reserves	13	(1.7)	(3.7)
Retained earnings		3,229.7	3,054.2
Equity attributable to equity holders of the Parent		**10,427.6**	**10,250.1**
Non-controlling interests		**(22.4)**	**-**
Total equity		**10,405.2**	**10,250.1**
Loans and borrowings	14	9,982.1	5,379.8
Issued bonds	15	2,252.6	975.3
Finance lease liabilities		21.2	20.9
UMTS license liabilities		658.0	652.8
Deferred tax liabilities		694.4	615.8
Deferred income		22.1	4.7
Other non-current liabilities and provisions		157.3	124.2
includes derivative instruments liabilities		*1.1*	-
Total non-current liabilities		**13,787.7**	**7,773.5**
Loans and borrowings	14	1,593.0	1,230.9
Issued bonds	15	41.5	4,776.7
Finance lease liabilities		4.5	4.3
UMTS license liabilities		118.0	117.0
Trade and other payables		1,711.4	1,485.4
includes derivative instruments liabilities		*25.8*	*72.9*
Income tax liability		29.2	176.1
Deferred income		665.0	676.1
Total current liabilities		**4,162.6**	**8,466.5**
Total liabilities		**17,950.3**	**16,240.0**
Total equity and liabilities		**28,355.5**	**26,490.1**

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

Interim Consolidated Cash Flow Statement

	Note	for the 3 months ended 31 March 2016 unaudited	for the 3 months ended 31 March 2015 unaudited
Net profit		**178.5**	**170.8**
Adjustments for:		**405.9**	**282.2**
Depreciation, amortization, impairment and liquidation	9	423.7	467.9
Payments for film licenses and sports rights		(58.1)	(41.5)
Amortization of film licenses and sports rights		49.1	43.7
Interest expense		144.7	177.4
Change in inventories		21.5	48.6
Change in receivables and other assets		(33.9)	(211.8)
Change in liabilities, provisions and deferred income		(205.9)	(216.1)
Change in internal production and advance payments		(11.1)	(11.7)
Valuation of hedging instruments		2.5	(0.6)
Share of the profit of joint venture accounted for using the equity method		(0.8)	(0.5)
Foreign exchange losses, net		250.2	37.1
Income tax		27.2	26.0
Net additions of reception equipment provided under operating lease		(31.1)	(43.6)
Net loss/(gain) on derivatives		(174.6)	10.6
Other adjustments		2.5	(3.3)
Cash from operating activities		**584.4**	**453.0**
Income tax paid		(145.7)	(48.5)
Interest received from operating activities		8.1	13.2
Net cash from operating activities		**446.8**	**417.7**
Acquisition of property, plant and equipment		(98.4)	(137.6)
Acquisition of intangible assets		(20.3)	(19.1)
Concession payments		(147.7)	-
Acquisition of subsidiaries, net of cash acquired	16	262.2	(4.2)
Proceeds from sale of property, plant and equipment		3.5	0.2
Short-term deposits		(12.4)	(42.7)
Granted loans		(6.8)	(6.0)
Other investing activities – derivatives		(5.0)	1.2
Net cash used in investing activities		**(24.9)**	**(208.2)**

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

Loans and borrowings inflows	14	5,500.0	50.0
Bonds redemption	15	(4,483.8)	-
Repayment of loans and borrowings	14	(916.1)	(157.0)
Payment of interest on loans, borrowings, bonds, Cash Pool, finance lease and commissions*		(383.2)	(357.9)
Early redemption fee	15	(262.1)	-
Hedging instrument effect – principal		175.4	-
Finance lease – principal repayments		(1.1)	(2.5)
Other outflows		(1.0)	-
Net cash used in financing activities		**(371.9)**	**(467.4)**
Net increase/(decrease) in cash and cash equivalents		**50.0**	**(257.9)**
Cash and cash equivalents at the beginning of the period		**1,523.7**	**1,747.9**
Effect of exchange rate fluctuations on cash and cash equivalents		(3.7)	1.6
Cash and cash equivalents at the end of the period		**1,570.0*** **	**1,491.6** **

* Includes impact of hedging instruments
** Includes restricted cash amounting to PLN 12.6
*** Includes restricted cash amounting to PLN 31.4

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

Interim Consolidated Statement of Changes in Equity for the 3 months ended 31 March 2016

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	**Total equity**
Balance as at 1 January 2016	**25.6**	**7,174.0**	**(3.7)**	**3,054.2**	**10,250.1**	**-**	**10,250.1**
Acquisition of Litenite	-	-	-	-	-	(25.4)	**(25.4)**
Total comprehensive income	-	-	2.0	*175.5*	177.5	3.0	**180.5**
Hedge valuation reserve	-	-	*2.0*	-	*2.0*	-	***2.0***
Net profit for the period	-	-	-	*175.5*	*175.5*	*3.0*	***178.5***
Balance as at 31 March 2016 unaudited	**25.6**	**7,174.0**	**(1.7)**	**3,229.7**	**10,427.6**	**(22.4)**	**10,405.2**

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

Interim Consolidated Statement of Changes in Equity for the 3 months ended 31 March 2015

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	**Total equity**
Balance as at 1 January 2015	**25.6**	**7,237.4**	**(12.2)**	**1,890.8**	**9,141.6**	**-**	**9,141.6**
Total comprehensive income	-	-	(0.5)	170.8	170.3	-	**170.3**
Hedge valuation reserve	-	-	*(0.5)*	-	*(0.5)*	-	***(0.5)***
Net profit for the period	-	-	-	*170.8*	*170.8*	-	***170.8***
Balance as at 31 March 2015 unaudited	**25.6**	**7,237.4**	**(12.7)**	**2,061.6**	**9,311.9**	**-**	**9,311.9**

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

Notes to the Interim Condensed Consolidated Financial Statements

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

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

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

Statement of compliance

These interim condensed consolidated financial statements for the 3 months ended 31 March 2016 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed consolidated financial statements should be read together with the annual consolidated financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU.

