CYFROWY POLSAT S.A.

CAPITAL GROUP

Interim Consolidated Report
for the three month period ended
March 31, 2017

Place and date of publication: Warsaw, May 11, 2017

Place and date of approval: Warsaw, May 10, 2017

TABLE OF CONTENTS

REPORT OF THE MANAGEMENT BOARD ON THE ACTIVITIES OF CYFROWY POLSAT S.A. CAPITAL GROUP FOR THE THREE MONTH PERIOD ENDED MARCH 31, 2017

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 about 180 TV channels, including nearly 80 channels in high definition standard, as well as additional modern OTT services (e.g. Cyfrowy Polsat GO, PPV, VOD) and Multiroom. We also provide online video services through IPLA – the leader on Poland's online video market; offering them in a subscription and transaction (PPV) model, as well as free of charge (financed by advertising revenue);

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

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

- broadcasting and television production through Telewizja Polsat, leading commercial TV broadcaster on the Polish market, offering 24 popular TV channels (14 in HD standard), including our main channel POLSAT, the most popular channel in Poland;

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

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

Our mission and main strategic goals

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

The 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 or Cyfrowy Polsat contained in this Management Board's report on the activities of Cyfrowy Polsat S.A. Capital Group (hereafter "Report") apply to Cyfrowy Polsat S.A., while all references to the Group, Polsat Group, the Capital Group, Cyfrowy Polsat Group or Cyfrowy Polsat Capital Group apply to Cyfrowy Polsat S.A. and its consolidated subsidiaries. Expressions such as "we," "us," "our" and similar apply generally to the Group, unless it is clear from the context 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 Report contains our quarterly condensed consolidated financial statements for the 3-month period ended March 31, 2017 and quarterly condensed financial statements for the 3-month period ended March 31, 2017. International Financial Reporting Standards as approved for use in the European Union ("IFRS") and are presented in millions of zlotys 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;
- Starcom (previously SMG Starlink);
- IAB AdEX;
- PwC (Global entertainment and media outlook: 2016-2020);
- Zenith media house;
- Gemius/PBI;
- PMR – *Pay TV market in Poland 2016. Market analysis and forecasts for the years 2016-2021*;
- PMR – *Telecommunication market in Poland 2016. Market analysis and forecasts for the years 2016-2021*;
- PMR – *Integrated telecommunications services market in Poland 2016;*
- GfK Polonia;
- e-marketer;
- Ericsson Mobility Report; and
- operators functioning on the Polish market.

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

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

FINANCIAL DATA OVERVIEW

The following tables set out selected consolidated financial data for the 3-month period ended March 31, 2017 and March 31, 2016. The selected financial data presented in the tables below is expressed in millions of PLN, unless otherwise stated. This information should be read in conjunction with the interim condensed consolidated financial statements for the 3-month period ended March 31, 2017 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, 2017 and March 31, 2016 have been converted into euro at a rate of PLN 4.3246 per EUR 1.00, being the average of monthly average weighted exchange rates announced by the NBP in the reporting period i.e. from January 1 to March 31, 2017;
- from the consolidated balance sheet data as at March 31, 2017 and December 31, 2016 have been converted into euro at a rate of PLN 4.2198 per EUR 1.00 (average exchange rate published by NBP on March 31, 2017).

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, 2017 is not fully comparable to data for the corresponding period of 2016 due to the acquisition on September 30, 2016 of 100% of shares of IT Polpager S.A., and the acquisition on February 29, 2016 of 100% shares of Litenite Limited, the direct parent of Aero2 Group (formerly Midas Group).

Consolidated balance sheet

	March 31, 2017		December 31, 2016	
	mPLN	mEUR	mPLN	mEUR
Cash and cash equivalents[(1)]	1,577.3	373.8	1,336.7	316.8
Assets	27,553.2	6,529.5	27,729.3	6,571.2
Non-current liabilities	11,538.9	2,734.5	12,670.5	3,002.6
Non-current financial liabilities	10,043.5	2,380.1	11,159.3	2,644.5
Current liabilities	4,366.0	1,034.6	3,681.2	872.4
Current financial liabilities	2,273.4	538.7	1,317.4	312.2
Equity	11,648.3	2,760.4	11,377.6	2,696.2
Share capital	25.6	6.1	25.6	6.1

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

Consolidated cash flow statement

	for the 3-month period ended March 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
Net cash from operating activities	751.7	173.8	446.8	103.3
Net cash from/(used in) investment activities	(159.2)	(36.8)	(24.9)	(5.8)
Net cash used in financial activities	(348.2)	(80.5)	(371.9)	(86.0)
Net increase in cash and cash equivalents	244.3	56.5	50.0	11.6

Consolidated income statement

	for the 3-month period ended March 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
Revenue	2,388.6	552.3	2,364.0	546.6
Retail revenue	1,542.7	356.7	1,565.7	362.0
Wholesale revenue	562.1	130.0	599.8	138.7
Sale of equipment	248.6	57.5	172.8	40.0
Other sales revenue	35.2	8.1	25.7	5.9
Total operating cost	(1,938.2)	(448.2)	(1,948.0)	(450.4)
Content costs	(264.3)	(61.1)	(248.5)	(57.5)
Distribution, marketing, customer relation management and retention costs	(211.1)	(48.8)	(200.5)	(46.4)
Depreciation, amortization, impairment and liquidation	(472.3)	(109.2)	(423.7)	(98.0)
Technical costs and cost of settlements with mobile network operators	(468.2)	(108.3)	(550.3)	(127.2)
Salaries and employee-related costs	(127.8)	(29.6)	(137.9)	(31.9)
Cost of equipment sold	(323.6)	(74.8)	(326.8)	(75.6)
Cost of debt collection services and bad debt allowance and receivables written off	(19.3)	(4.5)	(9.6)	(2.2)
Other costs	(51.6)	(11.9)	(50.7)	(11.7)
Other operating income, net	6.8	1.6	6.8	1.6
Profit from operating activities	457.2	105.7	422.8	97.8
Gain/(loss) on investment activities, net	30.5	7.1	(35.2)	(8.1)
Financial costs	(185.5)	(42.9)	(182.7)	(42.2)
Share of the profit of joint venture accounted for using the equity method	-	-	0.8	0.2
Gross profit for the period	302.2	69.9	205.7	47.6
Income tax	(30.8)	(7.1)	(27.2)	(6.3)
Net profit for the period	271.4	62.8	178.5	41.3
Net profit attributable to equity holders of the Parent	279.4	64.6	175.5	40.6
Net profit/(loss) attributable to non-controlling interest	(8.0)	(1.8)	3.0	0.7
Basic and diluted earnings per share in PLN (not in millions)	0.42	0.10	0.27	0.06
Weighted number of issued shares	639,546,016		639,546,016	

Other consolidated financial data

	for the 3-month period ended March 31			
	2017		2016	
	mPLN	mEUR	mPLN	mEUR
EBITDA (1)	929.5	214.9	846.5	195.7
EBITDA margin	38.9%	38.9%	35.8%	35.8%
EBIT margin	19.1%	19.1%	17.9%	17.9%
Capital expenditures, net (2)	159.3	36.8	115.2	26.6

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

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

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

1. Characteristics of Polsat Group

1.1. Composition and structure of the Group

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

Company name	Registered office	Activity	Share in voting rights (%) as at	
			March 31, 2017	December 31, 2016
Parent Company				
Cyfrowy Polsat S.A.	Łubinowa 4a, 03-878 Warsaw	radio, TV and telecommunication activities	n/a	n/a
Subsidiaries consolidated using the full consolidation method				
Cyfrowy Polsat Trade Marks Sp. z o.o.	Łubinowa 4a, 03-878 Warsaw	non-current assets and intellectual property rights management	100%	100%
Telewizja Polsat Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	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%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licenses	100%	100%
Polsat Ltd.	238A King Street, London W6 0RF, Great Britain	television broadcasting	100%	100%
Muzo.fm Sp. z o.o.	Ostrobramska 77, 04-175 Warsaw	radio broadcasting and production	100%	100%
Telewizja Polsat Holdings Sp. z o.o.(1)	Ostrobramska 77, 04-175 Warsaw	holding activities	100%	100%
Polsat Brands AG	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%
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.(2)	Ostrobramska 77, 04-175 Warsaw	other sport related activities	100%	100%
Metelem Holding Company Limited(3)	Chrysanthou Mylona 3 Office no. 102 CY 3030 Limassol, Cyprus	holding 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%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			March 31, 2017	December 31, 2016
Polkomtel Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (in liquidation)	Norrlandsgatan 18, 111 43 Stockholm, Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47, 41-500 Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, 02-673 Warsaw	intellectual property 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%
IT Polpager S.A.(4)	Al. Stanów Zjednoczonych 61 A, 04-028 Warsaw	maintenance of telco network	-	100%
Litenite Limited(5)	Kostakis Pantelidi 1, 1010 Nicosia, Cyprus	holding activities	100%	100%
Aero2 Sp. z o.o.(5)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	100%	100%
Sferia S.A.(5)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	telecommunication activities	51%	51%
AltaLog Sp. z o.o.(5)	Al. Stanów Zjednoczonych 61A, 04-028 Warsaw	software	66%	66%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Orsen Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%
Grab Sarl	6, rue Eugène Ruppert L-2453 Luxembourg, Grand Duchy of Luxembourg	holding activities	100%	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	(6)	(6)
Interphone Service Sp. z o.o.	Inwestorów 8, 39-300 Mielec	production of set-top boxes	100%	100%
Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp.k.	Al. Jerozolimskie 81, 02-001 Warsaw	provision of Premium-Rate services	100%	100%

Company name	Registered office	Activity	Share in voting rights (%) as at	
			March 31, 2017	December 31, 2016
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) Merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o. on April 28, 2017.
(2) The company is dormant.
(3) Cross-border merger of Cyfrowy Polsat with Metelem Holding Company Limited on April 7, 2017.
(4) Company consolidated since September 30, 2016, merged with Polkomtel on March 31, 2017.
(5) Company consolidated since February 29, 2016.
(6) Cyfrowy Polsat owns indirectly 100% of certificates.

Additionally, the following entities were included in the consolidated financial statements for the three-month period ended March 31, 2017:

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

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

Changes in the organizational structure of Polsat Group and their effects

From January 1, 2016 until the date of approval of this Report, i.e. May 10, 2017, the following changes were implemented in 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
March 31, 2017	Registration of the merger of Polkomtel with IT Polpager S.A.
April 7, 2017	Registration of the cross-border merger of Cyfrowy Polsat with Metelem Holding Company Limited.
April 28, 2017	Registration of the merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o.

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 approval of this Report, that is May 10, 2017. 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, as amended.

Shareholder	Number of shares	% of shares	Number of votes	% of votes
Reddev Investments Limited (1), including:	154,204,296	24.11%	306,709,172	37.45%
- privileged registered shares	152,504,876	23.85%	305,009,752	37.24%
- ordinary bearer shares	1,699,420	0.26%	1,699,420	0.21%
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.
(2) Entity controlled by Mr. Zygmunt Solorz.
(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 March 16, 2017 (annual report for 2016) until the date of approval of this Report, i.e. May 10, 2017, 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

To the Company's best knowledge members of the Management Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. May 10, 2017 as well as at the date of publication of the previous interim report, i.e. March 16, 2017 (annual report for 2016).

As at the date of approval of this Report, i.e. May 10, 2017, Mr. Aleksander Myszka, Member of the Supervisory Board, held directly 50.000 shares of the Company with the nominal value of PLN 2,000.00. To the Company's best knowledge the remaining Members of the Supervisory Board did not hold any shares of the Company, directly and indirectly, as at the date of approval of this Report, i.e. May 10, 2017.

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

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

In the segment of services to individual and business customers we provide services including digital television transmission signal, Internet access services, mobile TV services, video online, mobile services, wholesale services for other telecommunications operators as well as sales of telecommunication equipment and production of set-top boxes. As at March 31, 2017 we had almost 5.8 million contract customers and companies from our Group provided a total of over 16.2 million active services, including over 13.3 million contract RGUs.

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

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, providing satellite TV services to approximately 3.5 million subscribers. We actively expand our pay TV offer by adding additional services, such as Multiroom or paid video online subscriptions, providing over 4.8 million pay TV services as at March 31, 2017.

Our offer includes mainly digital pay TV services distributed directly to end-users via satellite through set-top boxes and satellite antennas. Our programming strategy is to offer a wide range of channels that appeal to the whole family at attractive prices. At present we provide access to about 180 TV channels, including all of Poland's main terrestrial channels as well as general entertainment, sports, music, lifestyle, news/information, children's, education and movie channels. In addition, we offer our customers access to nearly 80 HD channels and also provide OTT services, such as Cyfrowy Polsat Go, VOD/PPV, online TV, catch-up TV and Multiroom HD services.

Since 2012 our service portfolio has included the service Mobile TV 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 2017, our set-top boxes accounted for over 92% of all the set-top boxes sold or otherwise made available to our pay TV customers.

Online video

The largest online television IPLA offered by our Group is the leader of the Polish video online streaming market, both in terms of compatibility with a broad range of end-user devices (including computers, tablets, smartphones, TV sets with Internet access, set-top boxes and game consoles) and in terms of content volume. IPLA also enjoys one of the leading positions in terms of the number of users and the average time spent by a single user on watching streamed content. According to our data the average number of unique users of the IPLA website and application was approximately 3.5 million per month in the first quarter of 2017.

IPLA online television offers the largest database of legal video content and live broadcasts: 85 online TV channels, an average of 200 hours monthly of live coverage of major national and international sports events, a vast and regularly expanded library of feature films, TV series and television programs provided by both Polish and international producers.

IPLA offers its users access to content in the free of charge model accompanied by advertisements and the paid model, as well as the possibility to download content and view it offline. Over 90% of IPLA VOD content is available free of charge, whereas broadcast advertisements constitute the source of revenue.

Thanks to the possibility of accessing IPLA through the website http://www.ipla.tv, as well as via dedicated applications the content of our online television is available on a wide array of consumer devices, including computers with Windows, mobile devices powered by iOS, Android and Windows Phone, TV sets with internet connections (Samsung, LG, Sony, Panasonic, Philips, Sharp, Ikea, Toshiba, Thomson, TCL), set-top boxes (cable TV TOYA, Netia), game consoles (PlayStation 3) and Blu-ray.

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

Mobile telephony

We provide mobile telephony services mainly through our subsidiary Polkomtel, Plus network operator. Polkomtel is one of the leading Polish mobile telecommunications network operators. As at March 31, 2017 we provided 9.4 million mobile telephony services under both the post-paid and pre-paid models.

We offer a comprehensive array of mobile telecommunications services under the established umbrella brand “Plus” and our additional brand “Plush,” as well as under the brands of companies belonging to Aero2 Group. Our offer includes retail services, comprising contract and prepaid voice services, as well as data transmission services encompassing basic mobile broadband services, MMS, value added services such as entertainment, information, telemedicine or WiFi 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 significant feature for a large number of consumers. In January 2017, our LTE Internet and HSPA/HSPA+ Internet covered 99% and nearly 100% of Poland’s population, respectively. In 2016 we also launched the LTE-Advanced technology on a commercial scale, and in January 2017 40% of the population of Poland was within the coverage footprint of our network. As at March 31, 2017, we provided nearly 2.0 million broadband Internet access services, mostly in the contract model.

We provide a comprehensive array of data services to both residential and business customers under two alternative brands: Plus and Cyfrowy Polsat. We also offer broadband Internet in the contract and prepaid model. Moreover, 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, our subsidiary Aero2 provides free of charge Internet access services, however with limited parameters (BDI offer).

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

Bundled services

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

smartDOM

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

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

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 banking products, electric energy supply, as well as a wide portfolio of supplementary services which support and enhance business.

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

Shared access to network assets and lease of telecommunications infrastructure

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

International roaming

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

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

National roaming and virtual operators (MVNOs)

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

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

Mobile Virtual Network Operators (MVNOs) are operators that provide mobile telephony, data services and fixed-lined telephony services based on mobile networks, but do not own frequency allocations nor 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 24 channels (14 available in HD) including our flagship POLSAT, available in SD and HD formats and 23 thematic channels. Following the process of optimization of our broadcasting network in October 2016 the broadcasting of several channels in SD standard was suspended, leaving only their HD versions.

The main channel POLSAT, broadcast since December 5, 1992, was the first commercial channel in Poland to obtain the nationwide license for analogue broadcasting. POLSAT is one of the leading Polish TV channels in terms of share in the commercial audience (viewers aged 16-49), totaling 12.7% in the first quarter of 2017. POLSAT broadcasts daily, 24/7. The channel is available via digital terrestrial TV on the second multiplex (MUX-2) on local multiplexes (MUX-L4 and MUX-TVS). 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 (pay) and to a smaller extent over multiplexes in the terrestrial network (free of charge), which broadcast themed content, such as children's programs, films, sports, music, lifestyle, news or weather.

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 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 News HD	Sports channel dedicated to sports news. Broadcast within the DTT technology until January 1, 2017, since January 2, 2017 available only from cable and satellite networks.
Polsat Sport Fight HD	Channel dedicated to martial arts, broadcasting, among others, professional boxing galas and mixed martial arts, as well as coverages of Polsat Boxing Night.
Polsat Film Polsat Film HD	Movie channel broadcasting movie hits, top box office productions and non-mainstream movies from a library of major US movie studios.
Polsat Cafe HD	Channel dedicated to women focusing on lifestyle, fashion and gossip as well as talk-shows.
Polsat Play HD	Channel dedicated to men, focusing on consumer gadgets, the automotive industry, angling and cult series.
Polsat 2 HD	Channel broadcasting reruns of programs that premiered on our other channels.
Polsat News HD	24-hour news channel broadcasting live shows and covering primarily news from Poland and key international events.
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.

Thematic channel	Description
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 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.
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.
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.
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.
Super Polsat	Channel offering entertainment and information programs, movies, series and live sports coverage. Available in the DTT technology.
Polsat Doku HD	Documentary channel broadcasting historical and scientific programs, addressed to viewers interested in the problems of today's world, travel and nature.

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 Starcom, we estimate that in the first quarter of 2017 Polsat Group channels captured 25.7% of the Polish TV advertising market worth approximately PLN 910 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.

3. SIGNIFICANT EVENTS

3.1. Corporate events

No significant corporate events took place in the first quarter of 2017.

3.2. Business related events

Expansion of the channel portfolio of TV Polsat

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

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

Development of the smartDOM program

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

3.3. Events after the balance date

Recommendation of the Management Board regarding distribution of profit for 2016

On April 12, 2017, the Management Board of the Company recommended the following distribution of the net profit earned by the Company in the year ended December 31, 2016, amounting to PLN 577,955,495.16:

(i) PLN 204,654,725.12, that is PLN 0.32 per share, to be distributed as dividends to the shareholders of the Company,

(ii) PLN 373,300,770.04 to be allocated to the reserve capital.

Furthermore, the Management Board recommended that the dividend day be scheduled for July 20, 2017, and the dividend payment day for August 3, 2017.

On April 27, 2017 the Supervisory Board of the Company issued a positive opinion on the Management Board's motion regarding the distribution of profit for 2016.

Early redemption of the Litenite Notes

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

The aim of the early redemption of the Litenite Notes was the consistent execution of the strategic goal in the area of efficient capital resource management that is the consistent reduction of the indebtedness of Cyfrowy Polsat Group. The decision to redeem the Litenite Notes before maturity resulted in the recognition in the consolidated financial statements of Polsat Group for the first quarter of 2017 of a provision for the premium for the early redemption of the Litenite Notes in the abovementioned amount. This in turn had a one-off, negative impact on consolidated net profit of Polsat Group in the amount of ca. PLN 59 million.

Revision of Polsat Group's rating outlook to positive

On April 18, 2017 S&P Global Ratings (formerly Standard&Poor's Rating Services) revised the rating outlook for Cyfrowy Polsat Group ("Group") to positive from stable, affirming the BB+ corporate credit rating. Details regarding the rationale of the revision is presented in this Report in item 4.3.5 – *Operating and financial review of Polsat Group – Review of our financial situation – Liquidity and capital resources – Ratings.*

4. OPERATING AND FINANCIAL REVIEW OF POLSAT GROUP

4.1. Operating review of the Group

Key performance indicators (KPI) presented below for the first quarter of 2017 include the operating results of Polsat Group comprising Aero2 Group (formerly Midas Group), acquired on February 29, 2016. In light of the above, the operating results for the first quarter of 2017 are not fully comparable with the operating results for the corresponding period of 2016. However, the effect of consolidation of the operating results of Aero2 Group on the overall reported operating results of Polsat Group is immaterial.

	for the 3 month period ended March 31		change / %
	2017	2016	
SEGMENT OF SERVICES TO INDIVIDUAL AND BUSINESS CUSTOMERS			
Total number of RGUs (EOP) (contract + prepaid)	16,216,128	16,531,833	(1.9%)
Contract services			
Total number of RGUs (EOP), including:	13,337,038	12,744,166	4.7%
Pay TV, including:	4,785,947	4,560,267	4.9%
Multiroom	*1,031,294*	*957,952*	*7.7%*
Mobile telephony	6,785,002	6,536,366	3.8%
Internet	1,766,089	1,647,533	7.2%
Number of customers (EOP)	5,847,401	5,893,225	(0.8%)
ARPU per customer [PLN]	89.1	87.0	2.4%
Churn per customer	8.5%	9.8%	(1.3 p.p.)
RGU saturation per one customer	2.28	2.16	5.6%
Average number of RGUs, including:	13,313,971	12,675,864	5.0%
Pay TV, including:	4,781,680	4,532,806	5.5%
Multiroom	*1,029,294*	*948,366*	*8.5%*
Mobile telephony	6,769,379	6,523,316	3.8%
Internet	1,762,912	1,619,742	8.8%
Average number of customers	5,872,517	5,902,526	(0.5%)
Prepaid services			
Total number of RGUs (EOP), including:	2,879,090	3,787,667	(24.0%)
Pay TV	48,224	35,754	34.9%
Mobile telephony	2,646,477	3,495,733	(24.3%)
Internet	184,389	256,180	(28.0%)
ARPU per total prepaid RGU [PLN]	18.7	17.7	5.6%
Average number of RGUs, including:	3,050,604	3,801,870	(19.8%)
Pay TV	48,659	36,255	34.2%
Mobile telephony	2,800,366	3,529,840	(20.7%)
Internet	201,579	235,775	(14.5%)
BROADCASTING AND TELEVISION PRODUCTION SEGMENT			
Audience share	24.3%	24.4%	(0.4%)
Advertising market share	25.7%	25.3%	1.6%

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

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

4.1.1. Segment of services to individual and business customers

As at March 31, 2017, in the segment of services to individual and business customers our Group provided a total of 16,216,128 services, of which 13,337,038 constituted contract services and 2,879,090 – prepaid services. At the end of the first quarter of 2017 we recorded YoY growth in the number of all our core services provided in the contract model, i.e. pay TV and mobile telephony services, and broadband Internet. At the same time, in the first quarter of 2017 the Polish telecommunications market remained under regulatory pressure in the area of prepaid services. As a consequence, we recorded, as did our competitors, a decline in the number of provided prepaid services in the analyzed period.

It is worth emphasis, that the share of contract services in the total number of services that we provide is growing consistently, and reached the level of 82.2% at the end of the first quarter of 2017. This ratio increased from 77.1% as at March 31, 2016.

Contract services

As at March 31, 2017, we provided contract services to a total of 5,847,401 customers, i.e. 0.8% less compared to 5,893,225 customers as at March 31, 2016. We continue to observe the trend of merging of contracts under one common contract for the household and the outflow of customers with only one service. In line with the our strategic assumptions, the Group avoids conducting an aggressive sales policy for individual products and concentrates rather on increasing customer loyalty, in particular through offering a wide portfolio of bundled services, as well as on increasing ARPU per contract customer.

The number of contract services provided by us increased by 592,872, that is by 4.7%, to 13,337,038 as at March 31, 2017, from 12,744,166 as at March 31, 2016. We recorded growth in the number of all services provided in the contract model. Invariably, we noted the highest growth dynamics with respect to the number of contract services provided in the area of broadband Internet access due, among other things, to the broad coverage offered by our LTE//LTE-Advanced network, as well as its high quality. As at March 31, 2017, we provided 1,766,089 mobile Internet RGUs in the contract model, that is by 118,556, or 7.2%, more than as at March 31, 2016, when we provided 1,647,533 such services. The number of pay TV services provided in the contract model amounted to 4,785,947 as at March 31, 2017, which constitutes an increase by 225,680, or 4.9%, compared to 4,560,267 as at March 31, 2016. This increase in due, among other things, to the growing popularity of our Multiroom service (YoY increase by over 73 thousand, to 1.03 million RGUs), as well as to increasing sales of paid OTT services. The number of provided mobile telephony services in the contract model increased by 248,636, or 3.8%, reaching the level of 6,785,002 as at March 31, 2017, up from 6,536,366 as at March 31, 2016. This growth was driven by the successful implementation of our strategy of cross-selling, as well as by the temporarily intensified migration of users of prepaid services to contract tariffs. We believe that further saturation of our customer base with integrated services, including our flagship product smartDOM, will positively influence the growth of the number of contract RGUs provided by us in the future.

In line with the assumptions of our long-term strategy, we aim to maximize revenue per contract customer through cross-selling, i.e., the sale of additional products and services to the joined customer bases of Cyfrowy Polsat and Polkomtel, among others within the framework of our program smartDOM, which has a positive impact on ARPU per contract customer. As a result of the implementation of our multiplay strategy and the systematic development of our bundled offer, we continue to record a successive increase of ARPU in the contract services segment. In the first quarter of 2017 ARPU increased by 2.4% to PLN 89.1 from PLN 87.0 in the corresponding period of 2016, which is the effect of the success of our multiplay strategy, as well as price stabilization on the telco market.

Our churn rate decreased by 1.3 p.p. to 8.5% in the twelve-month period ended March 31, 2017, compared to 9.8% in the twelve-month period ended March 31, 2016. This is primarily the effect of the systematically growing loyalty of our customers connected with the successful implementation of our multiplay strategy.

The saturation of our customer base with additional services offered in bundles is consistently growing. As at March 31, 2017, each customer in our customer base had on average 2.28 active contract services which constitutes an increase of 5.6% compared to 2.16 active contract services per customer as at March 31, 2016. The increase in RGU saturation per customer is the result of our marketing and sales activities aimed at maximizing the sale of products and services to a single customer.

Our bundled services offer remains very popular and continues to record very good sales results, which has a positive effect on the level of RGU saturation per customer, ARPU per contract customer, and the churn rate. As at March 31, 2017, already 1,325,079 customers were using our bundled offer, which constitutes an increase of 237,473 customers, or 21.8%, YoY. This group of customers had a total of 3,947,134 RGUs, by 724,799, or 22.5%, more than in the previous year. A multiplay customer owns 3 services on average. Bearing in mind the long-term goal of our Group, which is to maximize revenue per contract customer through cross-selling, the smartDOM program is perfectly in line with the implementation of our strategy.

Prepaid services

The number of prepaid services provided by us as at March 31, 2017 decreased by 908,577, that is by 24.0%, to 2,879,090 from 3,787,667 as at March 31, 2016. The decline was the most severe in the areas of mobile telephony and prepaid internet, amounting to 24.3% and 28.0% YoY, respectively (we emphasize that we have decided to report only registered SIM cards). The erosion of the prepaid RGU base was driven mainly by the statutory obligation to register newly purchased prepaid SIM cards starting from July 25, 2016, that led to a significant decline in the number of new activations on the entire market, as well as the obligation to deactivate after February 1, 2017 all prepaid SIM cards that had not been correctly registered. The decrease of our prepaid RGU base, visible over the past three quarters, was further deepened by the migration, intensified during the period of registration, of our prepaid tariff users towards the contract services segment.

In the first quarter of 2017 ARPU per prepaid RGU increased by 5.6% to PLN 18.7 from PLN 17.7 in the corresponding period of 2016. High growth dynamics of prepaid ARPU in the first quarter of 2017 was, among other things, the effect of eliminating SIM cards characterized by low ARPU (one-time users) from the prepaid RGU base and the gradual phasing out of the negative effect of promotional offers aimed at encouraging customers to register their prepaid cards.

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 [%]*
	2017	2016	
Audience share(1) (2), including:	24.27%	24.40%	*(0.53%)*
POLSAT (main channel)	*12.73%*	*12.73%*	*0.00%*
Thematic channels(2)	*11.53%*	*11.67%*	*(1.20%)*
TV4	3.97%	3.75%	*5.87%*
TV6	1.69%	1.81%	*(6.63%)*
Polsat 2	1.27%	1.37%	*(7.30%)*
Super Polsat(3)	0.77%	n/a	n/a
Polsat Film	0.76%	0.86%	*(11.63%)*
Polsat News	0.72%	0.73%	*(1.37%)*
Polsat Play	0.56%	0.68%	*(17.65%)*
Polsat Cafe	0.42%	0.34%	*23.53%*
Polsat Sport	0.23%	0.45%	*(48.89%)*
Polsat JimJam	0.19%	0.27%	*(29.63%)*
Disco Polo Music	0.18%	0.24%	*(25.00%)*
Polsat Viasat History	0.15%	0.11%	*36.36%*
CI Polsat	0.12%	0.11%	*9.09%*
Polsat Viasat Explore	0.12%	0.10%	*20.00%*
Polsat Romans	0.11%	0.16%	*(31.25%)*
Polsat News 2	0.10%	0.07%	*42.86%*
Polsat Sport Extra	0.08%	0.09%	*(11.11%)*
Polsat Doku(4)	0.05%	n/a	*n/a*
Muzo.tv	0.03%	0.01%	*200.00%*
Polsat Sport News HD(5)	0.03%	n/a	*n/a*

	3 months ended March 31		change [%]
	2017	2016	
Polsat Sport Fight(6)	0.02%	n/a	*n/a*
Polsat Viasat Nature	0.01%	0.03%	*(66.67%)*
Polsat Sport News(5)	n/a	0.38%	*n/a*
Polsat 1(7)	n/a	n/a	*n/a*
Advertising market share(8)	25.7%	25.3%	*1.6%*

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. The presented values refer only to live broadcasting, excluding time shift viewing (TSV).
3) Channel broadcasting in DTT since January 2, 2017, replaced Polsat Sport News.
4) Channel broadcast since February 10, 2017, data for the broadcasting period.
5) Channel available only in cable and satellite networks since January 2, 2017 under the name Polsat Sport News HD.
6) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017.
7) Channel broadcast since December 18, 2015, not included in the telemetric panel.
8) Our estimates based on Starcom data.

Telewizja Polsat Group's total audience share was influenced by several factors in the first quarter of 2017. We added two new channels – Super Polsat and Polsat Doku – to our portfolio. Concurrently, we have changed the manner of broadcasting Polsat Sport News (Polsat Sport News HD as of January 2, 2017) from DTT to cable and satellite and the channel Food Network was excluded from our portfolio. The results of the channel TV4 are attention worthy, primarily as the result of creating a strong slot of series in the prime time, which translated into the channel's historically highest audience share in the first quarter of 2017. The increase in the audience shares of Polsat Cafe, Polsat Viasat History and Polsat Viasat Explore are also worth mentioning.

As regards individual programming positions, in the first quarter of 2017 viewers in the commercial group (everyone aged 16-49, live broadcasts without time shifting) 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 17.2%, as well as the TV series *First Love*, the premier episodes of which gained an audience share of 18.1%. The series *Świat według Kiepskich,* aired from Monday to Saturday had an audience share of 12.9%.

The news program broadcast at 6.50 p.m., *Wydarzenia* (*News*), gained an audience share of 18.2%. 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 16.5% in the first quarter of 2017.

The results of the first quarter of 2017 were significantly influenced by programs from the spring scheduling. A large audience share of 14.1% was gathered by the new edition of the show *Idol*, put back on air after 12 years. Another position in our spring scheduling, the show *Our New House*, gathered on average 13.2% of viewers. The season's novelty, the reality show *The Brain,* gained an audience share of 16.8%. The entertainment show *Dancing with the Stars* attracted 12.0% of viewers watching television at this time, while the Saturday slots dedicated to the show *Your Face Sounds Familiar* had an average audience share of 11.7%. Sunday's *Live Cabaret* gained an audience share of 15.0%.

The broadcasts of qualifying matches to the 2018 FIFA World Cup gathered a significant audience. In the first quarter of 2017, the match between Montenegro and Poland, aired on March 26, gained a total audience share of 50.8% on both Polsat and Polsat Sport.

Entertainment programs aired on our main channel were also very popular. The cabaret broadcast on January 1, 2017, *Sex, alcohol and books,* was seen by 17.2% of viewers, while the X Cabaret Night in Płock, aired on February 26, 2016 gained an audience share of 16.4%.

Advertising and sponsoring market share

According to preliminary Starcom estimates, expenditures on TV advertising and sponsoring in the first quarter of 2017 amounted to about PLN 910 million, increasing year-on-year by 0.3%. Based on these data, we estimate that in the first quarter of 2017 our TV advertising market share increased year-on-year to 25.7% from 25.3%.

If we compare the current portfolio of Polsat Group's channels, we generated 2.6% more GRPs in the first quarter of 2017 compared to the corresponding period of 2016.

Distribution and technical reach

Technical reach[1]	3 months ended March 31		Change / %
	2017	2016	
Polsat	100.0%	99.8%	0.20%
TV4	99.9%	99.8%	0.10%
Super Polsat[2]	95.7%	n/a	n/a
TV6	95.4%	93.9%	1.60%
Polsat 2	63.0%	62.7%	0.48%
Polsat News 2	57.3%	55.1%	3.99%
Polsat News	56.0%	55.8%	0.36%
Polsat Cafe	55.9%	54.8%	2.01%
Polsat Film	52.5%	50.8%	3.35%
Polsat Viasat History	50.6%	38.5%	31.43%
Polsat Play	50.3%	48.3%	4.14%
Disco Polo Music	47.6%	45.6%	4.39%
Polsat Sport	47.4%	48.6%	(2.47%)
Polsat Romans	46.2%	45.8%	0.87%
Polsat JimJam	45.6%	43.8%	4.11%
Polsat Viasat Explore	44.4%	34.3%	29.45%
Polsat Viasat Nature	43.9%	29.7%	47.81%
Muzo.tv	42.5%	39.5%	7.59%
CI Polsat	40.5%	38.5%	5.19%
Polsat Sport Extra	36.0%	35.9%	0.28%
Polsat Sport News HD[3]	25.9%	n/a	n/a
Polsat Doku[4]	21.6%	n/a	n/a
Polsat Sport Fight[5]	11.1%	n/a	n/a
Polsat Sport News[3]	n/a	94.2%	n/a
Polsat 1[6]	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 broadcasting in DTT since January 2, 2017, replaced Polsat Sport News
3) Channel available only in cable and satellite networks since January 2, 2017.
4) Channel broadcast since February 10, 2017, data for the broadcasting period.
5) Channel broadcast since August 1, 2016, included in the telemetric panel since January 1, 2017 under the name Polsat Sport News HD.
6) 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 2017 with corresponding period of 2016, the highest growth rates in technical reach were recorded by Polsat Viasat Nature, Polsat Viasat History and Polsat Viasat Explore and were driven by the season “open windows” in cable operators’ networks.

4.2. Key positions in the consolidated income statement

Revenue

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

Retail revenue

Retail revenue consists primarily of:

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

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

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

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

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

(vi) activation fees;

(vii) penalties; and

(viii) fees for additional services.

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

Wholesale revenue

Our wholesale revenue comprises:

(i) advertising and sponsorship revenue;

(ii) revenue from cable and satellite operator fees;

(iii) revenue from the lease of infrastructure;

(iv) interconnect revenue;

(v) revenue from roaming;

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

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

(viii) revenue from Premium rate services.

Sale of equipment

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

Other revenue

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

Operating costs

Operating costs consist of:

(i) content costs;

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

(iii) depreciation, amortization, impairment and liquidation;

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

(v) salaries and employee-related costs;

(vi) cost of equipment sold;

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

(viii) other costs.

Content costs

Content costs consist of:

(i) programming license costs;

(ii) amortization of purchased film licenses;

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

(iv) other content costs.

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

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

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

Distribution, marketing, customer relation management and retention cost

Distribution costs consist of:

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

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

(iii) costs of warranty service; and

(iv) costs of maintenance of points of sales.

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

Depreciation, amortization, impairment and liquidation

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

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

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

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

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

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

(vi) non-current assets impairment allowance; and

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

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with telecommunication operators comprise:

(i) telecommunications and IT infrastructure lease costs;

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

(iii) telecommunication network maintenance costs and fees;

(iv) IT systems maintenance costs;

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

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

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

(viii) Interconnection and roaming charges ; and

(ix) other costs.

Salaries and employee-related costs

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

Cost of equipment sold

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

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

In this group of costs we present:

(i) bad debt recovery fees;

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

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

Other costs

Key items of other costs include:

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

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

(iii) legal, advisory and consulting costs;

(iv) property maintenance costs;

(v) taxes and other charges;

(vi) trademark license costs;

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

(viii) other costs.