The Group applied the same accounting policies in the preparation of the financial data for the 3 months ended 31 March 2016 and the consolidated financial statements for the year 2015, presented in the consolidated annual report, except for the EU-endorsed Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2016. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2016 do not have a material impact on these interim condensed consolidated financial statements.

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

5. Group structure

These interim condensed consolidated financial statements for the 3 months ended 31 March 2016 include the following entities:

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

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

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

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

	Entity's registered office	Activity	Share in voting rights (%) 31 March 2016	31 December 2015
Subsidiaries accounted for using full method (cont.)				
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ)	Norrlandsgatan 18 111 43 Stockholm Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-676 Warsaw	other activities supporting financial services	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	Kostaki Pantelidi 1 1010, Nicosia Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o. (formerly Plus TM Group Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo-Akcyjna)	Konstruktorska 4, 02-673 Warsaw	intelectual property rights rental	100%	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%

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

	Entity's registered office	Activity	Share in voting rights (%) 31 March 2016	31 December 2015
Subsidiaries accounted for using full method (cont.)				
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Dwa Sp. z o.o.	Al. Jerozolimskie 81, Warsaw	holding activities	100%	100%
Interphone Service Sp. z o.o.	ul. Inwestorów 8, Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Sp. z o.o. s.k.	Al. Jerozolimskie 81, Warsaw	premium rate services	100%	100%
IB 1 FIZAN	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	financial activities	*	*
Grab Sarl	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Grab Investment SCSp	6, rue Eugène Ruppert, L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	100%
Litenite Ltd. (b)	Kostaki Pantelidi 1 1010, Nikozja Cypr	holding activities	100%	49%**
Midas S.A. (b)	Al. Stanów Zjednoczonych 61A, 04-028 Warszawa	telecommunication activities	65.9975%	-
Aero 2 Sp. z o.o.(b)	Al. Stanów Zjednoczonych 61A, 04-028 Warszawa	telecommunication activities	65.9975%***	-
Sferia S.A. (b)	Al. Stanów Zjednoczonych 61A, 04-028 Warszawa	telecommunication activities	33.66%***	-
Altalog Sp. z o.o. (b)	Al. Stanów Zjednoczonych 61A, 04-028 Warszawa	software	43.56%***	-

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

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

*** Midas S.A. holds 100% share in voting rights in Aero 2 Sp. z o.o., 51% share in voting rights in Sferia S.A. and 66% share in voting rights in Altalog Sp. z o.o.

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

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

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

Investments accounted for under the equity method:

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

Additionally, the following entities were included in these interim condensed consolidated financial statements for the 3 months ended 31 March 2016

			Share in voting rights (%)	
	Entity's registered office	**Activity**	**31 March 2016**	**31 December 2015**
Karpacka Telewizja Kablowa Sp. z o.o.*	Warszawska 220, Radom	dormant	99%	99%
Polskie Badania Internetu Sp. z o.o.	Al. Jerozolimskie 65/79, Warsaw	web portals activities	4.55%	4.55%
InPlus Sp. z o.o.	Wilczyńskiego 25E lok. 216, 10-686 Olsztyn	infrastructure projects advisory	4.32%**	-

* Investment accounted for at cost less any accumulated impairment losses

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

6. Approval of the Consolidated Financial Statements

These interim condensed consolidated financial statements were approved for publication by the Management Board of Cyfrowy Polsat S.A. on 11 May 2016.

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

7. Information on seasonality in the Group's operations

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

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

8. Revenue

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Retail revenue	1,565.7	1,637.2
Wholesale revenue	599.8	553.3
Sale of equipment	172.8	118.4
Other revenue	25.7	20.1
Total	**2,364.0**	**2,329.0**

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.

9. Operating costs

		for the 3 months ended	
	Note	**31 March 2016 unaudited**	**31 March 2015 unaudited**
Technical costs and cost of settlements with telecommunication operators		550.3	482.3
Depreciation, amortization, impairment and liquidation		423.7	467.9
Cost of equipment sold		326.8	332.5
Content costs		248.5	235.5
Distribution, marketing, customer relation management and retention costs		200.5	189.2
Salaries and employee-related costs	a	137.9	129.1
Cost of debt collection services, bad debt allowance and receivables written off		9.6	18.7
Other costs		50.7	53.8
Total		**1,948.0**	**1,909.0**

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

a) Salaries and employee-related costs

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Salaries	114.7	106.8
Social security contributions	19.9	19.3
Other employee-related costs	3.3	3.0
Total	**137.9**	**129.1**

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

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Interest net	8.4	9.5
Other foreign exchange gains/(losses), net	(28.5)	30.6
Other costs	(15.1)	(11.2)
Total	**(35.2)**	**28.9**

11. Finance costs

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Interest expense on loans and borrowings	95.4	98.1
Interest expense on issued bonds	50.5	87.7
Foreign exchange differences on issued bonds	244.8	73.9
Valuation of early redemption option	(2.2)	-
Valuation and realization of hedging instruments	1.9	1.2
Valuation and realization of derivatives not used in hedge accounting – relating to interest	(7.0)	(2.2)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	(203.8)	-
Guarantee fees, bank and other charges	3.1	2.6
Total	**182.7**	**261.3**

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

12. Equity

(i) Share capital

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

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

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

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

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

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

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

(ii) Share premium

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

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

13. Hedge valuation reserve

Impact of hedging instruments valuation on other reserves

	2016	2015
Balance as at 1 January	**(6.7)**	**(12.2)**
Valuation of cash flow hedges	2.5	(0.6)
Deferred tax	(0.5)	0.1
Change for the period (new credit facility)	**2.0**	**(0.5)**
Balance as at 31 March unaudited	**(4.7)**	**(12.7)**

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

14. Loans and borrowings

Loans and borrowings	31 March 2016 unaudited	31 December 2015
Short-term liabilities	1,593.0	1,230.9
Long-term liabilities	9,982.1	5,379.8
Total	**11,575.1**	**6,610.7**

Change in loans and borrowings liabilities:

	2016	2015
Loans and borrowings as at 1 January	**6,610.7**	**9,006.1**
Loans and borrowings on acquisition of Litenite (see note 16)	380.1	-
Facilities agreement	4,800.0	-
Revolving facility loan	700.0	50.0
Repayment of capital	(916.1)	(157.0)
Repayment of interest and commissions	(95.0)	(95.4)
Interest accrued	95.4	98.1
Loans and borrowings as at 31 March unaudited	**11,575.1**	**8,901.8**

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 amended the CP Facilities Agreement as follows:

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

Completion of refinancing

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

15. Issued bonds

	31 March 2016 unaudited	31 December 2015
Short-term liabilities	41.5	4,776.7
Long-term liabilities	2,252.6	975.3
Total	**2,294.1**	**5,752.0**

Change in issued bonds:

	2016	2015
Issued bonds as at 1 January	**5,752.0**	**5,014.6**
Bonds on acquisition of Litenite (see note 16)	1,277.7	-
Bonds redemption	(4,483.8)	-
Foreign exchange losses	244.8	73.9
Repayment of interest and commission	(285.0)	(243.7)
Early redemption fee	(262.1)	-
Interest accrued	50.5	87.7
Issued bonds payable as at 31 March unaudited	**2,294.1**	**4,932.5**

Completion of refinancing

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

16. Acquisition of a subsidiary

Acquisition of shares in Litenite Limited

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

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

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

On 29 February 2016 Polkomtel announced a tender offer to purchase 503,124,060 shares of Midas S.A., representing 34.0025% of the total number of votes and share capital of Midas. The price of the Midas shares in the tender offer has been set for PLN 0.81 (not in millions) per one share. As at 31 March 2016 the Group has recognized a liability to Midas' non-controlling interest in the amount of 407.5 zł.

Following the closing of subscription for shares on 19 April 2016, subscriptions were made for the total of 403,054,449 shares, representing 27.2395% of the total number of votes and share capital of Midas. Upon completion of the above transaction Cyfrowy Polsat will hold indirectly 93.237% of the total number of votes and share capital of Midas.

On 5 May 2016 Polkomtel adopted a resolution to acquire up to 100% shares in Midas S.A. Accordingly, Polkomtel will proceed with announcing and conducting a mandatory squeeze-out of Midas shares.

The Group uses the purchase accounting method for entities acquired under common control with the assumption that the full control over Midas Group (i.e. 100% shares) was acquired on 29 February 2016.

a) Provisional consideration transferred

	Provisional value of transferred
Cash transferred	-
Liability to Midas' non-controlling interest	407.5
Net settlements between Midas Group and the Group	488.8
Provisional value as at 29 February 2016	**896.3**

b) Reconciliation of transactional cash flow

Cash transferred	-
Cash and cash equivalents received*	262.2
Cash increase in the period of 3 months ended 31 March 2016	**262.2**

* included restricted cash in the amount of PLN 20

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

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 29 February 2016:

	Provisional fair value as at the acquisition date (29 February 2016)
Net assets:	
Property, plant and equipment	542.3
Buildings	86.8
Network systems and equipment	267.1
Assets under construction	188.4
Intangible assets	479.7
Software and licenses	2.2
Concessions	461.6
Other	0.8
Intangible asset in realization and prepayments	15.1
Early redemption option	178.3
Other non-current assets	3.7
Deferred tax assets	126.2
Inventory	0.7
Trade receivables and other receivables	14.7
Other current assets	7.7
Cash and equivalents	262.2
Loans and borrowings	(380.1)
Issued bonds	(1,277.7)
Deferred tax liabilities	(52.0)
Other non-current liabilities and provisions	(19.2)
Trade liabilities and other liabilities	(62.2)
Deferred income	(22.3)
Provisional value of net assets	**(198.0)**
Provisional value of non-controlling interest	25.4
Consideration transferred	896.3
Provisional goodwill	**1,068.9**

Provisional fair value of assets (including concessions) and liabilities is estimated at book value as at the acquisition date. As the process of fair valuation has not yet been completed, the fair value of all identifiable acquired assets and liabilities is provisional and is applicable up to final valuation of assets and liabilities will be obtained.

It should be noted that during the provisional purchase price allocation the Group identified key concessions.

The Group expects that following the completion of purchase price allocation the goodwill will be adjusted to reflect the final valuation of key concessions (800 MHz, 900 MHz, 1600 MHz).

Goodwill is allocated to the "Services to individual and business customers" operating segment.

The revenue and net loss included in the interim consolidated income statement for the reporting period since 29 February 2016 contributed by Litenite group amounted to PLN 63.2 and PLN 3.6, respectively. Had it been acquired on 1 January 2016 the proforma revenue and net income included in the interim consolidated income statement for would have amounted to PLN 2,284.3 and PLN 158.1, respectively.

17. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

- digital pay television services which primarily relate to direct distribution of technologically advanced pay-TV services and revenues are generated mainly by pay-TV subscription fees;
- mobile telecommunication services (postpaid and mix) which generate revenues mainly from interconnection revenues, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including international and domestic roaming;
- online TV services (IPLA) available on computers, smartphones, tablets, SmartTV, game consoles and other TV equipment which generate revenues mainly from subscription fees and advertising on the Internet;
- production of set-top boxes.

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

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

(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 3 months ended 31 March 2016:

The 3 months ended 31 March 2016 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	2,098.2	265.8	-	2,364.0
Inter-segment revenues	7.3	32.8	(40.1)	-
Revenues	**2,105.5**	**298.6**	**(40.1)**	**2,364.0**
EBITDA (unaudited)	**745.4**	**101.1**	**-**	**846.5**
Depreciation, amortization, impairment and liquidation	413.6	10.1	-	423.7
Profit from operating activities	**331.8**	**91.0**	**-**	**422.8**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	142.3*	7.9	-	150.2
Balance as at 31 March 2016 (unaudited)				
Assets, including:	24,108.2	4,292.2**	(44.9)	28,355.5
Investments in joint venture	-	6.7	-	6.7

* 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 14.4.