Other operating income/costs, net

Other operating income/costs consist of:

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

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

Gains and losses on investment activities, net

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

Finance costs

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

4.3. Review of our financial situation

The following review of results for the 3-month period ended March 31, 2017 was prepared based on the interim condensed consolidated financial statements for the 3-month period ended March 31, 2017, prepared in accordance with International Financial Reporting Standards as approved for use by the European Union and based on internal analysis.

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

We emphasize that the financial data for the first quarter of 2017 are not fully comparable with data for the corresponding period of 2016 due to the acquisition on February 29, 2016 of shares in Litenite Limited, the direct parent of Aero2 Group, and on September 30, 2016 of shares in IT Polpager S.A.

Due to the fact that the results of IT Polpager S.A. do not have a material impact on the results of the Group, they will not be subject to elimination in the analysis of the Group's financial situation. Concurrently, we emphasize that we also do not eliminate the effect of consolidation of Aero2 Group on the results of Polsat Group, however we indicated the positions significantly influenced by the consolidation of Aero2 Group.

4.3.1. Income statement analysis

[mPLN]	for the 3 month period ended March 31		change	
	2017	2016	[mPLN]	[%]
Retail revenue	2,388.6	2,364.0	24.6	1.0%
Total operating cost	(1,938.2)	(1,948.0)	(9.8)	(0.5%)
Other operating income, net	6.8	6.8	-	-
Profit from operating activities	457.2	422.8	34.4	8.1%
Gain/(loss) on investment activities, net	30.5	(35.2)	65.7	186.6%
Financial costs	(185.5)	(182.7)	2.8	1.5%
Share of the profit of joint venture accounted for using the equity method	-	0.8	(0.8)	(100.0%)
Gross profit for the period	302.2	205.7	96.5	46.9%
Income tax	(30.8)	(27.2)	(3.6)	13.2%
Net profit for the period	271.4	178.5	92.9	52.0%
EBIDTA	*929.5*	*846.5*	*83.0*	*9.8%*
EBITDA margin	*38.9%*	*35.8%*	*-*	*1.8 p.p.*

1) Results of Aero2 Group consolidated since February 29, 2016.

Revenue

Our total revenue increased by PLN 24.6 million, or 1.0%, to PLN 2,388.6 million in the first quarter of 2017 from PLN 2,364.0 million in the first quarter of 2016. Revenue grew for the reasons set forth below.

	for the 3 month period ended December 31		change	
	2017)	2016(1)	[mPLN]	[%]
Retail revenue	1,542.7	1,565.7	(23.0)	(1.5%)
Wholesale revenue	562.1	599.8	(37.7)	(6.3%)
Sale of equipment	248.6	172.8	75.8	43.9%
Other revenue	35.2	25.7	9.5	37.0%
Revenue	2,388.6	2,364.0	24.6	1.0%

1) Results of Aero2 Group consolidated since February 29, 2016.

Retail revenue

Retail revenue decreased by PLN 23.0 million, or 1.5%, to PLN 1,542.7 million in the first quarter of 2017, from PLN 1,565.7 million in the first quarter of 2016. This decrease was primarily due to lower revenue from voice services caused by a change in the model of offering equipment to residential customers (payment for equipment, previously included in subscription fees, are recognized as revenues from sales of equipment under the installment plan model), the regulation of retail roaming rates, as well as a high level of competitiveness of the telecommunication market. The fall in retail revenue was partially compensated by higher revenue from pay TV and higher revenue from mobile Internet access services and data transmission.

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

Wholesale revenue

Wholesale revenue decreased by PLN 37.7 million, or 6.3%, to PLN 562.1 million in the first quarter of 2017 from PLN 599.8 million in the first quarter of 2016. In January and February of 2016 this item comprised revenue from the lease of telecommunication infrastructure to Aero2 Group, which is subject to elimination during consolidation in the first quarter of 2017 as a result of the acquisition of Aero2 Group on February 29, 2016. The decrease of revenue from the lease of telecommunication infrastructure was partially compensated by higher revenue from interconnection services resulting from a higher volume of traffic exchanged with other networks, as well as higher advertising and sponsoring revenue generated by TV Polsat's channels.

Sale of equipment

Revenue from the sale of equipment increased by PLN 75.8 million, or 43.9%, to PLN 248.6 million in the first quarter of 2017 from PLN 172.8 million in the first quarter of 2016, which was due primarily to higher revenue from installment plan sales of equipment related to the increasing share of this model in equipment sales.

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

Other revenue

Other revenue increased by PLN 9.5 million, or 37.0%, to PLN 35.2 million in the first quarter of 2017 from PLN 25.7 million in the first quarter of 2016, i.a. This increase was mainly the result of growing revenue from interest on installment plan sales of equipment to residential customers.

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

Operating costs

Our total operating costs decreased by PLN 9.8 million, or 0.5%, to PLN 1,938.2 million in the first quarter of 2017 from PLN 1,948.0 million in the first quarter of 2016. Operating costs decreased for the reasons set forth below.

	for the 3 month period ended March 31		change	
	2017	2016(1)	[mPLN]	[%]
Technical costs and cost of settlements with telecommunication operators	468.2	550.3	(82.1)	(14.9%)
Depreciation, amortization, impairment and liquidation	472.3	423.7	48.6	11.5%
Cost of equipment sold	323.6	326.8	(3.2)	(1.0%)
Content costs	264.3	248.5	15.8	6.4%
Distribution, marketing, customer relation management and retention costs	211.1	200.5	10.6	5.3%
Salaries and employee-related costs	127.8	137.9	(10.1)	(7.3%)
Cost of debt collection services and bad debt allowance and receivables written off	19.3	9.6	9.7	101.0%
Other costs	51.6	50.7	0.9	1.8%
Operating costs	1,938.2	1,948.0	(9.8)	(0.5%)

(1) Results of Midas Group consolidated from February 29, 2017.

Technical costs and cost of settlements with telecommunication operators

Technical costs and cost of settlements with mobile network operators decreased by PLN 82.1 million, or 14.9%, to PLN 468.2 million in the first quarter of 2017 from PLN 550.3 million in the first quarter of 2016. This decrease was the net effect of the elimination during consolidation of growing costs of wholesale purchase of data traffic within our broadband Internet access service in connection with the acquisition of Aero2 Group on February 29, 2016 (in the comparative period the aforementioned costs of traffic were payable to Midas Group, at the time, for January and February), and higher interconnection costs related to the popularization of tariffs offering unlimited connections to other telecommunication networks.

Depreciation, amortization, impairment and liquidation

Depreciation, amortization, impairment and liquidation costs increased by PLN 48.6 million, or 11.5%, to PLN 472.3 million in the first quarter of 2017 from PLN 423.7 million in the first quarter of 2016, among others as the result of the consolidation of depreciation costs of Aero2 Group for the full quarter (accounting for the valuation according to PPA), while in the comparative period these costs were consolidated for only one month.

Cost of equipment sold

The cost of equipment sold amounted to PLN 323.6 million in the first quarter of 2017 and remained at a stable level compared to PLN 326.8 million in the first quarter of 2016.

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

Content costs

Content costs increased by PLN 15.8 million, or 6.4%, to PLN 264.3 million in the first quarter of 2017 from PLN 248.5 million in the first quarter of 2016. This increase was caused primarily by the recognition of higher costs of programming licenses related to the expansion of our pay TV offer, as well as higher costs of internal production for the main channel.

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

Distribution, marketing, customer relation management and retention costs

Distribution, marketing, customer relation management and retention costs increased by PLN 10.6 million, or 5.3%, to PLN 211.1 million in the first quarter of 2017 from PLN 200.5 million in the first quarter of 2016, among others due to the recognition of higher costs of customer service and retention related to the increase in per hour rates resulting from an upward pressure on wages on the Polish market, as well as higher marketing costs.

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

Salaries and employee-related costs

Salaries and employee-related costs decreased by PLN 10.1 million, or 7.3%, to PLN 127.8 million in the first quarter of 2017 from PLN 137.9 million in the first quarter of 2016.

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

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

The cost of debt collection services and bad debt allowance and receivables written off increased by PLN 9.7 million, or 101.0%, to PLN 19.3 million in the first quarter of 2017 from PLN 9.6 million in the first quarter of 2016, primarily due to a change in the structure of sales and a higher share of installment plan sales.

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

Other costs

Other costs amounted to PLN 51.6 million in the first quarter of 2017 and remained at a stable level compared to PLN 50.7 million in the first quarter of 2016.

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

Other operating income and costs, net

Other net operating income amounted to PLN 6.8 million in the first quarter of 2017 and remained at the same level compared to the first quarter of 2016.

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

Gains/(losses) on investment activities, net

Net gains on investment activities amounted to PLN 30.5 million in the first quarter of 2017, compared to net losses on investment activities of PLN 35.2 million in the first quarter of 2016. This increase was mainly due foreign exchange gains resulting from the decrease in the valuation of liabilities related to the UMTS license (due to the appreciation of the PLN versus the EUR in the first quarter of 2017 compared to the depreciation of the PLN versus the EUR in the corresponding period of 2016), as well as the recognition in the first quarter of 2016 of foreign exchange losses on the valuation of the PLK Senior Notes, which were redeemed on February 1, 2016.

Finance costs

Finance costs amounted to PLN 185.5 million in the first quarter of 2017 and increased slightly by PLN 2.8 million, or 1.5%, compared to PLN 182.7 million in the first quarter of 2016. We emphasize that in the first quarter of 2017 this position comprised a one-off cost in the amount of ca. PLN 58.7 million related to the recognition in the balance sheet valuation of the Litenite Notes as at March 31, 2017 of a premium for the early redemption of these notes executed on April 26, 2017.

As a result of the acquisition of Litenite capital group, as of February 29, 2016, this position also comprises costs of interest on notes for the period of consolidation.

Net profit

As a consequence of the changes described above, net profit increased by PLN 92.9 million, or 52.0%, to PLN 271.4 million in the first quarter of 2017 from PLN 178.5 million in the first quarter of 2016.

EBITDA and EBITDA margin

EBITDA increased by PLN 83.0 million, or 9.8%, to PLN 929.5 million in the first quarter of 2017 from PLN 846.5 million in the first quarter of 2016. EBITDA margin increased by 1.8 p.p. to 38.9% in the first quarter of 2017, from 35.8% in the first quarter of 2016.

Employment

The average employment of permanent workers not engaged in production in Polsat Group, excluding workers who did not perform work in the reporting period due to long-term absences, was 4,773 full-time equivalents in the first quarter of 2017, as compared to 5,031 full-time equivalents in the corresponding period of 2016.The decrease in employment was related to the modification in the model of managing the Group's sales network.

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. The operating segments also represent reportable segments of the Group.

Services to individual and business customers segment include:

- digital pay television services which primarily relate to direct distribution of technologically advanced pay TV services and revenues are generated mainly by pay TV subscription fees;
- mobile telecommunication services in the contract model (postpaid and mix) which generate revenues mainly from interconnection, settlements with mobile network operators and subscription fees;
- mobile telecommunication prepaid services which generate revenues mainly from interconnection revenues and settlements with mobile network operators;
- providing access to broadband Internet which generates revenues mainly from traffic and subscription fees;
- telecommunication wholesale services, including wholesale 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 three months ended March 31, 2017:

3 months ended March 31, 2017 (unaudited) [mPLN]	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	2,120.1	268.5	-	2,388.6
Inter-segment revenues	9.8	36.5	(46.3)	-
Revenues	2,129.9	305.0	(46.3)	2,388.6
EBITDA (unaudited)	821.4	108.1	-	929.5
Depreciation, amortization, impairment and liquidation	462.7	9.6	-	472.3
Profit/(loss) from operating activities	358.7	98.5	-	457.2
Acquisition of property, plant and equipment, reception equipment and other intangible assets	196.5*	8.9	-	205.4
Balance as at March 31, 2017 (unaudited)				
Assets, including:	23,112.5	4,488.3**	(47.6)	27,553.2
Investments in joint venture	-	5.9	-	5.9

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

** Includes non-current assets located outside of Poland in the amount of PLN 15.1 million.

All material revenues are generated in Poland.

It should be noted that the 3-month period ended March 31, 2017 is not comparable to the 3 month period ended March 31, 2016 as Litenite Limited was acquired on February 29, 2016 (allocated to the Services to individual and business customers segment) and IT Polpager S.A. was acquired on September 30, 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 March 31, 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.

Reconciliation of EBITDA and net profit for the period:

[mPLN]	for the 3-month period ended March 31, 2017 unaudited	March 31, 2016 unaudited
EBITDA (unaudited)	929.5	846.5
Depreciation, amortization, impairment and liquidation	(472.3)	(423.7)
Profit from operating activities	457.2	422.8
Other foreign exchange rate differences, net	33.0	(28.5)
Interest costs, net	(115.7)	(131.9)
Early redemption costs	(58.7)	
Foreign exchange differences on issued bonds	-	(244.8)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	-	203.8
Other	(13.6)	(15.7)
Gross profit for the period	302.2	205.7
Income tax	(30.8)	(27.2)
Net profit for the period	271.4	178.5

4.3.3. Balance sheet analysis

As at March 31, 2017 our balance sheet amounted to PLN 27,553.2 million and decreased by PLN 176.1 million, or 0.6%, from PLN 27,729.3 million as at December 31, 2016.

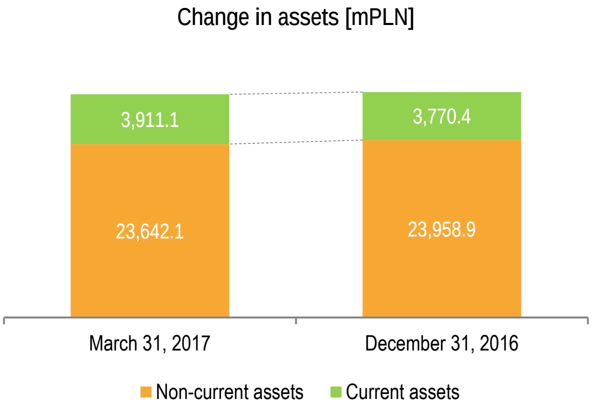
Assets

[mPLN]	March 31, 2017	December 31, 2016(1)	change	
			[mPLN]	%
Reception equipment	342.2	350.9	(8.7)	(2.5%)
Other property, plant and equipment	2,885.9	2,964.3	(78.4)	(2.6%)
Goodwill	10,975.4	10,975.4	-	-
Customer relationships	2,883.1	3,031.2	(148.1)	(4.9%)
Brands	2,050.5	2,056.5	(6.0)	(0.3%)
Other intangible assets	3,540.5	3,656.2	(115.7)	(3.2%)
Non-current programming assets	150.0	151.8	(1.8)	(1.2%)
Investment property	5.1	5.1	-	-
Non-current deferred distribution fees	83.8	82.8	1.0	1.2%
Other non-current assets	476.3	452.0	24.3	5.4%
includes derivative instruments assets	*7.8*	*9.5*	*(1.7)*	*(17.9%)*
Deferred tax assets	249.3	232.7	16.6	7.1%
Total non-current assets	23,642.1	23,958.9	(316.8)	(1.3%)
Current programming assets	179.8	192.0	(12.2)	(6.4%)
Inventories	237.2	278.7	(41.5)	(14.9%)
Trade and other receivables	1,608.5	1,688.0	(79.5)	(4.7%)
Income tax receivable	30.3	29.1	1.2	4.1%
Current deferred distribution fees	205.7	207.2	(1.5)	(0.7%)
Other current assets	72.3	38.7	33.6	86.8%
includes derivative instruments assets	*4.9*	*6.7*	*(1.8)*	*(26.9%)*
Cash and cash equivalents	1,567.7	1,326.0	241.7	18.2%
Restricted cash	9.6	10.7	(1.1)	(10.3%)
Total current assets	3,911.1	3,770.4	140.7	3.7%
Total assets	27,553.2	27,729.3	(176.1)	(0.6%)

1) Results of Aero2 Group consolidated since February 29, 2016.

As at March 31, 2017 and December 31, 2016, our non-current assets amounted to PLN 23,642.1 million and PLN 23,958.9 million, respectively, and accounted for 85.8% and 86.4% of total assets, respectively.

As at March 31, 2017 and December 31, 2016, our current assets amounted to PLN 3,911.1 million and PLN 3,770.4 million, respectively, and accounted for 14.2% and 13.6% of the total assets, respectively.



The value of reception equipment amounted to PLN 342.2 million as at March 31, 2017 and decreased by PLN 8.7 million, or 2.5%, compared to PLN 350.9 million as at December 31, 2016.

The value of other property, plant and equipment decreased by PLN 78.4 million, or 2.6%, to PLN 2,885.9 million as at March 31, 2017 from PLN 2,964.3 million as at December 31, 2016, mainly due to the recognition of amortization of the technical infrastructure and telecommunications network equipment, which was partially compensated by capital spending on the roll-out of our telecommunications network and IT systems.

The value of goodwill amounted to PLN 10,975.4 million as at March 31, 2017 and remained at an unchanged level compared to the balance as at December 31, 2016.

The value of customer relationships decreased by PLN 148.1 million, or 4.9%, to PLN 2,883.1 million as at March 31, 2017 compared to PLN 3,031.2 million as at December 31, 2016 due to calculated depreciation for the three-month period ended March 31, 2017.

As at March 31, 2017, the value of brands was PLN 2,050.5 million, which constitutes a decrease by PLN 6.0 million, or 0.3%, compared to PLN 2,056.5 million as at December 31, 2016, due to recognition of the depreciation of the Plus trademark for the three-month period ended March 31, 2017.

The value of other intangible assets amounted to PLN 3,540.5 million as at March 31, 2017 which constitutes a decrease by PLN 115.7 million, or 3.2%, compared to PLN 3,656.2 million as at December 31, 2016. The main reason behind this decrease is the recognition of depreciation of telecommunication licenses.

The value of non-current and current programming assets decreased by PLN 14.0 million, or 4.1%, to PLN 329.8 million as at March 31, 2017, from PLN 343.8 million as at December 31, 2016. This decrease was the effect of the recognition of a lower value of newly purchased film and sport licenses.

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

The value of non-current and current deferred distribution fees amounted to PLN 289.5 million as at March 31, 2017 and remained at an unchanged level compared to PLN 290.0 million as at December 31, 2016.

The value of other non-current assets amounted to PLN 476.3 million as at March 31, 2017 and increased by PLN 24.3 million, or 5.4%, compared to PLN 452.0 million as at December 31, 2016, primarily as a result of an increase of receivables from installment plan sales of equipment.

The value of deferred tax assets amounted to PLN 249.3 million as at March 31, 2017, which constitutes an increase by PLN 16.6 million, or 7.1%, compared to PLN 232.7 million as at December 31, 2016.

The value of inventories decreased by PLN 41.5 million, or 14.9%, to PLN 237.2 million as at March 31, 2017 from PLN 278.7 million as at December 31, 2016, mainly due to the decrease in the value of the stock of handsets and modems, as well as other inventories.

The value of trade and other receivables decreased by PLN 79.5 million, or 4.7%, to PLN 1,608.5 million as at March 31, 2017 from PLN 1,688.0 million as at December 31, 2016, primarily due to lower current receivables from unrelated parties, partially compensated by increasing receivables from installment plan sales of equipment to residential customers.

The value of other current assets amounted to PLN 72.3 million as at March 31, 2017, which constitutes an increase by PLN 33.6 million, or 86.8%, compared to PLN 38.7 million as at December 31, 2016.

The value of cash and cash equivalents and restricted cash increased by PLN 240.6 million, or 18.0%, to PLN 1,577.3 million as at March 31, 2017 from PLN 1,336.7 million as at December 31, 2016, due, among other things, to the stronger cash flow from operating activities generated in the first quarter of 2017 compared to the corresponding period of 2016.

Equity and liabilities

[mPLN]	March 31, 2017	December 31, 2016[1]	change	
			[mPLN]	%
Share capital	25.6	25.6	-	-
Share premium	7,174.0	7,174.0	-	-
Other reserves	3.8	4.5	(0.7)	(15.6%)
Retained earnings	4,374.9	4,095.5	279.4	6.8%
Equity attributable to equity holders of the Parent	11,578.3	11,299.6	278.7	2.5%
Non-controlling interests	70.0	78.0	(8.0)	(10.3%)
Total equity	11,648.3	11,377.6	270.7	2.4%
Loans and borrowings	9,056.0	9,302.7	(246.7)	(2.7%)
Issued bonds	964.9	1,835.7	(870.8)	(47.4%)
Finance lease liabilities	22.6	20.9	1.7	8.1%
UMTS license liabilities	551.0	574.0	(23.0)	(4.0%)
Deferred tax liabilities	812.3	786.9	25.4	3.2%
Deferred income	4.0	20.1	(16.1)	(80.1%)
Other non-current liabilities and provisions	128.1	130.2	(2.1)	(1.6%)
Total non-current liabilities	11,538.9	12,670.5	(1,131.6)	(8.9%)
Loans and borrowings	1,286.8	1,270.0	16.8	1.3%
Issued bonds	981.4	42.4	939.0	2,214.6%
Finance lease liabilities	5.2	5.0	0.2	4.0%
UMTS license liabilities	116.6	121.5	(4.9)	(4.0%)
Trade and other payables	1,337.9	1,569.5	(231.6)	(14.8%)
includes derivative instruments liabilities	*1,5*	-	*1.5*	-
Income tax liability	4.3	24.9	(20.6)	(82.7%)
Deferred income	633.8	647.9	(14.1)	(2.2%)
Total current liabilities	4,366.0	3,681.2	684.8	18.6%
Total liabilities	15,904.9	16,351.7	(446.8)	(2.7%)
Total equity and liabilities	27,553.2	27,729.3	(176.1)	(0.6%)

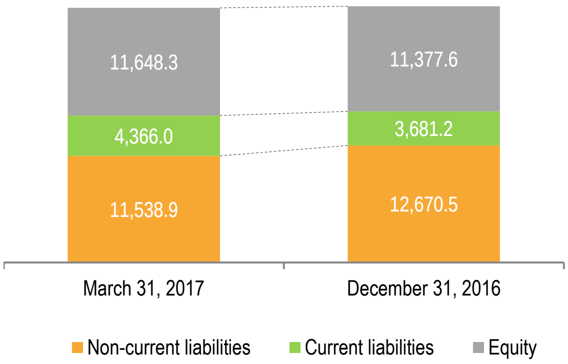
1) Results of Aero2 Group consolidated since February 29, 2016.

Equity increased by PLN 270.7 million, or by 2.4%, to PLN 11,648.3 million as at March 31, 2017 from PLN 11,377.6 million as at December 31, 2016, primarily due to profit generated in the three-month period ended March 31, 2017, in the amount of PLN 271.4 million.

As at March 31, 2017 and December 31, 2016 the value of our non-current liabilities amounted to PLN 11,538.9 million and PLN 12,670.5 million, which constituted 72.5% and 77.5% of the Group's total liabilities, respectively.

As at March 31, 2017 and December 31, 2016 the value of our current liabilities amounted to PLN 4,366.0 million and PLN 3,681.2 million, which constituted 27.5% and 22.5% of the Group's total liabilities, respectively. The increase in current liabilities is primarily the effect of shifting the Litenite Notes, which was related with the announcement regarding the intention to prematurely redeem them on April 26, 2017.

Change in liabilities [mPLN]



Loans and borrowings (long- and short-term) decreased by PLN 229.9 million, or 2.2%, to PLN 10,342.8 million as at March 31, 2017 from PLN 10,572.7 million, which was the effect of the repayment of the capital of the Combined SFA according to schedule in the total amount of PLN 234,0 million in the first quarter of 2017.

Senior Notes liabilities (long- and short-term) increased by PLN 68.2 million or by 3.6%, to PLN 1,946.3 million as at March 31, 2017 from PLN 1,878.1 million as at December 31, 2016, among other things due to the recognition of the premium for the early redemption of the Litenite Notes, which took place on April 26, 2017.

Finance lease liabilities (long- and short-term) amounted to PLN 27.8 million as at March 31, 2017 and increased by PLN 1.9 million, or 7.3%, from PLN 25.9 million as at December 31, 2016.

UMTS license liabilities (long- and short-term) decreased by PLN 27.9 million, or 4.0%, to PLN 667.6 million as at March 31, 2017 from PLN 695.5 million as at December 31, 2016, due to their lower valuation resulting from the appreciation of the Polish zloty with respect to the euro in the first quarter of 2017.

Deferred income tax liabilities increased by PLN 25.4 million, or 3.2%, to PLN 812.3 million as at March 31, 2017 from PLN 786.9 million as at December 31, 2016.

Non-current and current deferred income amounted to PLN 637.8 million as at March 31, 2017, and decreased by PLN 30.2 million, or 4.5%, from PLN 668.0 million as at December 31, 2016.

The value of other non-current liabilities and provisions amounted to PLN 128.1 million as at March 31, 2017 and remained on a similar level compared to PLN 130.2 million as at December 31, 2016.

The value of trade and other payables amounted to PLN 1,337.9 million as at March 31, 2017 which constitutes a decrease by PLN 231.6 million, or 14.8%, compared to PLN 1,569.5 million as at December 31, 2016. This decrease was driven primarily by a lower balance of liabilities related to the purchase of non-current and intangible assets, as well as a lower balance of accruals, i.a. connected with salaries and interconnection costs.

Income tax liabilities decreased by PLN 20.6 million, or 82.7%, to PLN 4.3 million as at March 31, 2017 from PLN 24.9 million as at December 31, 2016.

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, 2017 and March 31, 2016.

[mPLN]	for the 3 months ended March 31		change	
	2017	2016[(1)]	mPLN	%
Net profit	271.4	178.5	92.9	52.0%
Net cash from operating activities	751.7	446.8	304.9	68.2%
Net cash used in investing activities	(159.2)	(24.9)	134.3	539.4%
Capital expenditure	*(172.1)*	*(118.7)*	*53.4*	*45.0%*
Net cash used in financing activities	(348.2)	(371.9)	(23.7)	(6.4%)
Net decrease in cash and cash equivalents	244.3	50.0	194.3	388.6%
Cash and cash equivalents at the beginning of the period	1.336.7	1.523.7	(187.0)	(12.3%)
Cash and cash equivalents at the end of the period	1.577.3	1.570.0	7.3	0.5%

1) Results of Aero2 Group consolidated since February 29, 2016.

Net cash from operating activities

Net cash from operating activities amounted to PLN 751.7 million in the first quarter of 2017 and increased by PLN 304.9 million, or 68.2%, compared to net cash from operating activities in the amount of PLN 446.8 million the corresponding period of 2016.

The stronger stream of cash from operating activities generated in the first quarter of 2017 was the result of a higher level of EBITDA and the consolidation of Aero2 Group's cash flow for the full quarter, as well as the concurrent reduction by a lower level of income tax paid in the first quarter of 2017 than in the corresponding period of 2016 and by a lower increment of working capital engaged in the first quarter of 2017. The increment of working capital in the first quarter of 2017 resulted primarily from an increase in receivables from installment plan sales of equipment to residential customers.

Net cash used in investing activities

Net cash used in investing activities amounted to PLN 159,2 million in the first quarter of 2017 which constitutes an increase by PLN 134.3 million, or 539.4%, from PLN 24.9 million in the first quarter of 2016. The dynamics of this change was primarily driven by the recognition in the comparative period of the acquisition of shares in Litenite, net of cash acquired, and the payment for frequency reservations in the 2600 MHz bandwidth, while in the first quarter of 2017 this position comprised mainly standard capital expenditures.

In the first quarter of 2017, capital expenditures on the purchase of property, plant and equipment and intangible assets amounted to PLN 172.1 million, which constitutes an increase by PLN 53.4 million, or 45.0%, compared to PLN 118.7 million in the first quarter of 2016. In the first quarter of 2017 capex expenditures comprised, among others, the continuation of the roll-out and development of the capacity of the telecommunications network based on LTE and LTE-Advanced technologies, expenditures aimed at increasing the capacity of our access network in the 900 MHz band (as preparation for the process of band refarming), the modernization of our transmission network, as well as expenditures related to the project of the exchange of the IT environment within the Group.

Net cash from/(used in) finance activities

Net cash used in financing activities amounted to PLN 348.2 million in the first quarter of 2017, which constitutes a decrease by PLN 23.7 million, or 6.4 compared to PLN 371.9 million in the first quarter of 2016. The amount of cash used in financing activities in the first quarter of 2017 was affected primarily by current repayments according to schedule and servicing of the Combined SFA and the payment of the semi-annual coupon on the Series A Notes.

4.3.5. Liquidity and capital resources

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

We believe that our cash balances and cash generated from our current operations, as well as means available within our revolving facilities (described below) should be sufficient to fund the future 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, 2017.

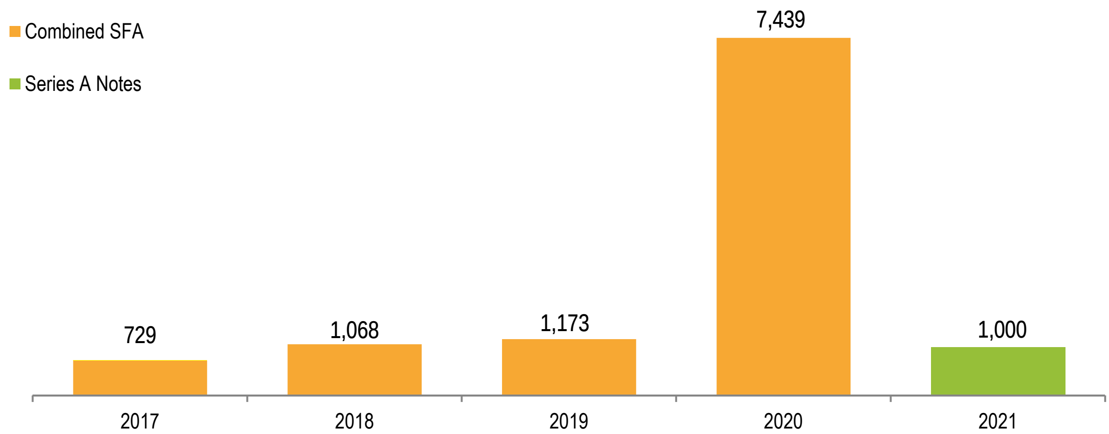
	Balance value as at March 31, 2017 [mPLN]	Coupon / interest	Maturity date
Combined SFA	10.342,8	WIBOR + margin	2020
Revolving Facility Loan	-	WIBOR + margin	2020
Series A Notes	1.006,9	WIBOR + 2.5%	2021
Zero-coupon Litenite Notes[(1)]	939,4	10%	-
Leasing and other	27,8	-	-
Gross debt	12.316,9	-	-
Cash and cash equivalents[(2)]	(1.577,3)	-	-
Net debt	10.739,6	-	-
EBITDA LTM	3.723,8	-	-
Total net debt / EBITDA LTM	2,88	-	-

1) On April 26, 2017, all the Litenite Notes were prematurely redeemed.
2) This position comprises cash and cash equivalents, including restricted cash, as well as short-term deposits.

On April 26, 2017, we have concluded the early redemption of the Litenite Notes for the total amount of PLN 886.7 million, increased by the premium for early redemption in the amount of PLN 58.7 million. In connection with the above, we have drawn a total of PLN 600 million under the Revolving Facility Loan on April 24, 2017.

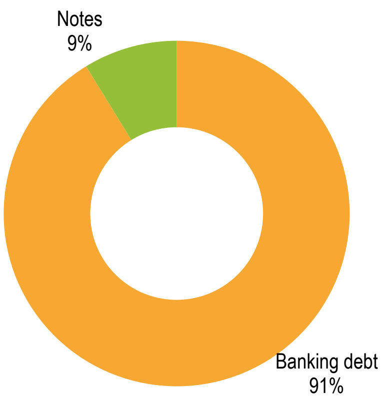
The graphs below present the aging balance of the Group's debt and its currency composition, expressed in nominal values, accounting for the voluntary early redemption of the Litenite Notes on April 26, 2017 and excluding the debt under the revolving facility loans and leasing, as at the balance date, i.e. March 31, 2017.

Debt maturing profile[(1)] as at March 31, 2017 [mPLN]

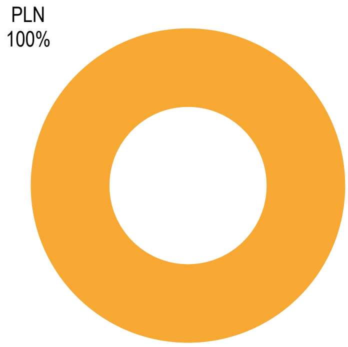


(1) Nominal value of the indebtedness as at March 31, 2017 (excluding the Revolving Facility Loan, leasing and debt under the Litenite Notes prematurely redeemed on April 26, 2017).

Debt structure by instrument type (1)
as at March 31, 2017



Debt structure by currency
as at March 31, 2017



(1) Nominal value of the indebtedness as at March 31, 2017 (excluding the Revolving Facility Loan, leasing and debt under the Litenite Notes prematurely redeemed on April 26, 2017).

In order to reduce exposure to interest rate risk related to interest payments on the Combined SFA based on a floating rate, we actively apply hedging strategies based on derivative instruments, swaps (IRS) in particular.

Material financing agreements executed by the Group

Below we present information on significant agreements executed by the Company and the Group companies, which remain in force as at the date of publication of this Report, as well as a brief description of those agreements, which have expired on the period from Jaunary 1, 2017 until the date of approval of this Report due to the repayment of debt granted on their basis.

Combined Senior Facilities Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Series A Bonds issued by Cyfrowy Polsat

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

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

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

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

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

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

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

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

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

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

Additionally, pursuant to the Bonds Terms, the Company and its subsidiaries are obliged to maintain required levels of certain financial ratios and are subject to certain restrictions, which have been specified in the Information Note regarding the issue of Series A Bonds of July 22, 2015 (the Information Note is available on our corporate website).

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

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

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

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

Litenite Notes

Litenite, 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.

On April 26, 2017 Litenite executed the early redemption of the Litenite Notes according to the value determined in the terms of issuance of the Litenite Notes at the total level of PLN 886,703,685.12 increased by a premium for early redemption in the amount of PLN 58,658,296.32.

Contractual obligations

Contractual commitments to purchase programming assets

As at March 31, 2017 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

[mPLN]	March 31, 2017 (unaudited)	December 31, 2016
within one year	144.2	139.4
between 1 to 5 years	175.4	83.3
more than 5 years	22.5	20.0
Total	342.1	242.7

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

[mPLN]	March 31, 2017 (unaudited)	December 31, 2016
within one year	10.1	14.6
Total	10.1	14.6

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 200.4 million as at March 31, 2017 (PLN 118.3 million as at December 31, 2016). The total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at March 31, 2017 was PLN 262.9 million (PLN 115.3 million as at December 31, 2016).

Ratings

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

	Moody's Investor Services			S&P Global Ratings		
	Rating / perspective	Previous rating/ perspective	Update	Rating / perspective	Previous rating/ perspective	Update
CYFROWY POLSAT						
Corporate rating	Ba2 /stable	Ba3/positive	16.05.2016	BB+/positive	BB+/stable	18.04.2017

On April 18, 2017 S&P Global Ratings (formerly Standard&Poor's Rating Services) ("S&P") revised the rating outlook for Polsat Group to positive from stable, affirming the BB+ corporate credit rating.

In its justification S&P stated that the upward revision of the rating outlook reflects in particular the Group's resilient performance and solid deleveraging capacity in 2017-2018, which has been demonstrated by the early redemption of the Litenite Notes on April 26.

S&P anticipates that thanks to its strong position on the telecommunication and pay TV markets the Group will demonstrate stable operating results over the next two years, which in turn will translate into a high, stable level of EBITDA. Concurrently, with capex needs not exceeding 10% of revenue and declining interest costs as a result of deleveraging, the Group will generate solid free cash flows, which S&P estimates at PLN 1.6 billion annually. S&P assumes that consistent deleveraging will remain the Group's priority, while dividend payouts will remain moderate.

S&P may raise the rating of the Group to BBB- over the next 12 months, if the Group continues to demonstrate resilient operating performance with at least stable EBITDA, while using free cash flow for further deleveraging. On the other hand, a downward revision of the outlook from positive to stable could be associated with weaker operating performance, as a result of fiercer-than-currently-anticipated competition, which would lead to slower deleveraging of the Group.

4.3.6. Information on guarantees granted by the Company or subsidiaries

Securities related to the Combined Senior Facilities Agreement

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

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

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

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

(iv) powers of attorney to bank accounts of the Company, Cyfrowy Polsat Trade Marks Sp. z o.o., Polsat Media Biuro Reklamy spółka z ograniczoną odpowiedzialnością Sp.k., Telewizja Polsat, Polkomtel, Eileme 1, Eileme 2, Eileme 3, Eileme, Plus TM Management Sp. z o.o., Dwa Sp. z o.o., Teleaudio Dwa Spółka z ograniczoną odpowiedzialnością Sp. k., Polsat Media Biuro Reklamy Sp. z o.o., Interphone Service Sp. z o.o., Muzo.fm Sp. z o.o., INFO-TV-FM Sp. z o.o., Polkomtel Business Development Sp. z o.o., Nordisk Polska Sp. z o.o., TM Rental Sp. z o.o., Liberty Poland S.A., and Aero2, governed by Polish law;

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

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

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

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

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

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

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

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

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

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

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

(xvi) pledge on all shares in Litenite, governed by Cypriot law;

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

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

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

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

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

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

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

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

5. OTHER 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, 2017 by us or our subsidiaries with entities related to Polsat Group have all been concluded on market conditions and are described in Note 17 of the interim condensed consolidated financial statements for the 3-month period ended March 31, 2017.