All material revenues are generated in Poland.

It should be noted that the data for 3 months ended 31 March 2016 is not comparable to the 3 months ended 31 March 2015 as Litenite Limited was acquired on 29 February 2016 (allocated to the Services to individual and business customers segment).

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

The table below presents a summary of the Group's revenues, expenses, acquisition of property, plant and equipment, reception equipment and other intangible assets as well as assets by operating segment for the 3 months ended 31 March 2015:

The 3 months ended 31 March 2015 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	2,081.4	247.6	-	2,329.0
Inter-segment revenues	8.2	35.4	(43.6)	-
Revenues	**2,089.6**	**283.0**	**(43.6)**	**2,329.0**
EBITDA (unaudited)	**796.3**	**100.3**	**-**	**896.6**
Depreciation, amortization, impairment and liquidation	458.3	9.6	-	467.9
Profit from operating activities	**338.0**	**90.7**	**-**	**428.7**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	196.2*	4.5	-	200.7
Balance as at 31 March 2015 (unaudited)				
Assets, including:	22,983.5	4,191.9**	(86.5)	27,088.9
Investments in joint venture	-	3.7	-	3.7

*This item also includes the acquisition of reception equipment for operating lease purposes.

** Includes non-current assets located outside of Poland.

Reconciliation of EBITDA and Net profit for the period:

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
EBITDA (unaudited)	**846.5**	**896.6**
Depreciation, amortization, impairment and liquidation (note 9)	(423.7)	(467.9)
Profit from operating activities	**422.8**	**428.7**
Other foreign exchange rate differences, net (note 10)	(28.5)	30.6
Share of the profit of joint venture accounted for using the equity method	0.8	0.5
Interest costs, net (note 10 and 11)	(131.9)	(175.3)
Foreign exchange differences on issued bonds (note 11)	(244.8)	(73.9)
Valuation and realization of derivatives not used in hedge accounting – relating to principal (note 11)	203.8	-
Other	(16.5)	(13.8)
Gross profit for the period	**205.7**	**196.8**
Income tax	(27.2)	(26.0)
Net profit for the period	**178.5**	**170.8**

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

18. Transactions with related parties

Receivables

	31 March 2016 unaudited	31 December 2015
Joint ventures	3.4	2.6
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	4.6	61.9
Total*	**8.0**	**64.5**

*Amounts presented above do not include deposits paid (31 March 2016 – PLN 3.3, 31 December 2015 – PLN 3.3)

Receivables due from related parties have not been pledged as security.

Other assets

	31 March 2016 unaudited	31 December 2015
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	358.5
Total	**0.1**	**358.5**

Other current assets as at 31 December 2015 comprise mainly accruals related to agreement with Aero 2 Sp. z o.o.

Liabilities

	31 March 2016 unaudited	31 December 2015
Joint ventures	1.0	1.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	19.7	28.7
Total	**20.7**	**30.6**

Loans granted

	31 March 2016 unaudited	31 December 2015
Joint ventures	45.2	43.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.4	0.4
Total	**45.6**	**43.4**

Loans and borrowings

	31 March 2016 unaudited	31 December 2015
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	42.5	-
Total	**42.5**	**-**

Liabilities relate to loans and borrowings granted to Midas S.A.

(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 March 2016 unaudited	31 December 2015
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	737.3	-
Total	**737.3**	**-**

Liabilities relate to bond issued by Litenite Ltd.

Revenues

	for the 3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Subsidiaries*	84.8	0.3
Joint ventures	0.4	0.7
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.	3.5	95.4
Total	**88.7**	**96.4**

*Concerns transaction with subsidiaries executed prior to their acquisition

In 3 months ended 31 March 2016 and 31 March 2015 the most significant transactions include revenues from sharing base transceiver stations and radio module, services relating to expansion of telecommunication network, sale of advertisements and revenues from audiotext services.

Expenses and purchases of programming assets

	for the 3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Subsidiaries*	120.2	0.2
Joint ventures	0.9	1.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	57.2	144.7
Total	**178.3**	**146.3**

*Concerns transaction with subsidiaries executed prior to their acquisition

In 3 months ended 31 March 2016 the most significant transactions include data transfer services, cost of electrical energy, property rental, expenses for programming assets and advertising services. In 3 months ended 31 March 2015 the most significant transactions include data transfer services, expenses for programming assets, advertising services, property rental, cost of electrical energy, telecommunication services with respect to the Group's customer call center and commission fee.

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

Gain on investment activities, net

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Joint ventures	0.7	0.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.3	-
Total	**1.0**	**0.4**

Finance costs

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	6.0	-
Total	**6.0**	**-**

The acquisition of shares in Litenite Ltd. was presented in note 16.

19. Contingent liabilities

Management believes that the provisions as at 31 March 2016 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer („UOKiK")

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

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

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

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

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

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

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

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

20. Risk and fair value

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

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

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual consolidated financial statements. These interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended as at 31 December 2015. There have been no significant changes in the risk management department or in any risk management policies since the end of year 2015.

Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash outflows for financial liabilities.

Fair value

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Presented below are fair values and carrying amounts of financial instruments.

			31 March 2016 unaudited		31 December 2015	
	Category according to IAS 39	**The level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	58.1	55.1	50.7	47.9
Trade and other receivables	A	*	1,666.7	1,666.7	1,729.0	1,729.0
Short-term deposits	A	*	12.4	12.4	-	-
Cash and cash equivalents and short-term deposits	A	*	1,538.6	1,538.6	1,512.0	1,512.0
Restricted cash	A	*	31.4	31.4	11.7	11.7
Loans and borrowings	C	2	(11,682.2)	(11,575.1)	(6,733.1)	(6,610.7)
Issued bonds	C	1,2	(2,336.4)	(2,294.1)	(5,773.0)	(5,752.0)
UMTS licence liabilities	C	2	(847.0)	(776.0)	(836.6)	(769.8)
Finance lease liabilities	C	2	(25.7)	(25.7)	(25.2)	(25.2)
Accruals	C	*	(574.3)	(574.3)	(594.5)	(594.5)
Trade and other payables and deposits	C	*	(859.3)	(859.3)	(540.6)	(540.6)
Total			**(13,017.7)**	**(12,800.3)**	**(11,199.6)**	**(10,992.2)**
Unrecognized gain/(loss)				(217.4)		(207.4)

A – loans and receivables
B – derivatives
C - other
* It is assumed that the fair value of cash and cash equivalents (including restricted cash) and short-term deposits is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

When determining the fair value of 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.