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

Cyfrowy Polsat Group had not published any financial forecasts.

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

Management believes that the provisions for litigations as at March 31, 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

Proceedings before the Office of Competition and Consumer (UOKiK)

On February 24, 2011 the President of UOKiK imposed a penalty on Polkomtel in the amount of PLN 130.7 million for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court (SOKiK). According to the Management, during the inspection the Company had fully and at all times cooperated with UOKiK within the scope provided by the law. On June 18, 2014 the decision of the President of UOKiK was changed by SOKiK, reducing the penalty to PLN 4 million (i.e. EUR 1 million). On October 20, 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. On April 28, 2017 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 1.3 million. The Company is currently analyzing the verdict.

On November 23, 2011, Polkomtel received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5 million. In the Management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the President of UOKiK regarding the penalty. Following SOKiK's verdict dated June 19, 2015 the penalty has been revoked in full. On March 15, 2017 the President of UOKiK's appeal has been rejected by the Court. The verdict is binding.

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

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

On December 30, 2014, the President of UOKiK issued a decision ending investigations related to Polkomtel's alleged practices which infringed upon the collective interests of consumers by not providing its telecommunication customers (who 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 21.0 million related to actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On January 13, 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0 million. On April 20, 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0 million. Polkomtel has the right to cassation appeal. In the Management's opinion the claim is groundless.

In September 2015, Polkomtel received a claim from P4, 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, Polkomtel and T-Mobile. The Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 indicates neither nature (premises liability) nor the amount.

On December 30, 2016 the President of UOKiK issued a decision stating that the practices used by the Company and Polkomtel for allegedly infringing collective consumer interests consisting in the use of the advertising slogans, which in its opinion suggests that the data transmission implemented in LTE will not be limited. Pursuant to the decision of the President of UOKiK the Company and Polkomtel was charged with a penalty in the amount of PLN 5.3 million and PLN 18.4 million. The Group appealed to SOKiK against the decision.

On December 30, 2016 the President of UOKiK issued a decision stating that the practices used by the Company and Polkomtel for allegedly infringing collective consumer interests consisting in presentation of promotional offers, while in its opinion it was not possible to conclude the given conditions. Pursuant to the decision of the President of UOKiK the Company and Polkomtel was charged with a penalty in the amount of PLN 4.4 million and PLN 12.3 million. The Group appealed to SOKiK against the decision.

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

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

5.4.1. Factors related to social-economic environment

Economic situation in Poland

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

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

We believe that average consumer spending, including spending on pay TV, 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 positive growth dynamics of GDP in the years 2017-2018 will also have a positive impact on the advertising expenditures in Poland.

Situation on the pay TV market in Poland

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

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

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

Dynamic growth of non-linear distribution of content, delivered by video on demand and OTT (over-the-top) services is a global trend. This market is still at an early stage of development in Poland as compared to Western European countries and in our opinion has significant growth prospects. We consequently develop our services which consist in providing our customers with content on demand – our VOD rental service, the leading online television in Poland, IPLA, as well as our online service Cyfrowy Polsat GO along with the ON THE GO option, which allows access to content on mobile devices anytime and anywhere. These products are complementary to our core business in the field of pay TV and allow us to broaden our content distribution channels.

Development of the advertising market in Poland

A significant part of our wholesale revenue comes from the sale of advertising airtime and sponsoring slots on TV channels. Demand for advertising air-time is highly correlated with the macro-economic situation. In the past, given the increasing GDP of Poland, the TV advertising market was characterized a regular single-digit (in percentage terms) growth rate. Assuming further positive GDP growth dynamics in the years 2017-2018, we believe that growth of the Polish advertising market can be expected. For example, Zenith media house forecasts that TV ad spending in 2017 will grow by approximately 0.7%.

In our opinion, television remains an effective advertising medium, and given the relatively low level of advertising expenditures in Poland as a percentage of GDP and per capita in comparison to other European markets, we believe there is still a substantial growth potential for TV advertising in Poland in the long term. What is more, the expected high rate of economic growth in 2017-2018 should have a positive influence on the level of advertising expenditure in Poland. It is worth noticing, that despite the growing importance of new media, it is forecasted that television will remain an attractive and popular pastime, primarily thanks to new technical opportunities, which include an increasing number of HD channels and VOD, as well as thanks to a growing number of smart-TVs.

The Internet advertising market is characterized by dynamic growth. According to the IAB AdEx report, online advertising expenditures increased at a rate of 14.0% y-o-y and reached the value of over PLN 3.6 billion in 2016. The growth dynamics of this form of advertising is influenced to a significant extent by expenditures on the video advertising segment, in which we generate our revenue. In 2016 those expenditures increased by 20% and represented 10% of the total expenditures on online advertising. According to PwC forecasts *(Global entertainment and media outlook: 2016-2020)* the online video advertising in Poland will grow by 15.1% (CAGR) in the years 2015-2020. We believe that thanks to one of the leading positions on the online video market (through IPLA internet television and the Cyfrowy Polsat GO service) we may benefit from the growth of this promising advertising market segment.

Growing importance of thematic channels

With the high penetration of the Polish market by pay TV, that provides viewers with an increasingly greater selection of thematic channels, as well as a broader offer of channels available via digital terrestrial television (DTT), main general entertainment channels (FTA) are experiencing a gradual decline in audience shares. What is more, Starcom data suggests that the advertising market share of thematic stations and channels broadcast via terrestrial television multiplexes is consistently growing. In order to maintain total audience share and advertising market share, we focus on developing our thematic channels portfolio and increasing the attractiveness of the content offered to our viewers.

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 EU countries. Based on UKE data, in 2015 the volume of voice traffic in fixed-line networks amounted to 9.2 billion minutes and was already almost 10 times lower than the volume of voice traffic in mobile networks (ca. 91.8 billion minutes).

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

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

Growing demand for smartphones and data transmission

In Poland the popularity and sales of smartphones has been gradually growing. Currently, smartphones have almost completely replaced traditional handsets in our sales structure. Concurrently, we estimate that among all handsets used by our customers only about 66% constitute smartphones. This disproportion shows that the saturation of our mobile services customer base with smartphones 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 estimates presented in the Ericsson Mobility Report dated November 2016, the volume of transmitted data in the Central and Eastern Europe region, to which Poland belongs, will grow at an average annual rate of 40% over the next 6 years (CAGR 2016-2022), which translated into a twelve-fold increase in 2022.

In 2016 residential customers of Polkomtel and Cyfrowy Polsat transferred a total of 514 PB of data, i.e. 80% more than in 2015. We expect that the growing popularity and technological advancement of smartphones offered by manufacturers, combined with improving quality parameters of data transmission services provided in our mobile network and constantly extending offer of application and contents available for customers resulted in the growing demand for data transmission services.

Seasonality of the 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, 2016, TV Polsat Group generated approximately 21.0% of advertising revenue in the first quarter, 28.0% in the second quarter, 20.3% in the third quarter and 30.7% in the fourth quarter.

Seasonality of the telecommunications 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, complementing them with products and services outside our core activity, such as financial and insurance services, gas and electric energy supply or sale of household appliances.

Our bundled services offers, addressed both to our residential and businesses customers, enable our customers to combine products in a flexible way and benefit from attractive discounts that we offer. The program smartDOM, launched in 2014, yields excellent sales results. The possibility to sell additional products and services (cross-selling) to current customers of Cyfrowy Polsat and Polkomtel 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 of integrated and value added services to our customers, both through up-selling of single products and value added services, as well as through the sale of integrated offers and cross-selling, may significantly increase the number of services per individual customer, thus increasing the average revenue per user (ARPU).

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

We provide broadband Internet access services in numerous available mobile technologies, including mainly HSPA/HSPA+ and the latest LTE and LTE-Advanced technologies. Currently, LTE Internet has become the standard of mobile broadband Internet in Poland, successfully replacing the 3G technologies. Thanks to its technical characteristics and quality parameters, mobile LTE Internet often replaces fixed-line connections and satisfies increasingly demanding customers. In addition, it has the advantage of mobility, a feature that is systematically gaining importance with changing consumer preferences. We strongly believe that over the long term, as the necessary radio infrastructure and appropriate end-user devices develop, the LTE and LTE-Advanced technologies, and 5G in the future, will revolutionize not only the broadband Internet market but also content distribution. The wide availability of our LTE Internet service and its high quality confirmed by UKE research constitute a significant competitive advantage and help us to further increase our customer base both of stand-alone and integrated services.

We provide telecommunication services in the LTE and LTE-Advanced technologies based on frequencies in the 1800, 2600 and 800 MHz bandwidths (including carrier aggregation). We were the first operator in Poland to launch the LTE 800 network commercially, in March 2015 and in 2016 we introduced services in the LTE-Advanced technology, based on carrier aggregation. In January 2017, 99% of Poles lived within the coverage of the LTE Internet service offered by Polkomtel and Cyfrowy Polsat and 40% were within the coverage of the fastest LTE-Advanced Internet access service.

Development of the IPLA service

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

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

Attractive content of our TV channels

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

We also offer a wide selection of sports transmissions, including FIFA World Championships 2018 and 2022, as well as UEFA EURO 2020 qualifying stages, attractive games and big volleyball tournaments – 2017 European Volleyball Championships (the men's tournament will be held in Poland), the Volleyball World League, Volleyball World Grand Prix, and the Volleyball Champions League – Men and Women, Plus Liga and Orlen Liga; boxing and mixed martial arts galas, Wimbledon and ATP 1000 and 500 tournaments, and many others. We believe that attractive content, including such content that is not available in the offer of other pay TV operators is a significant competitive advantage over other pay TV operators in Poland.

5.4.3. Factors related to the regulatory environment

International roaming in mobile networks

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

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

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

- 5 euro cents per 1MB of data transfer;
- 5 euro cents per minute in the case of outgoing voice calls;
- the average European MTR rate (1.08 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 30, 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 (as of January 5, 2017 – 1.08 euro cents)	n/a
SMS (1 SMS)	6 euro cents	6 euro cents	2 euro cents

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

The implementation of the *Roam like at Home* concept on June 15, 2017 in line with the Regulation depended on the revision of wholesale charges for roaming services, which are currently as follows:

	Maximum average wholesale prices (settlements between operators) from:					
	June 15, 2017	January 1, 2018	January 1, 2019	January 1, 2020	January 1, 2021	January 1, 2022
Data transmission (per 1 GB)	7.75 euro	6 euro	4.5 euro	3.5 euro	3 euro	2.5 euro
Outbound voice calls (per minute)	3.2 euro cents	3.2 euro cents	3.2 euro cents	3.2 euro cents	3.2 euro cents	3.2 euro cents
SMS (per 1 SMS)	1 euro cent	1 euro cent	1 euro cent	1 euro cent	1 euro cent	1 euro cent

Concurrently, the European Commission presented the concept of a *Fair Usage Policy*, which aims to protect the interests of operators in individual member states after the implementation of the *Roam like at home* rule. Additionally, according to European Commission declarations, there is a possibility to release individual operators from the obligation of levelling retail roaming charges with domestic charges by introducing a mechanism of supplementary payments to domestic prices in order to cover losses, if the given operator can prove that he would not be able to cover incurred costs related to the provision of roaming services.

Reservations of spectrum in the 800 MHz band

As a result of the termination in 2015 of the LTE auction of 5 blocks in the 800 MHz band and 14 blocks in the 2600 MHz block, Polsat Group's competitors gained the possibility to provide high quality services in LTE based on frequencies in the 800 MHz band. Our competitors are rolling-out their mobile networks based on the 800 MHz spectrum, thus consistently increasing the coverage of their respective LTE networks.

Cooperation between certain telecommunication operators in the scope of network sharing may have a significant effect on the shape of the Polish telecoms market in the foreseeable future. In December 2016 T-Mobile Polska and Orange Polska signed an agreement, pursuant to which they will develop their own LTE networks using jointly the network of transmitters of the joint venture NetWorks!, however, they will not share radio resources from the 800 MHz bandwidth. Concurrently, it cannot be unequivocally predicted, whether high costs of financing the purchase of the 800 MHz spectrum incurred by our competitors will be reflected in their pricing policies related to mobile services.

It must be emphasized that legal proceedings in connection with the modification of the rules ending the auction while the auction process was in progress are in progress. This is 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.

Registration of prepaid SIM cards

In the past anonymous use of prepaid mobile services in Poland was possible, i.e. the user was not obligated to provide any personal data. In accordance with the provisions of the Anti-terrorist Act of July 10, 2016, existing prepaid SIM users have been obligated to provide their personal data to their telecom operators until February 1, 2017 at the latest. Concurrently, telecommunication operators have been obligated to properly verify the provided personal data. Operators were obligated to discontinue the provision of services for those SIM cards, which had not been properly registered.

As a result of the implementation of the regulations stemming from the anti-terrorist act, the Polish mobile market has been remodeled, in particular a sharp reduction, estimated by us at ca. 50%, of the volume of sales of prepaid SIMs took place, while simultaneously the average period of activity of registered SIMs was extended and the volumes of prepaid customer bases reported by respective operators was reduced (due to the elimination of the so-called "dead souls"). This should lead to obtaining more realistic figures regarding the size and mobile penetration for the Polish market.

According to the data published by the Central Statistical Office (GUS), at the end of March 2017 the total base of reported SIM cards declined by around 5.2 million during 9 months. Polsat Group decided to exclude, on a one-off basis, from reported statistics of all SIM cards that have not been hitherto registered. We remain unsure whether similar decision had been made by our competitors. However, we assume that the number of SIM cards reported by domestic operators may erode further in the coming quarters.

At the same time, the reduction of the number of cards used for brief periods of time and generating relatively low revenue, combined with the phasing out of the negative effects of temporary promotions related to the registration process should translate into a significant strengthening of the level of ARPU in the prepaid segment. In our case, this effect was already visible in the first quarter of 2017.

5.4.4. Financial factors

Exchange rates fluctuations

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

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

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

Tobias Solorz
President of the Management Board

Katarzyna Ostap-Tomann
Member of the Management Board

Dariusz Działkowski
Member of the Management Board

Tomasz Gillner-Gorywoda
Member of the Management Board

Aneta Jaskólska
Member of the Management Board

Agnieszka Odorowicz
Member of the Management Board

Maciej Stec
Member of the Management Board

Warsaw, May 10, 2017

GLOSSARY

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

Glossary of general terms

Term	Definition
Aero2	Aero2 spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000305767, subsidiary of Litenite.
Aero2 Group	Aero2 and its indirect and direct subsidiaries - Sferia and Altalog.
AltaLog	AltaLog spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000493305, subsidiary of Aero2.
Amendment, Restatement and Consolidation Deed	Agreement concluded on September 21, 2015 between the Company, Polkomtel, Telewizja Polsat, Cyfrowy Polsat Trade Marks, Polsat License Ltd. and Polsat Media Biuro Reklamy, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental, Plus TM Group and a consortium of Polish and foreign financing institutions, amending and consolidating the CP SFA and the PLK SFA.
ATS, WSE ATS	Alternative system of trading in debt instruments organized by the WSE within the Catalyst market.
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 Resolution of the Management Board of the Company No. 01/02/07/2015 dated July 2, 2015.
Bonds Terms	Terms and conditions of Bonds issuance together with the supplement.
Catalyst	Trading system of debt instruments operating on markets organized by the WSE and Bondspot, as defined in § 1 of the Catalyst Operating Rules adopted pursuant to resolution no. 59/2010 of the Management Board of WSE on January 27, 2010, as amended.
Combined SFA	CP SFA of September 21, 2015 as amended by the Amendment, Restatement and Consolidation Deed of September 21, 2015.
CP Revolving Facility Loan	The revolving facility loan of up to PLN 300 million, issued under the CP Senior Facilities Agreement, with the maturity date of September 21, 2020.
CP Senior Facilities Agreement, CP SFA	The Senior Facilities Agreement of September 21, 2015 between the Company, Telewizja Polsat, CPTM, Polsat License Ltd. and Polsat Media Biuro Reklamy, and a syndicate of Polish and foreign banks, covering the CP Term Facility Loan and the CP Revolving Facility Loan.
CP Term Facility Loan	The term facility loan of up to PLN 1.2 billion, issued under the CP Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
Cyfrowy Polsat, the Company	Cyfrowy Polsat Spółka Akcyjna, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000010078.
Cyfrowy Polsat Trade Marks, CPTM	Cyfrowy Polsat Trade Marks spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000373011.
Eileme 1	Eileme 1 AB (publ), a company under Swedish law, registered under No. 556854-5668.
Eileme 2	Eileme 2 AB (publ), a company under Swedish law, registered under No. 556854-5676.
Eileme 3	Eileme 3 AB (publ), a company under Swedish law, registered under No. 556854-5692.
Eileme 4	Eileme 4 AB (publ), a company under Swedish law, registered under No. 556854-5684.
Embud	Embud spółka z ograniczoną odpowiedzialnością entered in the register of entrepreneurs of the National Court Register under entry No. 0000165473.
the Group, Polsat Group, Cyfrowy Polsat Group	Cyfrowy Polsat and the indirect and direct subsidiaries of the Company.

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. Redeemed in full on April 26, 2017.
Metelem	Metelem Holding Company Limited, a company under Cypriot law, registered under No. 286591, indirectly controlling 100% shares in Polkomtel. Merged with Cyfrowy Polsat on April 7, 2017.
Midas	Midas Spółka Akcyjna previously entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000025704. On November 30, 2016 Midas merged with Aero2.
NBP	Narodowy Bank Polski, the central bank of the Republic of Poland.
NDS	National Depository for Securities (*Krajowy Depozyt Papierów Wartościowych, KDPW*).
Orange, Orange Polska	Orange Polska Spółka Akcyjna, entered in the register of entrepreneurs of the National Court register under entry No. KRS 0000010681, previously operating under the name of Telekomunikacja Polska Spółka Akcyjna.
P4	P4 spółka z ograniczoną odpowiedzialnością, entered in the register of entrepreneurs of the National Court Register under entry No. KRS 0000217207, operator of Play mobile network.
PLK Revolving Facility Loan	The revolving facility loan of up to PLN 700 million, issued under the PLK Senior Facilities Agreement of September 21, 2015, with the maturity date of September 21, 2020.
PLK Senior Facilities Agreement, PLK SFA	The Senior Facilities Agreement of September 21, 2015 between Polkomtel, Eileme 2, Eileme 3, Eileme 4, Plus TM Management, TM Rental and Plus TM Group and a syndicate of Polish and foreign financial institutions, covering the PLK Term Facility Loan and the PLK Revolving Facility Loan.
PLK Senior Notes 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.
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 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., Aero2, Sferia, 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.

Term	Definition
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.
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).
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.

Term	Definition
Churn	Termination of the contract with Customer by means of the termination notice, collections or other activities resulting in the situation that after termination of the contract the Customer does not have any active service provided in the contract model. Churn rate presents the relation of the number of customers for whom the last service has been deactivated (by means of the termination notice as well as deactivation as a result of collection activities or other reasons) within the last 12 months to the annual average number of customers in this 12-month period.
Contract ARPU	Average monthly revenue per customer generated in a given settlement period (including interconnect revenue).
Converged (integrated) services	A package of two or more services from our pay TV, mobile telecommunications and broadband Internet access offering, provided under a single contract and for a single subscription fee.
Customer, contract customer	Natural person, legal entity or an organizational unit without legal personality who has at least one active service provided in a contract model.
DTH	Satellite pay TV services provided by us in Poland from 2001.
DTT	Digital Terrestrial Television.
DVB-T	Digital Video Broadcasting – Terrestrial technology.
DVR	Set-top boxes equipped with a hard drive enabling the recording of TV programs (Digital Video Recorder).
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).
ERP	A family of IT systems supporting enterprise management or shared operation of a group of collaborating enterprises through data collection and enabling transactions on the collected data (enterprise resource planning).
GB	Gigabyte – a measure of digital information, comprising one billion bytes, or 1024^3 bytes, depending on the interpretation – decimal or binary, respectively.
GPRS	Mobile data transmission service for GSM users (General Packet Radio Service).
GRP	A rating point defined as the overall number of persons viewing a given advertising spot over a specific time, expressed as a percentage share of the target group. In Poland, one GRP equals 0.2 million residents in the primary target group for advertisers aged 16-49 (Gross Rating Point).
GSM	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols, in particular regarding access to voice services (Global System for Mobile Communications).
GSM-1800	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 1800 MHz bands, in particular regarding access to voice services.
GSM-900	A standard developed by the European Telecommunications Standards Institute, which designates 2G cellular telecommunications network protocols in the 900 MHz bands, in particular regarding access to voice services.
HD	Above-standard resolution signal (High Definition).
HSPA/HSPA+	Radio data transmission technology for wireless networks, increasing the capacity of the UMTS network (High Speed Packet Access/High Speed Packet Access Plus). It also covers the HSPA+ Dual Carrier technology (Evolved High Speed Packet Access Dual Carrier). It supports transmission speeds of up to 42 Mb/s for download and up to 5.7 Mb/s for upload.
Interconnect revenue	Wholesale revenue for terminating voice and non-voice traffic on Polkomtel's network from other network operators based on interconnect agreements as well as revenue from transit of traffic.
IPLA	Internet platform providing access to online video content belonging to Polsat Group.
IPTV	Technology enabling transfer of a television signal over IP broadband networks (Internet Protocol Television).
IVR	A telecommunications system enabling human-computer interaction using voice or tone signals (Interactive Voice Response).

Term	Definition
LTE	Long Term Evolution - a standard for high-speed, wireless data transmission also referred to as 4G. Based on a carrier bandwidth limited to a maximum of 20MHz it supports data transmission speed of up to 150 Mb/s (downlink, using MIMO 2x2 antennas).
LTE-Advanced	Subsequence standard for high-speed, wireless data transmission of the fourth generation (4G). Through carrier aggregation from different bandwidths (a total of up to 100 MHz) it allows to significantly increase maximum data transmission speed up to 3 Gb/s (downlink, using MIMO 4x4 antennas).
Mb/s	A unit of telecommunications channel capacity, being one million or 1024^2 bytes (Megabyte) per second, depending on the interpretation – decimal or binary, respectively.
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).
RGU (Revenue Generating Unit)	Single, active service of pay TV, Internet Access or mobile telephony provided in contract or prepaid model.
SD	Standard-resolution television signal (Standard Definition).
SMS	Service enabling the sending of short text messages over telecommunications networks (Short Message Service).
streaming	A technical process initiated by the user, enabling the replaying (of video or audio/video content) of material available on the Internet on the user's terminal device, without it being necessary to download the entire content. The process involves the sending of digital data streams, being sections of the entire content spread over time, instead of the entire material.
Technical coverage	Percentage of households in Poland capable of receiving the broadcast of a given channel by Telewizja Polsat.
TSV (Time Shifted Viewing)	Shifting in time of the consumption of content broadcast on TV in real time by recording it on a storage medium (e.g. digital video recorder) and replaying it at a later time.
UMTS	Globally-used European 3G telecommunications standard based on GSM, enabling the provision of data transmission services with a maximum speed of 384 kb/s (Universal Mobile Telecommunications System).
Usage definition (90-day for prepaid RGU)	Number of reported RGUs of prepaid services of mobile telephony and Internet access refers to the number of SIM cards which received or answered calls, sent or received SMS/MMS or used data transmission services within the last 90 days. In the case of free of charge Internet access services provided by Aero2, the Internet prepaid RGUs were calculated based on only those SIM cards, which used data transmission services under paid packages within the last 90 days.
USSD	A protocol used in GSM networks, which enables communication between a mobile phone and a network operator's computer.
Value-added services, VAS	Services offered by telecommunications undertakings and including entertainment, news, location and financial services.
Virtual private network	Network enabling a private connection over a public network (e.g. Internet).

Term	Definition
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 2017

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

Table of contents

APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

On 10 May 2017, 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 2017 to 31 March 2017 showing a net profit for the period of:	PLN 271.4
Interim Consolidated Statement of Comprehensive Income for the period	
from 1 January 2017 to 31 March 2017 showing a total comprehensive income for the period of:	PLN 270.7
Interim Consolidated Balance Sheet as at	
31 March 2017 showing total assets and total equity and liabilities of:	PLN 27,553.2
Interim Consolidated Cash Flow Statement for the period	
from 1 January 2017 to 31 March 2017 showing a net increase in cash and cash equivalents amounting to:	PLN 244.3
Interim Consolidated Statement of Changes in Equity for the period	
from 1 January 2017 to 31 March 2017 showing an increase in equity of:	PLN 270.7

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	Dariusz Działkowski Member of the Management Board	Tomasz Gillner-Gorywoda Member of the Management Board	Aneta Jaskólska Member of the Management Board
Agnieszka Odorowicz Member of the Management Board	Katarzyna Ostap-Tomann Member of the Management Board	Maciej Stec Member of the Management Board	

Warsaw, 10 May 2017

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

Interim Consolidated Income Statement

		for the 3 months ended	
	Note	31 March 2017 unaudited	31 March 2016 unaudited
Continuing operations			
Revenue	8	2,388.6	2,364.0
Operating costs	9	(1,938.2)	(1,948.0)
Other operating income, net		6.8	6.8
Profit from operating activities		**457.2**	**422.8**
Gain/(loss) on investment activities, net	10	30.5	(35.2)
Finance costs	11	(185.5)	(182.7)
Share of the profit of joint venture accounted for using the equity method		-	0.8
Gross profit for the period		**302.2**	**205.7**
Income tax		(30.8)	(27.2)
Net profit for the period		**271.4**	**178.5**
Net profit attributable to equity holders of the Parent		279.4	175,5
Net (loss)/profit attributable to non-controlling interest		(8.0)	3,0
Basic and diluted earnings per share attributable to equity holders of the Parent (in PLN)		**0.42**	**0,27**

Interim Consolidated Statement of Comprehensive Income

		for the 3 months ended	
	Note	31 March 2017 unaudited	31 March 2016 unaudited
Net profit for the period		**271.4**	**178.5**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	13	(0.9)	2.5
Income tax relating to hedge valuation	13	0.2	(0.5)
Items that may be reclassified subsequently to profit or loss		**(0.7)**	**2.0**
Other comprehensive income/(loss), net of tax		**(0.7)**	**2.0**
Total comprehensive income for the period		**270.7**	**180.5**
Total comprehensive income attributable to equity holders of the Parent		278.7	177.5
Total comprehensive income/(loss) attributable to non-controlling interest		(8.0)	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

	31 March 2017 unaudited	31 December 2016
Reception equipment	342.2	350.9
Other property, plant and equipment	2,885.9	2,964.3
Goodwill	10,975.4	10,975.4
Customer relationships	2,883.1	3,031.2
Brands	2,050.5	2,056.5
Other intangible assets	3,540.5	3,656.2
Non-current programming assets	150.0	151.8
Investment property	5.1	5.1
Non-current deferred distribution fees	83.8	82.8
Other non-current assets	476.3	452.0
includes derivative instruments assets	*7.8*	*9.5*
Deferred tax assets	249.3	232.7
Total non-current assets	**23,642.1**	**23,958.9**
Current programming assets	179.8	192.0
Inventories	237.2	278.7
Trade and other receivables	1,608.5	1,688.0
Income tax receivable	30.3	29.1
Current deferred distribution fees	205.7	207.2
Other current assets	72.3	38.7
includes derivative instruments assets	*4.9*	*6.7*
Cash and cash equivalents	1,567.7	1,326.0
Restricted cash	9.6	10.7
Total current assets	**3,911.1**	**3,770.4**
Total assets	**27,553.2**	**27,729.3**

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

Interim Consolidated Balance Sheet - Equity and Liabilities

	Note	31 March 2017 unaudited	31 December 2016
Share capital	12	25.6	25.6
Share premium	12	7,174.0	7,174.0
Other reserves	13	3.8	4.5
Retained earnings		4,374.9	4,095.5
Equity attributable to equity holders of the Parent		**11,578.3**	**11,299.6**
Non-controlling interests		**70.0**	**78.0**
Total equity		**11,648.3**	**11,377.6**
Loans and borrowings	14	9,056.0	9,302.7
Issued bonds	15	964.9	1,835.7
Finance lease liabilities		22.6	20.9
UMTS license liabilities		551.0	574.0
Deferred tax liabilities		812.3	786.9
Deferred income		4.0	20.1
Other non-current liabilities and provisions		128.1	130.2
includes derivative instruments liabilities		*1.5*	-
Total non-current liabilities		**11,538.9**	**12,670.5**
Loans and borrowings	14	1,286.8	1,270.0
Issued bonds	15	981.4	42.4
Finance lease liabilities		5.2	5.0
UMTS license liabilities		116.6	121.5
Trade and other payables		1,337.9	1,569.5
includes derivative instruments liabilities		*1.5*	-
Income tax liability		4.3	24.9
Deferred income		633.8	647.9
Total current liabilities		**4,366.0**	**3,681.2**
Total liabilities		**15,904.9**	**16,351.7**
Total equity and liabilities		**27,553.2**	**27,729.3**

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

Interim Consolidated Cash Flow Statement

	Note	for the 3 months ended	
		31 March 2017 unaudited	31 March 2016 unaudited
Net profit		**271.4**	**178.5**
Adjustments for:		**509.3**	**405.9**
Depreciation, amortization, impairment and liquidation	9	472.3	423.7
Payments for film licenses and sports rights		(33.3)	(58.1)
Amortization of film licenses and sports rights		48.5	49.1
Interest expense		114.5	144.7
Change in inventories		41.5	21.5
Change in receivables and other assets		21.5	(33.9)
Change in liabilities, provisions and deferred income		(181.5)	(205.9)
Foreign exchange (gains)/losses, net		(28.4)	250.2
Income tax		30.8	27.2
Net additions of reception equipment provided under operating lease		(33.1)	(31.1)
Early redemption costs	11	58.7	-
Net gain on derivatives		(0.1)	(174.6)
Other adjustments		(2.1)	(6.9)
Cash from operating activities		**780.7**	**584.4**
Income tax paid		(43.5)	(145.7)
Interest received from operating activities		14.5	8.1
Net cash from operating activities		**751.7**	**446.8**
Acquisition of property, plant and equipment		(138.9)	(98.4)
Acquisition of intangible assets		(33.2)	(20.3)
Concession payments		-	(147.7)
Acquisition of subsidiaries, net of cash acquired		-	262.2
Proceeds from sale of property, plant and equipment		12.8	3.5
Short-term deposits		-	(12.4)
Granted loans		-	(6.8)
Other investing activities – derivatives		(1.1)	(5.0)
Other inflows		1.2	-
Net cash used in investing activities		**(159.2)**	**(24.9)**
Loans and borrowings inflows	14	-	5,500.0
Bonds redemption	15	-	(4,483.8)
Repayment of loans and borrowings	14	(234.0)	(916.1)
Payment of interest on loans, borrowings, bonds, finance lease and commissions*		(112.5)	(383.2)
Early redemption fee	15	-	(262.1)
Hedging instrument effect – principal		-	175.4
Other outflows		(1.7)	(2.1)
Net cash used in financing activities		**(348.2)**	**(371.9)**

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

Net increase in cash and cash equivalents	**244.3**	**50.0**
Cash and cash equivalents at the beginning of the period	**1,336.7****	**1,523.7*****
Effect of exchange rate fluctuations on cash and cash equivalents	(3.7)	(3.7)
Cash and cash equivalents at the end of the period	**1,577.3******	**1,570.0*******

* Includes impact of hedging instruments and amount paid for costs related to the new financing
** Includes restricted cash amounting to PLN 10.7
*** Includes restricted cash amounting to PLN 11.7
**** Includes restricted cash amounting to PLN 9.6
***** 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 2017

	Share capital	Share premium	Other reserves	Retained earnings*	Equity attributable to equity holders of the Parent	Non-controlling interests	**Total equity**
Balance as at 1 January 2017	**25.6**	**7,174.0**	**4.5**	**4,095.5**	**11,299.6**	**78.0**	**11,377.6**
Total comprehensive income	-	-	(0.7)	279.4	278.7	(8.0)	**270.7**
Hedge valuation reserve	-	-	*(0.7)*	-	*(0.7)*	-	***(0.7)***
Net profit for the period	-	-	-	*279.4*	*279.4*	*(8.0)*	***271.4***
Balance as at 31 March 2017 unaudited	**25.6**	**7,174.0**	**3.8**	**4,374.9**	**11,578.3**	**70.0**	**11,648.3**

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

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.

Notes to the Interim Condensed Consolidated Financial Statements

General information

1. The Parent Company

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

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

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

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

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

- Marek Kapuściński	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board,
- Tomasz Szeląg	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 consolidated financial statements

Statement of compliance

These interim condensed consolidated financial statements for the 3 months ended 31 March 2017 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 2016, 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 2017 and the consolidated financial statements for the year 2016, 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 2017. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2017 do not have a material impact on these interim condensed consolidated financial statements.

5. Group structure

These interim condensed consolidated financial statements for the 3 months ended 31 March 2017 include the following entities:

			Share in voting rights (%)	
	Entity's registered office	Activity	31 March 2017	31 December 2016
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%
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%
Polsat License Ltd.	Alte Landstrasse 17, 8863 Buttikon, Switzerland	trade of programming licences	100%	100%
Telewizja Polsat Holdings Sp. z o.o. (a)	Ostrobramska 77, Warsaw	holding activities	100%	100%
Polsat Media Biuro Reklamy Sp. z o.o.	Ostrobramska 77, Warsaw	media	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 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
PL 2014 Sp. z o.o.	Ostrobramska 77, Warsaw	other sport relating activities (dormant)	100%	100%
Polsat Brands AG (formerly 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%
Metelem Holding Company Limited (b)	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 and financial 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 2017	31 December 2016
Subsidiaries accounted for using full method (cont.)				
Polkomtel Sp. z o.o.	Konstruktorska 4, Warsaw	telecommunication activities	100%	100%
Nordisk Polska Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warsaw	telecommunication activities	100%	100%
Polkomtel Finance AB (publ) (in liquidation)	Norrlandsgatan 18 111 43 Stockholm Sweden	financial activities	100%	100%
Liberty Poland S.A.	Katowicka 47, Chorzów	telecommunication activities	100%	100%
Polkomtel Business Development Sp. z o.o.	Konstruktorska 4, Warsaw	other activities supporting financial services, gaseous fuels trading activities	100%	100%
Plus TM Management Sp. z o.o.	Konstruktorska 4, Warsaw	intelectual property rights management and rental	100%	100%
LTE Holdings Limited	Kostaki Pantelidi 1 1010, Nicosia Cyprus	holding activities	100%	100%
TM Rental Sp. z o.o. (formerly Plus TM Group Spółka z ograniczoną odpowiedzialnością Spółka Komandytowo-Akcyjna)	Konstruktorska 4, Warsaw	intelectual property rights rental	100%	100%
IT Polpager S.A.[(c)]	Al. Stanów Zjednoczonych 61A, Warsaw	maintenance of telco network	-	100%
Orsen Holding Ltd.	Level 2 West, Mercury Tower, Elia Zammit Street, St. Julian's STJ 3155, Malta	holding activities	100%	100%

(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 2017	31 December 2016
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, 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.	Kostaki Pantelidi 1 1010, Nikozja Cypr	holding activities	100%	100%
Aero 2 Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warszawa	telecommunication activities	100%	100%
Sferia S.A.	Al. Stanów Zjednoczonych 61A, Warszawa	telecommunication activities	51%	51%
Altalog Sp. z o.o.	Al. Stanów Zjednoczonych 61A, Warszawa	software	66%	66%

* Cyfrowy Polsat S.A. indirectly holds 100% of certificates.
(a) On 28 April 2017a merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o. was registered
(b) On 7 April 2017 a cross-border merger of Cyfrowy Polsat with its subsidiary Metelem Holding Company Limited was registered
(c) On 31 March 2017 a merger of Polkomtel Sp. z o.o. with IT Polpager S.A. was registered.

(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 2017	31 December 2016
Polsat JimJam Ltd.	105-109 Salusbury Road London NW6 6RG UK	television activities	50%	50%
Polski Operator Telewizyjny Sp. z o.o.	Wiertnicza 159, Warsaw	radio communications and radio diffusion	50%	50%
New Media Ventures Sp. z o.o.	Wołoska 18, Warsaw	maintenance of loyalty programs	49.97%	49.97%
Paszport Korzyści Sp. z o.o.	Konstruktorska 4, 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 2017:

			Share in voting rights (%)	
	Entity's registered office	Activity	31 March 2017	31 December 2016
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, Olsztyn	infrastructure projects advisory	1.5%**	1.5%**

* Investment accounted for at cost less any accumulated impairment losses

** Altalog Sp. z o.o. holds 2.3% share in voting rights in InPlus Sp. z o.o.

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 10 May 2017.