When determining the fair value of loans granted, forecasted cash flows from the reporting date to assumed dates of repayments of the loans were analyzed. The discount rate for each payment was calculated as an applicable WIBOR, LIBOR or EURIBOR interest rate plus a margin regarding the credit risk.

As at 31 March 2016 as well as at 31 December 2015 loans and borrowings comprised senior facilities and bank loans. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities of Cyfrowy Polsat S.A. and Polkomtel Sp. z o.o as at 31 March 2016 as well as at 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loans) were analyzed. When determining the fair value of Midas group bank loans as at 31 March 2016, forecasted cash flows from the reporting date to 29 April 2016 and 10 May 2016 were analyzed.

The fair value of forwards, interest rate swaps and cross-currency interest rate swaps is determined using financial instruments valuation models, based on generally published currency exchange rates, interest rates, forward rate curves and volatility curves for foreign currencies taken from active markets. Fair value of derivatives is determined based on the discounted future cash flows from transactions, calculated based on the difference between the forward price and the transaction price.

The fair value of bonds as at 31 March 2016 as well as at 31 December 2015 was calculated as their last transaction price as at the balance sheet date as quoted by Bloomberg multiplied by the EUR/PLN exchange rate or the USD/PLN rate respectively as at the balance sheet date. The fair value of Midas and Litenite bonds was defined in accordance with generally accepted valuation models based on an analysis of discounted cash flows, while the most significant input data is the discount rate reflecting the counterparty credit risk.

The option of early redemption was measured using the Leisen-Reimer binomial tree model. The variability of the price of the bonds analysed was modelled. As the initial value of the bonds, their value as at the measurement date, determined in accordance with the above description, was accepted.

(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 March 2016, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value	31 March 2016 unaudited	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
The option of early redemption		-	-	180.5
Forwards		-	0.2	-
Interest rate swaps		-	0.6	-
Total		**-**	**0.8**	**180.5**

Liabilities measured at fair value	31 March 2016 unaudited	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Forwards		-	(3.9)	-
Interest rate swaps		-	(16.9)	-
Hedging derivative instruments:				
Interest rate swaps		-	(6.1)	-
Total		**-**	**(26.9)**	**-**

As at 31 December 2015, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value	31 December 2015	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Forwards		-	10.5	-
Interest rate swaps		-	6.9	-
Total		**-**	**17.4**	**-**

Liabilities measured at fair value	31 December 2015	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Forwards		-	(33.3)	-
Interest rate swaps			(31.3)	
Hedging derivative instruments:				
Interest rate swaps		-	(8.3)	-
Total		**-**	**(72.9)**	**-**

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

21. Important agreements and events

There were no significant events during the 3 months ended 31 March 2016 other than those disclosed in the notes 14, 15 and 16.

22. Events subsequent to the reporting date

There were no significant events subsequent to reporting date other than those disclosed in the note 16 and below.

Early repayment of the loan

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

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

23. Other disclosures

Security relating to loans and borrowings

Establishment of security for loan facilities

The Group entered into a series of agreements establishing collateral under the SFA Agreement, Senior Notes and loans acquired upon acquisition of Litenite. Detailed information in respect to the agreements is presented in the Management Report in note 4.3.6.

Commitments to purchase programming assets

As at 31 March 2016 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 March 2016 unaudited	**31 December 2015**
within one year	170.7	178.1
between 1 to 5 years	203.1	116.4
Total	**373.8**	**294.5**

(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 commitments to purchase programming assets from related parties not included in the consolidated financial statements:

	31 March 2016 unaudited	31 December 2015
within one year	10.2	15.9
Total	**10.2**	**15.9**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 121.7 as at 31 March 2016 (PLN 136.3 as at 31 December 2015). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 31 March 2016 was PLN 74.9 (PLN 63.8 as at 31 December 2015).

24. Judgments, financial estimates and assumptions

The preparation of consolidated financial statements in conformity with IFRS EU requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. Estimates and underlying assumptions are based on historical data and other factors considered as reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates and assumptions applied in preparation of these interim condensed consolidated financial statements were the same as those adopted in the preparation of consolidated financial statements for the year ended 31 December 2015.

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for the 3 months ended 31 March 2016

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

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APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

On 11 May 2016, the Management Board of Cyfrowy Polsat S.A. approved the interim condensed financial statements of Cyfrowy Polsat S.A. prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*, as adopted by the European Union, which include:

Interim Income Statement for the period	
from 1 January 2016 to 31 March 2016 showing a net profit for the period of:	PLN 261.4
Interim Statement of Comprehensive Income for the period	
from 1 January 2016 to 31 March 2016 showing a total comprehensive income for the period of:	PLN 263.4
Interim Balance Sheet as at	
31 March 2016 showing total assets and total equity and liabilities of:	PLN 13,031.3
Interim Cash Flow Statement for the period	
from 1 January 2016 to 31 March 2016 showing a net decrease in cash and cash equivalents amounting to:	PLN 96.8
Interim Statement of Changes in Equity for the period	
from 1 January 2016 to 31 March 2016 showing an increase in equity of:	PLN 263.4

Notes to the Interim Condensed Financial Statements

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

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

Warsaw, 11 May 2016

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

Interim Income Statement

	Note	for the 3 months ended 31 March 2016 unaudited	 31 March 2015 Unaudited
Revenue	7	522.4	516.1
Operating costs	8	(438.3)	(434.5)
Other operating income, net		5.0	2.7
Profit from operating activities		**89.1**	**84.3**
Gain/(loss) on investment activities, net	9	212.1	201.1
Finance costs	10	(26.2)	(25.6)
Gross profit for the period		**275.0**	**259.8**
Income tax		(13.6)	(10.7)
Net profit for the period		**261.4**	**249.1**
Basic and diluted earnings per share (in PLN)		**0.41**	**0.39**

Interim Statement of Comprehensive Income

	Note	for the 3 months ended 31 March 2016 unaudited	 31 March 2015 unaudited
Net profit for the period		**261.4**	**249.1**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	12	2.5	(0.6)
Income tax relating to hedge valuation	12	(0.5)	0.1
Items that may be reclassified subsequently to profit or loss		**2.0**	**(0.5)**
Other comprehensive income, net of tax		**2.0**	**(0.5)**
Total comprehensive income for the period		**263.4**	**248.6**

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

Interim Balance Sheet - Assets

	31 March 2016 unaudited	31 December 2015
Reception equipment	363.3	374.6
Other property, plant and equipment	139.3	143.3
Goodwill	197.0	197.0
Other intangible assets	79.1	81.4
Investment property	12.7	12.9
Shares in subsidiaries	11,424.6	11,424.8
Non-current deferred distribution fees	27.9	32.1
Other non-current assets	39.8	43.0
Total non-current assets	**12,283.7**	**12,309.1**
Inventories	77.8	76.0
Trade and other receivables	355.0	323.4
Income tax receivables	0.6	-
Current deferred distribution fees	84.0	86.9
Other current assets	190.6	161.2
Cash and cash equivalents	39.6	136.4
Total current assets	**747.6**	**783.9**
Total assets	**13,031.3**	**13,093.0**

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

Interim Balance Sheet - Equity and Liabilities

	Note	31 March 2016 unaudited	31 December 2015
Share capital	11	25.6	25.6
Share premium	11	7,174.0	7,174.0
Hedge valuation reserve	12	(4.7)	(6.7)
Retained earnings		3,012.7	2,751.3
Total equity		**10,207.6**	**9,944.2**
Loans and borrowings	13	935.9	982.0
Issued bonds	14	965.0	975.3
Deferred tax liabilities		104.4	97.3
Deferred income		4.1	4.7
Other non-current liabilities and provisions		10.3	10.6
Total non-current liabilities		**2,019.7**	**2,069.9**
Loans and borrowings	13	252.2	504.7
Issued bonds	14	41.6	42.4
Trade and other payables		274.0	299.8
includes derivative instruments (IRS/CIRS) liabilities		*6.1*	*8.3*
Income tax liability		7.6	6.2
Deposits for equipment		1.6	1.6
Deferred income		227.0	224.2
Total current liabilities		**804.0**	**1,078.9**
Total liabilities		**2,823.7**	**3,148.8**
Total equity and liabilities		**13,031.3**	**13,093.0**

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

Interim Cash Flow Statement

		for the 3 months ended	
	Note	31 March 2016 unaudited	31 March 2015 unaudited
Net profit		**261.4**	**249.1**
Adjustments for:		**(205.2)**	**(199.7)**
Depreciation, amortization, impairment and liquidation	8	57.9	57.8
Interest expense		23.7	24.4
Change in inventories		(1,8)	4.7
Change in receivables and other assets		(34.7)	(23.3)
Change in liabilities, provisions and deferred income		(19.7)	(23.7)
Valuation of hedging instruments		2.5	(0.6)
Income tax		13.6	10.7
Net increase in reception equipment provided under operating lease		(34.4)	(43.6)
Dividends income and share in the profits of partnerships	9	(211.0)	(206.8)
Other adjustments		(1.3)	0.7
Cash from operating activities		**56.2**	**49.4**
Income tax paid		(6.2)	-
Interest received from operating activities		0.5	0.1
Net cash from operating activities		**50.5**	**49.5**
Received dividends and shares in the profits of partnerships		205.4	175.0
Loans granted		(11.1)	-
Acquisition of property, plant and equipment		(6.1)	(7.2)
Acquisition of intangible assets		(4.7)	(5.7)
Proceeds from sale of shares		0.1	-
Proceeds from sale of property, plant and equipment		3.1	-
Net cash from investing activities		**186.7**	**162.1**
Loans and borrowings inflows	13	-	50.0
Net cash from Cash Pool with paid interest		(260.0)	(73.9)
Finance lease – principal repayments		-	(0.2)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(34.0)	(22.1)
Repayment of loans and borrowings	13	(40.0)	(157.0)
Net cash used in financing activities		**(334.0)**	**(203.2)**
Net (decrease)/increase in cash and cash equivalents		**(96.8)**	**8.4**
Cash and cash equivalents at the beginning of period		**136.4**	**13.3**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the end of period		**39.6**	**21.7**

* Includes impact of hedging instruments

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

Interim Statement of Changes in Equity for the 3 months ended 31 March 2016

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2016	**25.6**	**7,174.0**	**(6.7)**	**2,751.3**	**9,944.2**
Total comprehensive income	-	-	2.0	261.4	**263.4**
Hedge valuation reserve	-	-	*2.0*	-	***2.0***
Net profit for the period	-	-	-	*261.4*	**261.4**
Balance as at 31 March 2016 unaudited	**25.6**	**7,174.0**	**(4.7)**	**3,012.7**	**10,207.6**

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

Interim Statement of Changes in Equity for the 3 months ended 31 March 2015

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2015	**25.6**	**7,237.4**	**(12.2)**	**2,195.5**	**9,446.3**
Total comprehensive income	-	-	(0.5)	249.1	**248.6**
Hedge valuation reserve	-	-	*(0.5)*	-	***(0.5)***
Net loss for the period	-	-	-	*249.1*	***249.1***
Balance as at 31 March 2015 unaudited	**25.6**	**7,237.4**	**(12.7)**	**2,444.6**	**9,694.9**

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

Notes to the Interim Condensed Financial Statements

1. The Company

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

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

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (the 'Group'). The Group encompasses the Company, Metelem Holding Company Limited ('Metelem') and its subsidiaries and joint ventures, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Orsen Holding Limited and its subsidiaries, Netshare Sp. z o.o. and Gery.pl Sp. z o.o.