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

Explanatory notes

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 2017 unaudited	**31 March 2016 unaudited**
Retail revenue	1,542.7	1,565.7
Wholesale revenue	562.1	599.8
Sale of equipment	248.6	172.8
Other revenue	35.2	25.7
Total	**2,388.6**	**2,364.0**

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.

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

9. Operating costs

	Note	for the 3 months ended 31 March 2017 unaudited	for the 3 months ended 31 March 2016 unaudited
Technical costs and cost of settlements with telecommunication operators		468.2	550.3
Depreciation, amortization, impairment and liquidation		472.3	423.7
Cost of equipment sold		323.6	326.8
Content costs		264.3	248.5
Distribution, marketing, customer relation management and retention costs		211.1	200.5
Salaries and employee-related costs	a	127.8	137.9
Cost of debt collection services, bad debt allowance and receivables written off		19.3	9.6
Other costs		51.6	50.7
Total		**1,938.2**	**1,948.0**

a) Salaries and employee-related costs

	for the 3 months ended 31 March 2017 unaudited	for the 3 months ended 31 March 2016 unaudited
Salaries	105.3	114.7
Social security contributions	18.7	19.9
Other employee-related costs	3.8	3.3
Total	**127.8**	**137.9**

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

	for the 3 months ended 31 March 2017 unaudited	for the 3 months ended 31 March 2016 unaudited
Interest net	9.7	8.4
Other foreign exchange gains/(losses), net	33.0	(28.5)
Other costs	(12.2)	(15.1)
Total	**30.5**	**(35.2)**

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

11. Finance costs

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Interest expense on loans and borrowings	91.0	95.4
Interest expense on issued bonds	31.1	50.5
Early redemption costs	58.7	-
Foreign exchange differences on issued bonds	-	244.8
Valuation of early redemption option	-	(2.2)
Valuation and realization of hedging instruments	(0.1)	1.9
Valuation and realization of derivatives not used in hedge accounting – relating to interest	3.4	(7.0)
Valuation and realization of derivatives not used in hedge accounting – relating to principal	-	(203.8)
Guarantee fees, bank and other charges	1.4	3.1
Total	**185.5**	**182.7**

12. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 March 2017 and 31 December 2016:

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

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

The shareholders' structure as at 31 March 2017 and 31 December 2016 was as follows:

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

[1] Entity is controlled by Mr. Zygmunt Solorz

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

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

(ii) Share premium

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

13. Hedge valuation reserve

Impact of hedging instruments valuation on other reserves

	2017	2016
Balance as at 1 January	**1.2**	**(6.7)**
Valuation of cash flow hedges	(0.9)	2.5
Deferred tax	0.2	(0.5)
Change for the period	**(0.7)**	**2.0**
Balance as at 31 March unaudited	**0.5**	**(4.7)**

14. Loans and borrowings

Loans and borrowings	31 March 2017 unaudited	31 December 2016
Short-term liabilities	1,286.8	1,270.0
Long-term liabilities	9,056.0	9,302.7
Total	**10,342.8**	**10,572.7**

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

Change in loans and borrowings liabilities:

	2017	2016
Loans and borrowings as at 1 January	**10,572.7**	**6,610.7**
Loans and borrowings on acquisition of Litenite	-	380.1
Facilities agreement	-	4,800.0
Revolving facility loan	-	700.0
Repayment of capital	(234.0)	(916.1)
Repayment of interest and commissions	(86.9)	(95.0)
Interest accrued	91.0	95.4
Loans and borrowings as at 31 March unaudited	**10,342.8**	**11,575.1**

15. Issued bonds

	31 March 2017 unaudited	31 December 2016
Short-term liabilities	981.4	42.4
Long-term liabilities	964.9	1,835.7
Total	**1,946.3**	**1,878.1**

Change in issued bonds:

	2017	2016
Issued bonds as at 1 January	**1,878.1**	**5,752.0**
Bonds on acquisition of Litenite	-	1,277.7
Bonds redemption	-	(4,483.8)
Foreign exchange losses	-	244.8
Repayment of interest and commission	(21.6)	(285.0)
Early redemption fee	58.7	(262.1)
Interest accrued	31.1	50.5
Issued bonds payable as at 31 March unaudited	**1,946.3**	**2,294.1**

Other notes

16. Operating segments

The Group operates in the following two segments:

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

The Group conducts its operating activities primarily in Poland.

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

Services to individual and business customers segment includes:

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

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 2017:

The 3 months ended 31 March 2017 (unaudited)	Services to individual and business customers	Broadcasting and television production	Consolidation adjustments	Total
Revenues from sales to third parties	2,120.1	268.5	-	2,388.6
Inter-segment revenues	9.8	36.5	(46.3)	-
Revenues	**2,129.9**	**305.0**	**(46.3)**	**2,388.6**
EBITDA (unaudited)	**821.4**	**108.1**	**-**	**929.5**
Depreciation, amortization, impairment and liquidation	462.7	9.6	-	472.3
Profit from operating activities	**358.7**	**98.5**	**-**	**457.2**
Acquisition of property, plant and equipment, reception equipment and other intangible assets	196.5*	8.9	-	205.4
Balance as at 31 March 2017 (unaudited)				
Assets, including:	23,112.5	4,488.3**	(47.6)	**27,553.2**
Investments in joint venture	-	5.9	-	5.9

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

** Includes non-current assets located outside of Poland in the amount of PLN 15.1.

All material revenues are generated in Poland.

It should be noted that the data for 3 months ended 31 March 2017 is not comparable to the 3 months ended 31 March 2016 as Litenite Limited was acquired on 29 February 2016 (allocated to the Services to individual and business customers segment) and IT Polpager S.A. was acquired on 30 September 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 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.

Reconciliation of EBITDA and Net profit for the period:

	for the 3 months ended	
	31 March 2017 unaudited	**31 March 2016 unaudited**
EBITDA (unaudited)	**929.5**	**846.5**
Depreciation, amortization, impairment and liquidation (note 9)	(472.3)	(423.7)
Profit from operating activities	**457.2**	**422.8**
Other foreign exchange rate differences, net (note 10)	33.0	(28.5)
Interest costs, net (note 10 and 11)	(115.7)	(131.9)
Early redemption costs (note 11)	(58.7)	-
Foreign exchange differences on issued bonds (note 11)	-	(244.8)
Valuation and realization of derivatives not used in hedge accounting – relating to principal (note 11)	-	203.8
Other	(13.6)	(15.7)
Gross profit for the period	**302.2**	**205.7**
Income tax	(30.8)	(27.2)
Net profit for the period	**271.4**	**178.5**

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

17. Transactions with related parties

Receivables

	31 March 2017 unaudited	31 December 2016
Joint ventures	1.1	1.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	5.1	11.2
Total*	**6.2**	**12.5**

* Amounts presented above do not include deposits paid (31 March 2017 – PLN 3.4, 31 December 2016 – PLN 3.4)

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

Other assets

	31 March 2017 unaudited	31 December 2016
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	1.2	0.1
Total	**1.2**	**0.1**

Liabilities

	31 March 2017 unaudited	31 December 2016
Joint ventures	0.3	1.5
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	23.8	27.3
Total	**24.1**	**28.8**

Loans granted

	31 March 2017 unaudited	31 December 2016
Joint ventures	49.1	48.3
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	2.1	3.1
Total	**51.2**	**51.4**

Issued bonds

	31 March 2017 unaudited	31 December 2016
Entities controlled by a person (or a close member of that person's family) or persons who have control, joint control or significant influence over Cyfrowy Polsat S.A.	865.0	792.2
Total	**865.0**	**792.2**

Liabilities relate to bond issued by Litenite Ltd.

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

Revenues

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Subsidiaries*	-	84.8
Joint ventures	0.1	0.4
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	4.1	3.5
Total	**4.2**	**88.7**

*Concerns transaction with subsidiaries executed prior to their acquisition

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

Expenses and purchases of programming assets

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Subsidiaries*	-	120.2
Joint ventures	0.6	0.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	62.8	57.2
Total	**63.4**	**178.3**

*Concerns transaction with subsidiaries executed prior to their acquisition

In 3 months ended 31 March 2017 the most significant transactions include property rental, cost of electrical energy, expenses for programming assets and advertising services.

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.

Gain on investment activities, net

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Joint ventures	0.7	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.	0.1	0.3
Total	**0.8**	**1.0**

Finance costs

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 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.	72.9	6.0
Total	**72.9**	**6.0**

18. Contingent liabilities

Management believes that the provisions as at 31 March 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Group's financial situation.

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

On 24 February 2011 the President of UOKiK imposed penalty on Polkomtel (Company's indirect subsidiary) in the amount of PLN 130.7 for the alleged lack of cooperation during an inspection carried out by UOKiK in Polkomtel. Polkomtel appealed against the decision of the President of UOKiK to the Consumer and Competition Protection Court ("SOKiK"). According to management, during the inspection the company had fully and at all times cooperated with UOKiK within the scope provided by the law. On 18 June 2014 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 4 (i.e. EUR 1). On 20 October 2015 SOKiK's verdict has been revoked and the case has been transferred for re-examination. On 28 April 2017 the decision of the President of UOKiK has been changed by SOKiK, reducing the penalty to PLN 1,3. The Company is currently analyzing the verdict.

On 23 November 2011 Polkomtel (Company's indirect subsidiary) received a decision of the President of UOKiK in which UOKiK recognized the alleged agreement between Polkomtel, PTK Centertel Sp. z o.o., PTC S.A. and P4 Sp. z o.o. as a competition-restricting practice on the domestic mobile telecommunication services retail market as well as on the domestic wholesale mobile DVB-H technology services market. Pursuant to the decision of the President of UOKiK Polkomtel was charged with a penalty in the amount of PLN 33.5. In management's opinion, no such agreement had been concluded between the parties. The company appealed to SOKiK against the decision of the UOKiK's President regarding the penalty. Following SOKiK's verdict dated 19 June 2015 the penalty has been revoked in full. The President of UOKiK appealed against the verdict. On 15 March 2017 the President of UOKiK appeal has been rejected by the Court. The verdict is binding.

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

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

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

UOKiK Polkomtel was charged with a penalty in the amount of PLN 6.0. The company appealed to SOKiK against the decision.

On 15 December 2014 Polkomtel (Company's indirect subsidiary) received a claim from Orange for the total amount of PLN 21.0 related to the actions allegedly contrary to the obligations arising under the agreement for the transfer of rights to radio frequencies. On 13 January 2015 the company filed an answer to the claim. Pursuant to the decision of the District Court in Warsaw the penalty has been lowered to PLN 9.0. On 20 April 2017 the penalty has been affirmed by the Court in the amount of PLN 9.0. Polkomtel has the right to cassation appeal. In management's opinion the claim is groundless.

In September 2015, Polkomtel (Company's indirect subsidiary) received a claim from P4 Sp. z o.o., in which the company demands compensation of EUR 316.0 (including interest of PLN 85.0), for the alleged actions relating to the pricing of the mobile services rendered between July 2009 and March 2012. The claim assumes payment of the above amount jointly by Orange Poland SA, Polkomtel and T-Mobile Poland SA.
Management believes that the claim is unfounded, as Polkomtel's conduct alone or with other tort entities was not wrongful, in particular relating to the pricing of retail mobile services directed to the telecommunications network of P4 Sp. z o.o. In management's opinion, there is no legal basis for the overall assessment of the alleged actions of each of the operators on the telecommunications market, which is fully a competitive market, and each of the operators has its own business and pricing strategy. The claim of P4 Sp. z o.o. indicates neither nature (premises liability) nor the amount.

On 30 December 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) were allegedly infringing collective consumer interests by presenting advertising slogans, which in the opinion of the authorities were misleading and suggested that the LTE data transmission will not be limited. Pursuant to the decision of the President of UOKiK the Company and Polkomtel were charged with a penalty in the amount of PLN 5.3 and PLN 18.4, respectively. The Group appealed to SOKiK against the decision.

On 30 December 2016 the President of UOKiK issued a decision stating that the operations of the Company and Polkomtel (Company's indirect subsidiary) were allegedly infringing collective consumer interests by presenting sale offers, which in the opinion of the authorities were impossible to conclude. Pursuant to the decision of the President of UOKiK the Company and Polkomtel was charged with a penalty in the amount of PLN 4.4 and PLN 12.3, respectively. The Group appealed to SOKiK against the decision.

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.

19. 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.

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 2016. There have been no significant changes in any risk management policies since the end of year 2016.

(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 2016, 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 assets and liabilities not measured in fair value.

			31 March 2017 unaudited		31 December 2016	
	Category according to IAS 39	The level of the fair value hierarchy	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	53.2	51.5	53.0	51.8
Trade and other receivables	A	*	1,958.3	1,958.3	2,008.9	2,008.9
Cash and cash equivalents	A	*	1,567.7	1,567.7	1,326.0	1,326.0
Restricted cash	A	*	9.6	9.6	10.7	10.7
Loans and borrowings	C	2	(10,417.1)	(10,342.8)	(10,651.7)	(10,572.7)
Issued bonds	C	1,2**	(1,982.9)	(1,946.3)	(2,076.3)	(1,878.1)
UMTS licence liabilities	C	2	(718.6)	(667.6)	(755.4)	(695.5)
Finance lease liabilities	C	2	(27.8)	(27.8)	(25.8)	(25.9)
Accruals	C	*	(606.6)	(606.6)	(706.4)	(706.4)
Trade and other payables and deposits	C	*	(469.8)	(469.8)	(586.0)	(586.0)
Total			**(10,634.0)**	**(10,473.8)**	**(11,403.0)**	**(11,067.2)**
Unrecognized loss				(160.2)		(335.8)

A – loans and receivables
B – derivatives
C - other
* It is assumed that the fair value of these financial assets and liabilities is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value
** As at 31 March 2017 and 31 December 2016, bonds issued by Cyfrowy Polsat are included in level 1 of the fair value hierarchy whereas bonds issued by Litenite are included in level 2 of the fair value hierarchy.

When determining the fair value of finance lease liabilities, forecasted cash flows from the reporting date to assumed dates of lease agreements termination were analyzed. The discount rate for each payment was calculated as a WIBOR interest rate plus a margin regarding the Group's credit risk.

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

Trade and other receivables, 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 interest rate plus a margin regarding the credit risk.

As at 31 March 2017 and 31 December 2016 loans and borrowings comprised senior facilities. The discount rate for each payment was calculated as a sum of implied WIBOR interest rate and a margin regarding the Group's credit risk. When determining the fair value of senior facilities as at 31 March 2017 and 31 December 2016, forecasted cash flows from the reporting date to 21 September 2020 (assumed dates of repayment of the loans) were analyzed.

The fair value of issued bonds as at 31 March 2017 and 31 December 2016 was estimated as a last purchase price at the balance sheet date according to GPW Catalyst quotations for bonds issued by Cyfrowy Polsat S.A. Fair value of Litenite bonds as at 31 March 2017 was estimated in line with the early redemption date and includes early redemption premium. Fair value of Litenite bonds as at 31 December 2016 was estimated according to generally accepted valuation model based on discounted cash flow analysis while the most significant batch data is interest rate reflecting customers credit risks.

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

As at 31 March 2017, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	31 March 2017 unaudited	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Interest rate swaps		-	11.7	-
Hedging derivative instruments:				
Interest rate swaps		-	1.0	-
Total		**-**	**12.7**	**-**

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

Liabilities measured at fair value

	31 March 2017 unaudited	Level 1	Level 2	Level 3
Derivative instruments not designated as hedging instruments:				
Forwards		-	(1.0)	-
Interest rate swaps		-	(1.5)	-
Hedging derivative instruments:				
Interest rate swaps		-	(0.5)	-
Total		**-**	**(3.0)**	**-**

As at 31 December 2016, the Group held the following financial instruments carried at fair value on the statement of financial position:

Assets measured at fair value

	31 December 2016	Level 1	Level 2	Level3
Derivative instruments not designated as hedging instruments:				
Interest rate swaps		-	14.7	-
Hedging derivative instruments:				
Interest rate swaps		-	1.5	-
Total		**-**	**16.2**	**-**

20. Important agreements and events

Merger

On 31 March 2017 a merger of Polkomtel Sp. z o.o. with IT Polpager S.A. was registered. The surviving entity is Polkomtel Sp. z o.o.

21. Events subsequent to the reporting date

Merger

On 7 April 2017 the Company completed a cross-border merger with Metelem Holding Company Limited. The surviving entity is Cyfrowy Polsat.

On 28 April 2017 a merger of Telewizja Polsat Sp. z o.o. with Telewizja Polsat Holdings Sp. z o.o. was registered. The surviving entity is Telewizja Polsat Sp. z o.o.

Recommendation relating to the distribution of the profit

On 12 April 2017 the Company's management adopted a resolution where it recommends to distribute the profit for the year ended 31 December 2016 in the amount of PLN 578.0 as follows:

(i) PLN 204,7 (PLN 0.32 (not in million) per share) to be distributed as dividends to the shareholders of the Company,
(ii) PLN 373,3 to be allocated to the reserve capital.

The Company's management recommends that the dividend day be scheduled for 20 July 2017, and the dividend payment day for 3 August 2017.

Early redemption

On 26 April 2017 Litenite Limited early redeemed all of its issued zero-coupon bonds in the total of PLN 945,4 (including early redemption premium).

22. 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 2017 the Group had outstanding contractual commitments in relation to purchases of programming assets. The table below presents a maturity analysis for such commitments:

	31 March 2017 unaudited	31 December 2016
within one year	144.2	139.4
between 1 to 5 years	175.4	83.3
More than 5 years	22.5	20,0
Total	**342.1**	**242.7**

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

	31 March 2017 unaudited	31 December 2016
within one year	10.1	14.6
Total	**10.1**	**14.6**

Contractual liabilities related to purchases of non-current assets

Total amount of contractual liabilities resulting from agreements on the production and purchasing of property, plant and equipment was PLN 200.4 as at 31 March 2017 (PLN 118.3 as at 31 December 2016). Total amount of contractual liabilities resulting from agreements for the purchases of intangible assets as at 31 March 2017 was PLN 262.9 (PLN 115.3 as at 31 December 2016).

23. 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 2016.

CYFROWY POLSAT S.A.