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

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

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

4. Basis of preparation of the interim condensed financial statements

Statement of compliance

These interim condensed financial statements for the 3 months ended 31 March 2016 have been prepared in accordance with the International Accounting Standard 34 *Interim Financial Reporting*. These interim condensed financial statements should be read together with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS EU).

The Company applied the same accounting policies in the preparation of the financial data for the 3 months ended 31 March 2016 and the financial statements for the year 2015, presented in the annual report, except for the EU-endorsed standards and interpretations which are effective for the reporting periods beginning on or after 1 January 2016. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2016 do not have a material impact on these interim condensed financial statements.

5. Approval of the Interim Condensed Financial Statements

These interim condensed financial statements were approved for publication by the Management Board on 11 May 2016.

6. Information on seasonality in the Company's operations

Retail revenue is not directly subject to any seasonal trend.

7. Revenue

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Retail revenue	495.5	486.2
Wholesale revenue	11.7	9.7
Sale of equipment	8.3	11.7
Other revenue	6.9	8.5
Total	**522.4**	**516.1**

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

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

8. Operating costs

		for the 3 months ended	
	Note	**31 March 2016 unaudited**	**31 March 2015 unaudited**
Content costs		129.8	127.5
Technical costs and costs of settlements with telecommunication operators		105.7	74.9
Distribution, marketing, customer relation management and retention costs		76.4	84.5
Depreciation, amortization, impairment and liquidation		57.9	57.8
Salaries and employee-related costs	a	24.9	31.6
Cost of equipment sold		10.0	17.8
Cost of debt collection services, bad debt allowance and receivables written off		3.4	9.1
Other costs		30.2	31.3
Total		**438.3**	**434.5**

a) Salaries and employee-related costs

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Salaries	20.8	26.2
Social security contributions	3.6	4.8
Other employee-related costs	0.5	0.6
Total	**24.9**	**31.6**

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

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Dividends received	203.6	206.8
Share in the profits of partnerships	7.4	-
Guarantee fees from related party	0.8	-
Interest	0.6	(1.3)
Other foreign exchange losses, net	-	(4.4)
Other	(0.3)	-
Total	**212.1**	**201.1**

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

10. Finance costs

	for the 3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Interest expense on loans and borrowings	11.8	21.9
Interest expense on issued bonds	10.6	-
Valuation and realization of hedging instruments	1.9	1.2
Guarantee fees	1.2	1.4
Bank and other charges	0.7	1.1
Total	**26.2**	**25.6**

11. Equity

(i) Share capital

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

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

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

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

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

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

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

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(ii) Share premium

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

12. Hedge valuation reserve

Impact of hedging instruments valuation on hedge valuation reserve

	2016	2015
Balance as at 1 January	**(6.7)**	**(12.2)**
Valuation of cash flow hedges	2.5	(0,6)
Deferred tax	(0.5)	0.1
Change for the period	**2.0**	**(0.5)**
Balance as at 31 March unaudited	**(4.7)**	**(12.7)**

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

13. Loans and borrowings

Loans and borrowings	31 March 2016 unaudited	31 December 2015
Short-term liabilities	252.2	504.7
Long-term liabilities	935.9	982.0
Total	**1,188.1**	**1,486.7**

Change in loans and borrowings liabilities:

	2016	2015
Loans and borrowings as at 1 January	**1,486.7**	**2,773.3**
Revolving facility loan	-	50.0
Repayment of capital	(40.0)	(157.0)
Repayment of interest and commissions	(11.0)	(20.5)
Net cash from Cash Pool	(259.4)	(72.6)
Interest accrued	11.8	21.9
Loans and borrowings as at 31 March unaudited	**1,188.1**	**2,595.1**

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

14. Issued Bonds

	31 March 2016 unaudited	31 December 2015
Short-term liabilities	41.6	42.4
Long-term liabilities	965.0	975.3
Total	**1,006.6**	**1,017.7**

Change in issued bonds:

	2016	2015
Issued bonds payable as at 1 January	**1,017.7**	**-**
Repayment of interest and commissions	(21.7)	-
Interest accrued	10.6	-
Issued bonds payable as at 31 March unaudited	**1,006.6**	**-**

15. Transactions with related parties

Receivables

	31 March 2016 unaudited	31 December 2015
Subsidiaries	51.8	41.1
Joint ventures	0.7	0.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.5	0.9
Total	**53.0**	**42.3**

A significant portion of receivables is represented by receivables from share of the profits of partnerships and receivables related to sale of Polkomtel Sp. z o.o. ('Polkomtel') services.

Other assets

	31 March 2016 unaudited	31 December 2015
Subsidiaries	186.1	160.0
Total	**186.1**	**160.0**

Other current assets comprise mainly deferred costs related to the agreement with Polkomtel for the provision of data transfer services.

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

Liabilites

	31 March 2016 unaudited	31 December 2015
Subsidiaries	75.9	65.3
Joint ventures	0.5	1.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	2.2	3.1
Total	**78.6**	**69.6**

A significant portion of liabilities is represented by programming licence fees, fees for using ‘Cyfrowy Polsat’ trade mark and liabilities resulting from purchase of set-top boxes.

Loans granted

	31 March 2016 unaudited	31 December 2015
Subsidiaries	8.9	3.3
Joint ventures	10.9	10.7
Total	**19.8**	**14.0**

Revenues

	for the 3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Subsidiaries	11.1	13.1
Joint ventures	0.3	0.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.4	14.2
Total	**11.8**	**27.3**

In 3 months ended 31 March 2016 the most significant transactions include revenues from subsidiaries from advertising, signal broadcast, accounting and property rental services and programming fees. In 3 months ended 31 March 2015 the most significant transactions include revenues from sale of materials used in set-top boxes’ production, accounting services rendered to subsidiaries, interconnect services, programming fees, property rental and signal broadcast services.

Expenses

	for the 3 months ended	
	31 March 2016 unaudited	31 March 2015 unaudited
Subsidiaries	143.1	102.1
Joint ventures	0.2	0.7
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	4.6	9.8
Total	**147.9**	**112.6**

The most significant transactions include data transfer services.

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The Company also pays license fees for broadcasting programs: Polsat Film HD, Polsat Romans, Polsat Sport, Polsat Sport Extra, Polsat Sport Extra HD, Polsat Film, Polsat News, Polsat Play, Polsat Cafe, Polsat Sport HD and Polsat Jim Jam and incurs expenses for using 'Cyfrowy Polsat' trade mark, purchasing advertising time, telecommunication services with respect to the Company's customer call center and commissions for subscribers' acquisitions.

Gain on investment activities, net

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Subsidiaries	211.8	206.8
Joint ventures	0.1	0.1
Total	**211.9**	**206.9**

Gains and losses on investment activities comprises mostly of dividends and in 3 months ended 31 March 2016 also income from share of the profits of partnerships and guarantees granted by the Company in respect to settlement of Polkomtel's term facilities.

Finance costs

	for the 3 months ended	
	31 March 2016 unaudited	**31 March 2015 unaudited**
Subsidiaries	1.2	1.5
Total	**1.2**	**1.5**

Finance costs comprise mostly of guarantee fees in respect to settlement of term facilities (including loan which was repaid as loan currently taken).

16. Litigations

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

17. Risk and fair value

The Company's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, the risk of changes in cash flows related to interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed financial statements do not include all financial risk management information and disclosures required in the annual financial statements. These interim condensed financial statements should be read in conjunction with the Company's annual financial statements for the year ended as at 31 December 2015. There have been no significant changes in the risk management department or in any risk management policies since the end of year 2015.

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

Liquidity risk

Compared to 31 December 2015, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

Fair value

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities,
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly,
Level 3: techniques which use inputs that have a significant effect on the recorded fair value that are not based on observable market data.

Presented below are fair values and carrying amounts of financial instruments.

			31 March 2016 unaudited		**31 December 2015**	
	Category according to IAS 39	**Level of the fair value hierarchy**	**Fair value**	**Carrying amount**	**Fair value**	**Carrying amount**
Loans granted	A	2	29.1	29.0	18.3	18.6
Trade and other receivables	A	*	335.0	335.0	315.8	315.8
Cash and cash equivalents	A	*	39.6	39.6	136.4	136.4
Loans and borrowings	C	2	(1,203.5)	(1,188.1)	(1,502.6)	(1,486.7)
Issued bonds	C	2	(1,022.1)	(1,006.6)	(1,031.6)	(1,017.7)
Accruals	C	*	(107.3)	(107.3)	(127.1)	(127.1)
Trade and other payables and deposits	C	*	(139.0)	(139.0)	(142.4)	(142.4)
Total			**(2,068.2)**	**(2,037.4)**	**(2,333.2)**	**(2,303.1)**
Unrecognized gain/(loss)				(30.8)		**(30.1)**

A – loans and receivables
B – hedges
C - other

* It is assumed that the fair value of cash and cash equivalents is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value.

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

When determining the fair value of loans granted, forecasted cash flows from the reporting date to assumed dates of repayments of the loans were analyzed. The discount rate for each payment was calculated as an applicable WIBOR interest rate plus a margin regarding the credit risk.

Trade and other receivables, accruals and trade and other payables and deposits comprise mainly receivables and payables which will be settled no later than at the end of the first month after the reporting date. It was therefore assumed that the effect of their valuation, taking the effect of time value of money into account, would approximately be equal to their nominal value.

As at 31 March 2016 and 31 December 2015 loans and borrowings comprised senior facility and Cash Pool. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Company's credit risk. When determining the fair value of senior facility as at 31 March 2016 and 31 December 2015, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan) were analyzed. The fair value of Cash Pool is set as the nominal value, which is equal to carrying amount.

The fair value of interest rate swaps and cross-currency interest rate swaps is determined using financial instruments valuation models, based on generally published currency exchange rates, interest rates, forward rate curves and volatility curves for foreign currencies taken from active markets. Fair value of derivatives is determined based on the discounted future cash flows from transactions, calculated based on the difference between the forward price and the transaction price.

As at 31 March 2016, the Company held the following financial instruments measured at fair value:

Liabilities measured at fair value	**31 March 2016 unaudited**	**Level 1**	**Level 2**	**Level 3**
IRS		-	(6.1)	-
Total		**-**	**(6.1)**	**-**

As at 31 December 2015, the Company held the following financial instruments measured at fair value:

Liabilities measured at fair value	**31 December 2015**	**Level 1**	**Level 2**	**Level 3**
IRS		-	(8.3)	-
Total		**-**	**(8.3)**	**-**

18. Important agreements and events

Sale of shares

On 4 January 2016 shares in Rioni 1 AB (formerly Cyfrowy Polsat Finance AB) were disposed.

19. Other disclosures

Security relating to loans and borrowings

Establishment of collateral for loan facilities

The Company entered into a series of agreements establishing collateral under the SFA. Detailed information in respect to the agreements is presented in the Management Report in note 4.3.6.

Other securities

The Company provided to its subsidiary a guarantee in the amount of EUR 8.0 in respect to a programming purchase contract.

Contractual liabilities related to purchases of non-current assets

Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 March 2016 was PLN 0.4 (PLN 0.3 as at 31 December 2015).

20. Judgments, financial estimates and assumptions

The preparation of interim condensed financial statements in conformity with IFRS EU requires the Management Board to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and costs. Estimates and underlying assumptions are based on historical data and other factors considered as reliable under the circumstances, and their results provide grounds for an assessment of the carrying amounts of assets and liabilities which cannot be based directly on any other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The key accounting estimates and assumptions applied in preparation on these interim condensed financial statements were the same as those adopted in the preparation of financial statements for the year ended 31 December 2015.