Interim Condensed Financial Statements
for the 3 months ended 31 March 2017

Prepared in accordance
with International Accounting Standard 34
Interim Financial Reporting

Table of contents

APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

On 10 May 2017, 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 2017 to 31 March 2017 showing a net profit for the period of:	PLN 56.6
Interim Statement of Comprehensive Income for the period from 1 January 2017 to 31 March 2017 showing a total comprehensive income for the period of:	PLN 55.9
Interim Balance Sheet as at 31 March 2017 showing total assets and total equity and liabilities of:	PLN 13,227.0
Interim Cash Flow Statement for the period from 1 January 2017 to 31 March 2017 showing a net decrease in cash and cash equivalents amounting to:	PLN 40.4
Interim Statement of Changes in Equity for the period from 1 January 2017 to 31 March 2017 showing an increase in equity of:	PLN 55.9

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	Dariusz Działkowski Member of the Management Board	Tomasz Gillner-Gorywoda Member of the Management Board	Aneta Jaskólska Member of the Management Board
Agnieszka Odorowicz Member of the Management Board	Katarzyna Ostap-Tomann Member of the Management Board	Maciej Stec Member of the Management Board	Agnieszka Szatan Chief Accountant

Warsaw, 10 May 2017

(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 2017 unaudited	31 March 2016 unaudited
Revenue	7	557.8	522.4
Operating costs	8	(481.0)	(438.3)
Other operating income, net		2.4	5.0
Profit from operating activities		**79.2**	**89.1**
Gain/(loss) on investment activities, net	9	11.7	212.1
Finance costs	10	(21.5)	(26.2)
Gross profit for the period		**69.4**	**275.0**
Income tax		(12.8)	(13.6)
Net profit for the period		**56.6**	**261.4**
Basic and diluted earnings per share (in PLN)		**0.09**	**0.41**

Interim Statement of Comprehensive Income

	Note	for the 3 months ended 31 March 2017 unaudited	31 March 2016 unaudited
Net profit for the period		**56.6**	**261.4**
Items that may be reclassified subsequently to profit or loss:			
Valuation of hedging instruments	12	(0.9)	2.5
Income tax relating to hedge valuation	12	0.2	(0.5)
Items that may be reclassified subsequently to profit or loss		**(0.7)**	**2.0**
Other comprehensive income/(loss), net of tax		**(0.7)**	**2.0**
Total comprehensive income for the period		**55.9**	**263.4**

(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 2017 unaudited	31 December 2016
Reception equipment	368.3	372.2
Other property, plant and equipment	124.2	131.4
Goodwill	197.0	197.0
Other intangible assets	70.8	73.7
Investment property	30.8	31.2
Shares in subsidiaries	11,469.3	11,469.3
Non-current deferred distribution fees	28.6	28.3
Other non-current assets	35.4	38.0
includes derivative instruments	*0.5*	*0.9*
Total non-current assets	**12,324.4**	**12,341.1**
Inventories	99.5	84.9
Trade and other receivables	281.5	279.3
Income tax receivables	0.8	-
Current deferred distribution fees	74.3	76.2
Other current assets	208.1	223.5
includes derivative instruments	*0.5*	*0.6*
Cash and cash equivalents	238.4	278.8
Total current assets	**902.6**	**942.7**
Total assets	**13,227.0**	**13,283.8**

(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 2017 unaudited	31 December 2016
Share capital	11	25.6	25.6
Share premium	11	7,174.0	7,174.0
Hedge valuation reserve	12	0.5	1.2
Retained earnings		3,368.0	3,311.4
Total equity		**10,568.1**	**10,512.2**
Loans and borrowings	13	723.0	782.0
Issued bonds	14	964.8	975.5
Deferred tax liabilities		96.1	91.0
Deferred income		4.0	4.2
Other non-current liabilities and provisions		9.8	10.0
Total non-current liabilities		**1,797.7**	**1,862.7**
Loans and borrowings	13	248.5	239.1
Issued bonds	14	42.1	42.4
Trade and other payables		328.3	385.2
includes derivative instruments		*0.5*	-
Income tax liability		0.9	8.0
Deposits for equipment		2.0	1.9
Deferred income		239.4	232.3
Total current liabilities		**861.2**	**908.9**
Total liabilities		**2,658.9**	**2,771.6**
Total equity and liabilities		**13,227.0**	**13,283.8**

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

Interim Cash Flow Statement

	Note	for the 3 months ended 31 March 2017 unaudited	for the 3 months ended 31 March 2016 unaudited
Net profit		**56.6**	**261.4**
Adjustments for:		**(5.2)**	**(205.2)**
Depreciation, amortization, impairment and liquidation	8	54.8	57.9
Interest expense		18.7	23.7
Change in inventories		(14.6)	(1.8)
Change in receivables and other assets		27.0	(34.7)
Change in liabilities, provisions and deferred income		(49.7)	(19.7)
Income tax		12.8	13.6
Net increase in reception equipment provided under operating lease		(39.2)	(34.4)
Dividends income and share in the profits of partnerships	9	(12.2)	(211.0)
Other adjustments		(2.8)	1.2
Cash from operating activities		**51.4**	**56.2**
Income tax paid		(15.4)	(6.2)
Interest received from operating activities		1.3	0.5
Net cash from operating activities		**37.3**	**50.5**
Received dividends and shares in the profits of partnerships		2.6	205.4
Loans granted		-	(11.1)
Acquisition of property, plant and equipment		(2.3)	(6.1)
Acquisition of intangible assets		(3.3)	(4.7)
Proceeds from sale of shares		-	0.1
Proceeds from sale of property, plant and equipment		5.7	3.1
Net cash from investing activities		**2.7**	**186.7**
Net cash from the Cash Management System Agreement with interest paid		-	(260.0)
Payment of interest on loans, borrowings, bonds and commissions*		(29.9)	(34.0)
Repayment of loans and borrowings	13	(50.5)	(40.0)
Net cash used in financing activities		**(80.4)**	**(334.0)**
Net decrease in cash and cash equivalents		**(40.4)**	**(96.8)**
Cash and cash equivalents at the beginning of period		**278.8**	**136.4**
Effect of exchange rate fluctuations on cash and cash equivalents		-	-
Cash and cash equivalents at the end of period		**238.4**	**39.6**

* 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 2017

	Share capital	Share premium	Hedge valuation reserve	Retained earnings*	**Total Equity**
Balance as at 1 January 2017	**25.6**	**7,174.0**	**1.2**	**3,311.4**	**10,512.2**
Total comprehensive income	-	-	(0.7)	56.6	**55.9**
Hedge valuation reserve	-	-	*(0.7)*	-	**(0.7)**
Net profit for the period	-	-	-	*56.6*	**56.6**
Balance as at 31 March 2017 unaudited	**25.6**	**7,174.0**	**0.5**	**3,368.0**	**10,568.1**

* 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 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.

Notes to the Interim Condensed Financial Statements

General information

1. The Company

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

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

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

The Company is the Parent Company of Cyfrowy Polsat S.A. Capital Group (the 'Group'). As at 31 March 2017, the Group encompasses the Company, Metelem Holding Company Limited ('Metelem') and its subsidiaries and joint ventures, Telewizja Polsat Sp. z o.o. and its subsidiaries and joint ventures, Cyfrowy Polsat Trade Marks Sp. z o.o. and its subsidiaries, INFO-TV-FM Sp. z o.o., Interphone Service Sp. z o.o., Teleaudio Dwa Sp. z o.o. Sp.k. and Orsen Holding Limited and its subsidiaries.

2. Composition of the Management Board of the Company

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

3. Composition of the Supervisory Board of the Company

- Marek Kapuściński	President of the Supervisory Board,
- Józef Birka	Member of the Supervisory Board,
- Robert Gwiazdowski	Member of the Supervisory Board,
- Aleksander Myszka	Member of the Supervisory Board,
- Leszek Reksa	Member of the Supervisory Board,
- Heronim Ruta	Member of the Supervisory Board,
- Tomasz Szeląg	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 2017 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 2016, which have been prepared in accordance with International Financial Reporting Standards as adopted by the EU (IFRS EU).

The Company as the parent company prepared the interim condensed consolidated financial statements (approved on 10 May 2017). These interim condensed financial statements should be read together with the interim condensed consolidated financial statements.

The Company applied the same accounting policies in the preparation of the financial data for the 3 months ended 31 March 2017 and the financial statements for the year 2016, 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 2017. Standards, amendments to Standards and Interpretations which are effective for the reporting periods beginning on 1 January 2017 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 10 May 2017.

Explanatory notes

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 2017 unaudited	**31 March 2016 unaudited**
Retail revenue	523.4	495.5
Wholesale revenue	14.2	11.7
Sale of equipment	9.0	8.3
Other revenue	11.2	6.9
Total	**557.8**	**522.4**

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

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

8. Operating costs

		for the 3 months ended	
	Note	31 March 2017 unaudited	31 March 2016 unaudited
Content costs		143.3	129.8
Technical costs and costs of settlements with telecommunication operators		134.8	105.7
Distribution, marketing, customer relation management and retention costs		79.2	76.4
Depreciation, amortization, impairment and liquidation		54.8	57.9
Salaries and employee-related costs	a	24.0	24.9
Cost of equipment sold		8.2	10.0
Cost of debt collection services, bad debt allowance and receivables written off		2.8	3.4
Other costs		33.9	30.2
Total		**481.0**	**438.3**

a) Salaries and employee-related costs

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Salaries	19.3	20.8
Social security contributions	4.0	3.6
Other employee-related costs	0.7	0.5
Total	**24.0**	**24.9**

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

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Dividends received	-	203.6
Share in the profits of partnerships	12.2	7.4
Other	(0.5)	1.1
Total	**11.7**	**212.1**

(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 2017 unaudited	31 March 2016 unaudited
Interest expense on loans and borrowings	9.2	11.8
Interest expense on issued bonds	10.6	10.6
Valuation and realization of hedging instruments	(0.1)	1.9
Guarantee fees	1.3	1.2
Bank and other charges	0.5	0.7
Total	**21.5**	**26.2**

11. Equity

(i) Share capital

Presented below is the structure of the Company's share capital as at 31 March 2017 and 31 December 2016:

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

The shareholders' structure as at 31 March 2017 and 31 December 2016 was as follows:

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

[1] Entity is controlled by Mr. Zygmunt Solorz

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

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

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

(ii) Share premium

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

12. Hedge valuation reserve

Impact of hedging instruments valuation on hedge valuation reserve

	2017	2016
Balance as at 1 January	**1.2**	**(6.7)**
Valuation of cash flow hedges	(0.9)	2.5
Deferred tax	0.2	(0.5)
Change for the period	**(0.7)**	**2.0**
Balance as at 31 March unaudited	**0.5**	**(4.7)**

13. Loans and borrowings

Loans and borrowings	31 March 2017 unaudited	31 December 2016
Short-term liabilities	248.5	239.1
Long-term liabilities	723.0	782.0
Total	**971.5**	**1,021.1**

Change in loans and borrowings liabilities:

	2017	2016
Loans and borrowings as at 1 January	**1,021.1**	**1,486.7**
Repayment of capital	(50.5)	(40.0)
Repayment of interest and commissions	(8.3)	(11.0)
Net cash from Cash Management System Agreement with paid interest	-	(259.4)
Interest accrued	9.2	11.8
Loans and borrowings as at 31 March unaudited	**971.5**	**1,188.1**

(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 2017 unaudited	31 December 2016
Short-term liabilities	42.1	42.4
Long-term liabilities	964.8	975.5
Total	**1,006.9**	**1,017.9**

Change in issued bonds:

	2017	2016
Issued bonds payable as at 1 January	**1,017.9**	**1,017.7**
Repayment of interest and commissions	(21.6)	(21.7)
Interest accrued	10.6	10.6
Issued bonds payable as at 31 March unaudited	**1,006.9**	**1,006.6**

15. Transactions with related parties

Receivables

	31 March 2017 unaudited	31 December 2016
Subsidiaries	47.9	42.6
Joint ventures	0.9	1.0
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.5	1.1
Total	**49.3**	**44.7**

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

Other assets

	31 March 2017 unaudited	31 December 2016
Subsidiaries	202.9	219.9
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	0.1	-
Total	**203.0**	**219.9**

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

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

Liabilites

	31 March 2017 unaudited	31 December 2016
Subsidiaries	143.5	158.0
Joint ventures	0.3	0.5
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	2.2	2.5
Total	**146.0**	**161.0**

A significant portion of liabilities is represented by advance payment on dividend received from Telewizja Polsat Sp. z o.o. and liabilitites related to Polkomtel services, programming licence fees and fees for using “Cyfrowy Polsat” trade mark.

Loans granted

	31 March 2017 unaudited	31 December 2016
Subsidiaries	1.4	1.4
Joint ventures	11.4	11.2
Total	**12.8**	**12.6**

Revenues

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Subsidiaries	22.4	11.1
Joint ventures	0.1	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.	0.3	0.4
Total	**22.8**	**11.8**

The most significant transactions include revenues from subsidiaries from accounting services, advertising, signal broadcast, programming fees and property rental services.

Expenses

	for the 3 months ended	
	31 March 2017 unaudited	31 March 2016 unaudited
Subsidiaries	200.8	143.1
Joint ventures	-	0.2
Entities controlled by a person (or a close member of that person's family) who has control, joint control or significant influence over Cyfrowy Polsat S.A.	6.4	4.6
Total	**207.2**	**147.9**

The most significant transactions include data transfer services.

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

The Company also pays license fees for broadcasting Telewizja Polsat's programs and incurs expenses for using 'Cyfrowy Polsat' trade mark, purchasing advertising time, telecommunication services with respect to the Company's customer call center and advertising production.

Gain on investment activities, net

	for the 3 months ended	
	31 March 2017 unaudited	**31 March 2016 unaudited**
Subsidiaries	13.8	211.8
Joint ventures	0.1	0.1
Total	**13.9**	**211.9**

In 3 months ended 31 March 2017 gains on investment activities comprise income from share of the profits of partnerships and guarantees granted by the Company in respect to settlement of Polkomtel's term facilities.
In 3 months ended 31 March 2016 gains on investment activities comprise mostly of dividends.

Finance costs

	for the 3 months ended	
	31 March 2017 unaudited	**31 March 2016 unaudited**
Subsidiaries	1.3	1.2
Total	**1.3**	**1.2**

Finance costs comprise mostly of guarantee fees in respect to settlement of term facilities.

Other notes

16. Litigations

Management believes that the provisions for litigations as at 31 March 2017 are sufficient to cover potential future outflows and the adverse outcome of the disputes will not have a significant negative impact on the Company's financial situation. Information regarding the amount of provisions was not separately disclosed, as in the opinion of the Company's Management, such disclosure could prejudice the outcome of the pending cases.

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

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

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

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 2016. There have been no significant changes in any risk management policies since the end of year 2016.

Liquidity risk

Compared to 31 December 2016, 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.

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

Presented below are fair values and carrying amounts of financial instruments not measured in fair value.

			31 March 2017 unaudited		31 December 2016	
	Category according to IAS 39	Level of the fair value hierarchy	Fair value	Carrying amount	Fair value	Carrying amount
Loans granted	A	2	13.0	13.0	12.3	12.8
Trade and other receivables	A	*	272.2	272.2	289.9	289.9
Cash and cash equivalents	A	*	238.4	238.4	278.8	278.8
Loans and borrowings	C	2	(975.3)	(971.5)	(1,024.2)	(1,021.1)
Issued bonds	C	1	(1,037.6)	(1,006.9)	(1,045.2)	(1,017.9)
Accruals	C	*	(135.2)	(135.2)	(161.6)	(161.6)
Trade and other payables and deposits	C	*	(170.6)	(170.6)	(201.5)	(201.5)
Total			**(1,795.1)**	**(1,760.6)**	**(1,851.5)**	**(1,820.6)**
Unrecognized loss				**(34.5)**		**(30.9)**

A – loans and receivables
B – hedges
C - other

* it is assumed that the fair value of these financial assets and liabilities is equal to their nominal value, therefore no evaluation methods were used in order to calculate their fair value

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

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

As at 31 March 2017 and 31 December 2016 loans and borrowings comprised term facility loan. 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 2017 and 31 December 2016, forecasted cash flows from the reporting date to 21 September 2020 (assumed date of repayment of the loan) were analyzed.

The fair value of bonds as at 31 March 2017 and 31 December 2016 is calculated based on the last bid price as at the balance sheet date as quoted on the Catalyst market.

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

The fair value of interest rate swaps is determined using financial instruments valuation models, based on generally published interest rates. Fair value of derivatives is determined based on the discounted future cash flows from transactions, calculated based on the difference between the forward price and the transaction price.

As at 31 March 2017, the Company held the following financial instruments measured at fair value:

Assets measured at fair value	**31 December 2016**	**Level 1**	**Level 2**	**Level 3**
IRS		-	1.0	-
Total		**-**	**1.0**	**-**

Liabilities measured at fair value	**31 March 2017 unaudited**	**Level 1**	**Level 2**	**Level 3**
IRS		-	(0.5)	-
Total		**-**	**(0.5)**	**-**

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

Assets measured at fair value	**31 December 2016**	**Level 1**	**Level 2**	**Level 3**
IRS		-	1.5	-
Total		**-**	**1.5**	**-**

18. Important agreements and events

There were no significant events during the 3 months ended 31 March 2017 other than those disclosed in the notes to these interim condensed financial statements.

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 2.8 in respect to a programming purchase contract.

Contractual liabilities related to purchases of non-current assets

Total amount of capital commitments resulting from agreements on property construction and improvements was PLN 1.8 as at 31 March 2017 (there was no such commitment as at 31 December 2016). Additionally the amount of deliveries and services committed to under agreements for the purchases of licences and software as at 31 March 2017 was PLN 0.3 (PLN 0.3 as at 31 December 2016).

Contractual liabilities related to purchase of data transfer services

Total amount of capital commitments resulting from agreements on data transfer services as at 31 March 2017 was PLN 610.3 (PLN 696.0 as at 31 December 2016).

20. Events subsequent to the reporting date

Merger

On 7 April 2017 the Company completed a merger with Metelem Holding Company Limited.

Recommendation relating to the distribution of the profit

On 12 April 2017 the Company's management adopted a resolution where it recommends to distribute the profit for the year ended 31 December 2016 in the amount of PLN 578.0 as follows:

(i) PLN 204.7 (PLN 0.32 (not in million) per share) to be distributed as dividends to the shareholders of the Company,

(ii) PLN 373.3 to be allocated to the reserve capital.

The Company's management recommends that the dividend day be scheduled for 20 July 2017, and the dividend payment day for 3 August 2017.

21. Judgments, financial estimates and assumptions

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

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

The key accounting estimates and assumptions applied in preparation on these interim condensed financial statements were the same as those adopted in the preparation of financial statements for the year ended 31 December 2016.